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Marketing Management

Institute of Open and Distance Education

Faculty of Management

Marketing Management

2MBA5

DR. C.V. RAMAN UNIVERSITY
Chhattisgarh, Bilaspur
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Marketing Management

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Learning Objectives

At the conclusion of this unit, you should be able to:

- Define Marketing
- Differentiate between needs, wants, and demands
- Realise the relevance of exchange
- State meaning of customer value and its impact on customer satisfaction
- Identify different marketing philosophies and marketing concepts
- Explain concept and importance of marketing mix variables

Introduction

The change by itself in the business and marketing scenario today is nothing new to the world, to be looked at as a cause of alarm. There have always been changes in every area of global societies. Some changes occur slowly and are almost unnoticeable in everyday life, while some others are so rapid that the affected parties face a lot of difficulty in adjusting to them in the short-run. Most of all, businesses have a powerful tendency to welcome and embrace changes in the market place. It is the change that throws up new opportunities and inspires businesses to take fresh paths – a welcome feature for marketers.

Marketing practices have evolved gradually over an extremely long period of time. In the sense that marketing is defined, it has been around since ancient times. In those earliest days, human beings learned to exchange things they needed with others. It can be assumed that the outcome of such exchanges was satisfying for concerned parties. Marketing as a discipline of study is relatively quite new. However, the purpose of exchanges then and now is the same – to satisfy needs and wants.

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.

Defining Marketing

Marketing starts with customers and ends with customers. Creation of superior customer value and delivering high levels of customer satisfaction are at the heart of present day marketing.

The American Marketing Association defines marketing as:

"Marketing is an organisational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders."

Philip Kotler says, "Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others."

Pride and Ferrel's definition says,

"We define marketing as the process of creating, distributing, promoting, and pricing goods, services, and ideas to facilitate exchange relationships in a dynamic environment."

"Marketing is a total system of business activities designed to plan, price, promote, and distribute want-satisfying products to target markets to achieve organisational objectives."

(William J. Stanton, Michael J. Etzel, and Bruce J. Walker, Fundamentals of Marketing, McGraw-Hill, 1994).

"It (marketing) is the whole business seen from the point of view of its final result, that is, from the customer's point of view."

(Peter F. Drucker, Practice of Management,1954).

Keeping in view the definitions of marketing, some important aspects of modern marketing can be distinguished:

1. Marketing is a societal process.
2. Marketing deals with customer needs, wants, products, pricing, distribution, and promotion.
3. Marketing focuses on delivering value and satisfaction to customers through products, services, ideas, etc.
4. Marketing facilitates satisfying exchange relationships.
5. Marketing takes place in a dynamic environment.
6. Marketing is used in both for-profit and not-for-profit organisations.
7. Marketing is extremely important to businesses and the economy of a country.

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 need. Individual wants are shaped by culture, life style, 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.

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 a somewhat 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.

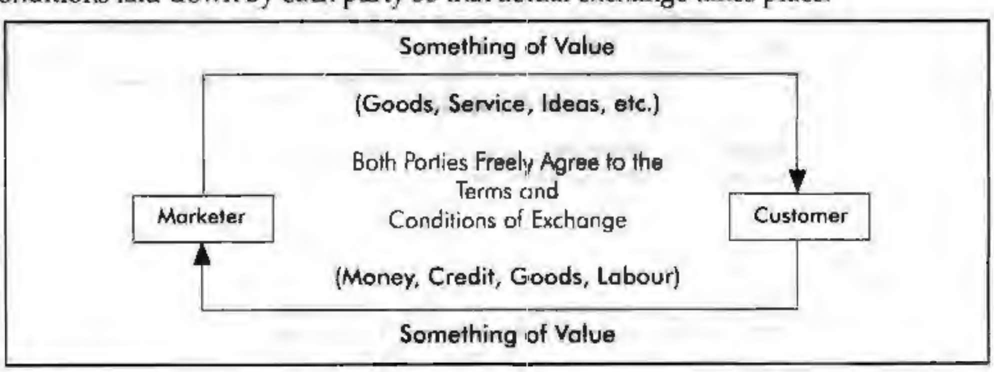

Figure 1.1: The Concept of Exchange

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.

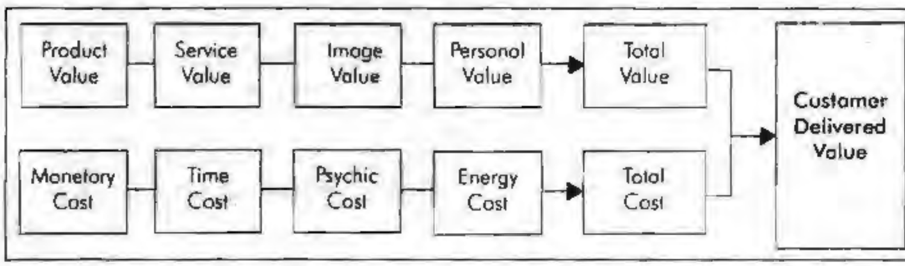

Figure 1.2: Satisfaction Depends on Customer's Perceived Total Costs and Value

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. Therefore, rewarding experience with a given product or service encourages customers to repeat the same behaviour in future (buying the same brand). A delighted customer is likely to be committed and enthusiastic about a particular brand is usually unlikely to be influenced by a competitor's actions and is an asset to the marketer, being inclined to spread favourable word-of-mouth information or opinions. When a customer's perceived performance level is below expectations, it definitely causes dissatisfaction and the brand (product or service) will probably not be purchased on any future occasion. In extreme cases of dissatisfaction, the customer might even 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.

	Level of Expectation	
Perceived performance relative to expectation	**Below minimum desired performance**	**Above minimum desired performance**
More than expected	Satisfaction*	Satisfaction/Commitment
Same as expected	Non-satisfaction**	Satisfaction
Worse than expected	Dissatisfaction	Dissatisfaction

*Assuming the perceived performance exceeds the minimum desired level.

**Consumer is neither satisfied nor dissatisfied.

Figure 1.3: Relationship of Expectations and Satisfaction

The key to inducing brand loyalty among customers can only be achieved by delivering higher value to delight customers than competitors. Satisfaction is basically a feeling of pleasure, and marketers should be aware of satisfaction delivered by competitors and try surpass that level in an attempt to delight customers. Delivering higher value can lead to delighting customers which, in turn, seems to be the key factor in developing loyalty, more so if the brand generates emotional bonding. This emotional bonding is not just a preference based on rational content but is largely feeling-based.

Evolution of Marketing Concept

Since the later part of the 19th century, marketing has gradually evolved through various marketing orientations. These stages in marketing evolution present a generalised picture and a sufficiently significant number of companies have adopted the most modern marketing concept or philosophy.

Production Concept

This concept, viewed as one of the oldest of managerial orientations, typically aimed at achieving as high an output as possible. This philosophy assumed that customers would be more interested in acquiring conveniently available, reasonably priced, and well-made products. Keeping in view the market behaviour prevailing in times when customers did not have much choice, it was a sound approach. The focus of managers, generally having backgrounds in manufacturing and engineering, was to concentrate on achieving increasingly higher efficiency in production, lower production costs, and more intensive distribution. The National Textile Corporation (NTC) and all its subsidiaries are sticking to this philosophy while producing textiles for the huge, poverty-stricken population in this country. Their philosophy and positioning is reflected in their ad, "Clothiers of the nation with affordable prices."

Selling Concept

Selling concept evolved as a natural consequence of production concept and product concept. The marketer is primarily focused on selling the product that it unilaterally decided to produce. The assumption of this approach is that consumers would not buy enough of this product unless they are actively and aggressively persuaded to do so. This approach is known as "hard-sell" and consumers are induced to buy what they do not want or need. The problem with this approach is that it does not take consumer satisfaction into account. This often leads to dissatisfaction and unhappiness in consumers and is likely to be communicated by word-of-mouth to other potential consumers, discouraging them to buy the product.

Marketing Concept

After World War II, the variety of products increased, people had more discretionary income, and could afford to be selective and buy only those products that more precisely met their changing needs and wants. However, these needs were not immediately obvious. Sometime during the mid-1950s, there was growing recognition among American business people that merely efficient production and extensive promotion, including hard selling, did not guarantee that customers would buy products. With the passage of time, more knowledge, and experience, customers increasingly seemed unwilling to be persuaded. More and more companies found that determining what customers wanted was a must before making a product, rather than producing products first and then persuading them to buy. The key questions became:

1. What do customers really want?
2. Can we develop it while they still want?
3. How can we keep our customers satisfied?

Thus, the marketing concept era began. Marketing concept proposes that an organisation should focus on customer needs and wants, coordinate its efforts, and endeavour to accomplish organisational goals. Geraldine E Williams reported that the CEO of Nike said, "For years we thought of ourselves as a production-oriented company, meaning we put all our emphasis on designing and manufacturing the product. But now we understand that the most important thing we do is market the product." The major focus of all sets of organisational activities should be satisfying customer needs. This requires carefully listening to customers as a student listens to a teacher. Stanley F Slater and John C Narver reported that there is positive relationship between market orientation and performance.

Relationship marketing is based on the principle that current customers are the key to long-term business success. According to Frederick F. Reichheld, the importance of customer retention can be judged by observing some of the following benefits it provides:

1. Acquiring new customers can be five times more expensive than the costs involved in satisfying and retaining existing customers.
2. The average company loses 10 per cent of its customers each year.
3. A decrease of 5 per cent in the customer defection rate can increase profits by 25 per cent to 85 per cent, depending on the industry.
4. The customer profit rate tends to increase over the life of retained customer.

Jagdish N. Sheth and Atul Parvatiyar are also of the opinion that it is to a company's advantage to develop long-term relationships with current customers because it is easier and costs less to make an additional sale to an existing customer than to make a new sale to a new customer. Neighbourhood grocery shop owners frequently reassure their frequent customers that if they are not satisfied with a consumable product, they can return it, even after some use and get the full replacement. They practice relationship marketing based on conventional marketing wisdom obtaining in India.

Societal Marketing Concept

Marketing concept was accepted widely among companies in developed and some developing countries and continued to evolve and take on new meanings. Not long after this, criticism started about the nature of its social responsibility. The emphasis shifted to how marketing affected society as a whole in an age of depleting and increasingly scarce resources, environmental deterioration, etc. It was good enough to produce what customers needed or wanted, and for achieving organisational objectives, but in certain cases the concept could be in conflict with customers' and society's best long-run interests. Societal marketing concept is a management philosophy that takes into account the welfare of society, the organisation, and its customers.

Adoption of this concept requires that marketing decisions be made in an ethical and socially responsible manner. Companies must pay attention not only to the short-term needs of customers but also to their long-term well being. This includes, for instance, excess fat content in ready-to-eat foods, toxic wastes, and environmental issues.

The need is to strike a balance between the interest of customers, the company itself, and the society in which operations are conducted. Some responsible firms have started using recyclable packaging materials and products that do not harm the environment. Among the marketing tasks, demarketing is an approach that reflects the societal marketing philosophy.

Many companies encounter several hurdles in adopting the marketing concept. For some firms, it is simply too difficult to understand the underlying philosophy and they fail to implement it. Other companies face a conflict between short-term and long-term objectives and have no inclination to sacrifice short-term gains for the sake of customer satisfaction, simply because the customer is not the major priority of top management.

Holistic Marketing Approach

There have been major changes in almost every sphere of human activity over the last decade, like implication being that this requires fresh marketing thinking, a fresh approach to business, and this calls for a holistic marketing approach. This new thinking relies upon marketing research to define market segments, their size, and their needs. To more completely satisfy those needs, marketers need to have a more complete and cohesive approach to internal marketing, targeted marketing, relationship marketing, be visibly socially responsible, and make decisions about the controllable elements of the marketing mix.

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'.

Now let us briefly discuss the elements of marketing mix.

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. For example, Tata offers many products like cars, steel, tea, consultancy services etc.

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. It may also be used in your marketing strategy to differentiate you from your competition. For example, Amway uses direct distribution whereas Unilever uses multi-channel distribution.

4. *Promotion:* The methods used to communicate the features and benefits of your products or services to your target customers. For example, Toyota promotes its brands by advertising, sales promotions, public relations, sponsorships etc.

5. *People:* 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.

6. *Process:* 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.

7. *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.

Student Activity

1. Define marketing.

   ....

   ....

2. Define the concept of marketing mix.

   ....

   ....

Summary

Marketing started in ancient times since people got involved in exchanges. As an academic discipline, marketing is quite new. The present day marketing is all about satisfying customer needs and wants profitably in a socially responsible manner. This presupposes a process of planning and executing the concept, through pricing, promotion, and distribution of products, services, ideas to facilitate satisfying exchanges and achieving company objectives. Exchange may take place in an effective manner only when there are at least two participating parties, each of which has something of value desired by the other. These parties are capable of communicating with each other to offer available "value"; each party is free and willing to exchange "value," and each party believes that their deal is appropriate and likely to be satisfying.

Marketing has evolved through traversing three major eras of: production orientation, selling orientation, and marketing orientation. Marketing concept is a management philosophy where the customer is the pivotal point. This requires first finding out customer needs and wants and work to satisfy them through coordinated set of activities, thereby achieving company objectives. Customer satisfaction and retention is the most important task for companies adopting marketing concept. The societal marketing concept proposes that companies do not operate in a vacuum, but take into account the larger societal concerns of welfare and not just focus on the customer needs in the short-term.

Marketing mix is a model of crafting and implementing marketing strategies. It represents controllable tactical elements. The most popular classification of marketing mix includes product, price, place (distribution), and promotion.

Keywords

Marketing: Creation of superior customer value and delivering high levels of customer satisfaction are at the heart of present day marketing.

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.

No Demand: The customers may be unaware or indifferent towards the product.

Dormant Demand: This may occur when the currently available products fail to satisfy the strong needs that customers feel.

Falling Demand: Sooner or later, companies face this situation with respect to their products or services.

Fluctuating Demand: Many companies experience this pattern, the demand varying according to the season, or festivals, etc.

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.

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.

Marketing Mix: Marketing mix is a major concept in modern marketing and involves practically everything that a marketing company can use to influence consumer perceptions favourably towards its products or services so that consumer and organisational objectives are attained.

Review Questions

1. How would you define marketing? Discuss the evolution of marketing.
2. Do you know any company in India that has adopted marketing concept? Give suitable examples to justify your opinion.
3. Discuss the concept of exchange. What conditions are necessary for exchange to take place? Mention an example that does not involve money in affecting exchange.
4. Are there companies still operating as production oriented and sales oriented, in your view?
5. Why has marketing concept acquired so much importance in modern day marketing?
6. Discuss in detail the important principles on which implementation of marketing concept rests.
7. Why should the marketing manager be a part of top management team, and why should the CEO be marketing oriented?
8. What is meant by the term 'coordinated marketing'? Why is it necessary?
9. What is the signif icance of customer satisfaction and customer retention?
10. Discuss the difference between sales orientation and marketing orientation. Give suitable examples.

Further Readings

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Unit 2 Measuring Market Demand

Unit Structure

- Introduction
- Market Potential
- Company Potential
- Company Sales Forecast
- Forecasting Methods
- Summary
- Keywords
- Review Questions
- Further Readings

Learning Objectives

At the conclusion of this unit, you should be able to:

- Describe the concept of market potential
- Realise how to forecast the company sales
- Discuss various methods used in forecasting
- State concept of Delphi method
- Explain econometric models
- Realise how to conduct market tests

Introduction

At best, the future remains uncertain. It would be different from what it is now and different from what one expects it to be. Only seers know for sure what the future holds. Nevertheless, managers develop plans based on what they anticipate the future is likely to be. The future is inherently uncertain in the rapidly changing present day markets. Consumer needs, wants, and preferences shift; macro trends seem to be in a state of perpetual change; competitors come and go; and new technologies displace the old ones. Despite this, demand forecasting plays a key role in all kinds of planning and budgeting in each and every area of business and other organisations. Development of forecasts is usually spread over three stages. First of all, the forecast is developed for macroeconomic conditions. Developing forecast for the industry follows this, and finally the forecast for the company is prepared. Companies develop forecasts either internally or buy from outside sources such as independent research providers. If the forecast is developed internally, it is the marketing department that is responsible for preparing the sale forecasts.

A sales forecast refers to an estimate of sales in monetary terms or physical units, in a future period of time, under an assumed set of macro-environmental factors influencing the business unit for which the forecast is made, under a given marketing programme. The forecasts could be for the entire company, a division, a product line, or a single product/brand. Short-term forecasts are also called operating forecasts. Long-term forecasts, generally for three or more years, are used for planning production capacity and long-run financial planning.

Market Potential

Market potential (industry potential) refers to the highest possible expected industry sales of a product or service. Market potential often serves as a starting point for preparing a sales forecast. For instance, Samsung or Godrej would be interested in knowing the market potential for refrigerators. Assuming that 30 per cent of the households have enough income to buy refrigerators, this would be the size of the total market. To put it differently, the market potential represents the uppermost limit of market demand for a given set of anticipated conditions.

Company Potential

Company potential is a quantitative estimate of maximum possible sales opportunities for a company within a given market area for which the forecast is made under assumed ideal conditions and marketing efforts. This refers to the company's sales potential and represents its share of market potential. The absolute limit of company potential is the market or industry potential. Market share is the percentage of market controlled by a particular company or product.

$$\text{Company Potential} = \text{Per cent Market Share} \times \text{Market Potential}$$

Company Sales Forecast

Company sales forecast represents the sales estimate that the company actually expects to achieve, based on market conditions, the company's resources, and its marketing programme. The sales forecast of a company is less than the total company potential because companies have limitations of resources.

Established and well-managed companies generally employ more than one method to prepare a forecast. There are two broad approaches: top-down and build-up (bottom-up). Under the top-down approach, a top manager or a group of managers prepares an overall forecast. Build-up approach is often used by decentralised organisations. Each region, district, and division prepares its forecast and all these are aggregated to create the forecast of the company as a whole. Let us consider a company that has four sales divisions; each division has five districts, and each district has five regions. Using a build-up approach, each region prepares its forecast; each region submits its forecast to the district; each district aggregates this forecast and forwards it to the division. At the division level the forecast from districts is aggregated, and finally at the marketing manager level the forecast from each division is combined, often with some necessary modifications, to culminate in the final forecast of the company.

Forecasting Methods

Two types of forecasting methods are used to prepare the sales forecast:

1. Qualitative or Judgemental Methods.
2. Quantitative Methods.

Qualitative Methods

Qualitative or judgemental methods consider factors related to expertise and human judgement. These methods are generally used in conjunction with some others to build more confidence in the forecast. Qualitative approaches have the advantage of adjusting to sudden shifts in environmental circumstances.

Jury of Executive Opinion

This is perhaps the oldest method to prepare a sales forecast. Robin T. Peterson found that it is still used by many companies. A committee of senior executives from various disciplines such as marketing, sales, marketing research, production, accounting, and advertising is formed and given the responsibility to develop the forecast. Each member provides an estimate of future sales, often along with written justification of their estimate. The opinions so collected are then analysed at a group meeting and synthesised through collective judgement of individual estimates.

This forecasting method is quite simple and uses the experience and expertise of senior managers from many functional areas. The limitations are that the forecast is reliable only to the extent of correctness of the judgements of committee members and also the extent of having sufficient up-to-date market knowledge or current information on which to base their forecast. Besides, breaking down this forecast into more detailed estimates, such as product-wise or territory-wise estimates is quite difficult. This approach is quick and inexpensive, but hardly scientific.

Delphi Method

This approach is a slight variation from the executive opinion method. A group of experts expresses their views on different relevant issues such as the expected direction of future business conditions, technology, business activities, new product development, and expected market changes. These experts are often from academic and technical institutions, industry, and independent or government agencies, etc. The experts are kept apart and they give their individual anonymous forecasts. These forecasts are reviewed and compiled by the in charge of the group and returned for a second round of estimates. The experts are also informed of the groups' average estimates. This procedure is repeated till a consensus forecast finally develops. This method has the advantage of eliminating group pressures of a committee discussion. Used in conjunction with some statistical methods, it generally produces a reliable sales forecast, with fewer errors.

Sales Force Composite Method

This is a build-up method of preparing a sales forecast. The assumptions in using this method are that sales people are the company's ambassadors in close contact with customers and prevailing market conditions and best qualified to estimate future sales in their individual territories. The sales people are asked to estimate the sales in their territories for a specified future period. These forecasts from each salesperson are combined to prepare a composite sales forecast. At the regional level, some minor adjustments are often made in these figures.

The disadvantages of this method include: poor judgement of salespersons about future sales, because of their emotional involvement. They may also become too optimistic or pessimistic due to their recent experiences. Some may report a lower figure as the forecast would affect their next year's sales quota and their judgement may be influenced either way by the recent sales success or otherwise. It is quite possible that many of them may not be aware and in a position to understand the impact of future macroeconomic conditions.

Survey of Buyers' Intentions

This method could be more appropriate for industrial markets, where the potential purchasers are well- defined and limited in number, are willing to cooperate, and their past record proves a consistent relationship between their buying intentions and actual purchases. The marketer can conduct a survey to collect potential customer responses. The sample of current or potential customers is asked how much of a particular product they would buy at a certain price during a specified future period. The sophistication of such surveys can vary from simple recording of buying intentions of customers to using advanced sampling and probability concepts.

The advantage of this method is that the forecast is based on direct contact with the market-place. However, the limitations are that the forecast reflects customers' intentions and actual buying behaviour may turn out to be different. The respondents may also deliberately overestimate their future needs to be certain of continued supplies. Their plans to buy may change in order to adjust quickly to changes in the operating environment.

Quantitative Methods

The advantage of using quantitative methods of forecasting eliminates any subjectivity that is not possible with qualitative methods. The limitations include the nature and validity of assumptions used, and also, the mathematical approaches tend to generalise on the basis of past experience. There is hardly any scope to adjust to sudden shifts as may happen in case of high technology industries.

Simple Projection Method

In its simplest form, adding some fixed percentage of sales growth over the last year's sales arrives at the sales forecast. This approach may be appropriate for companies that have been experiencing a certain stable growth for the last several years, with little fluctuation. Companies using this method often stick to the average industry growth rate. Some companies use the following formula to arrive at the forecast:

$$\text{Next year's sales} = \text{This year's sales} \times \frac{\text{This year's sales}}{\text{Last year's sales}}$$

Time Series Analysis

Using this method, the forecaster studies the past sales data of the company and attempts to discover a pattern or patterns in the company's sales over time. In case a pattern is identified, it can be used to prepare a forecast. It is based on business cycle theory and assumes the past sales trends will continue in the future. It can best be used for long-term company forecasts and industry sales projections.

Time series approach generally involves trend analysis, cycle analysis, seasonal analysis, and random factor analysis.

In case of trend analysis, the forecaster examines aggregate sales data, such as annual sales for a period of several years to find out whether the sales were mostly stable, rising, or falling. Cyclic analysis concerns studying sales figures for three to five years to find out if the sales fluctuate in a consistent, periodic manner. The forecaster undertakes seasonal analysis to examine daily, weekly, or monthly sales figures to determine the degree of impact of natural factors such as seasons or festivals. Random factor analysis examines sales variations due to non-recurrent or random factors such as impact of draught, floods, spread of seasonal diseases, and other natural disasters. For example, we have seen the impact of regional or widespread droughts on demand of a variety of products in India. The analysis is based on the assumption that these elements are combined in the following relationship:

$$\text{Sales} = T \times C \times S \times R \text{ (Trend} \times \text{Cycle} \times \text{Season} \times \text{Random factors)}$$

Time series analysis is viewed as an effective method of forecasting for products that have a reasonably stable demand, but not for products that experience highly fluctuating demand.

Regression Analysis (Correlation Method)

This method resembles time series analysis. The forecaster attempts to detect any relationship in historical sales data, that is, between past sales and one or more variables such as population, per capita income, or GDP. This requires the use of regression analysis to examine the statistical relationships among changes in sales over the past years and changes in one or more variables. Based on this analysis, the forecaster attempts to develop a mathematical formula that accurately establishes a relationship between company sales and one or more variables. The mathematical formula describes only the associational relationship and not the causal relationship. After the forecaster develops an accurate formula, the necessary information is inserted to develop the sales forecast.

The drawback of this method is that a forecaster can seldom establish a kind of perfect correlation between variables considered and sales. Some other factors such as sales force compensations or their motivation are often correlated with sales performance. This method is hardly of any use to forecast sales of new products because there is no past data available.

Econometric Models

These models represent economic theories in mathematical terms. These models can be verified with the help of statistical methods and are used to measure the impact of one economic variable upon another to predict future events. Application of econometric models to forecasting is viewed as portraying the real world situations vividly reflecting the impact of multiple variables having their impact on sales of products or services.

In developing econometric models, sales are considered as the dependent variable influenced by many factors that perpetually interact and cause sales. Factors causing sales are independent variables and can be non-economic and economic in nature, such as natural factors, employment, income, etc.

These mathematical models are believed to be more accurate but quite expensive to develop, complex in nature, and require the use of computers. These models are good for forecasting the demand for industrial products and consumer durable goods at industry level where replacement demand is an important factor. Generally, individual companies do not use econometric models to forecast their own sales.

Market Tests

This method involves making the product available to potential customers in one or more test markets to measure their response to price, promotion, and distribution. This method permits the evaluation of resulting sales volume in response to variations in price, packaging, intensity of various promotions, and distribution. Test results of consumer response are used to forecast sales for larger geographic areas.

This is a good method for forecasting sales of new products or existing products in new markets. Test market also furnishes information about actual customer responses rather than approximation of behaviours. The disadvantage of test market is that it is expensive and time consuming and may not reflect the response of total market.

Combination Methods: Based on their past experiences, many companies use only one method of sales forecasting that they have found to be reliable. Many companies believe that no single method is completely reliable and to have more confidence in the forecast, they use a combination of two or more methods. If the forecasts developed by using different methods do not show wide variations, the company develops more confidence in the forecast. Sometimes, just to verify the outcomes of one method, a company might use another method. But in the ultimate analysis, a forecast is only as good as its accuracy. If a particular method works for a company, it should probably stick to it.

Student Activity

1. Define market potential.
2. What do you understand by company potential?

Summary

Market potential refers to the highest possible expected industry sales of a product or service. Company potential is a quantitative estimate of maximum possible sales opportunities for a company within a given market area for which the forecast is made under assumed ideal conditions and marketing efforts. Company sales forecast represents the sales estimate that the company actually expects to achieve, based on market conditions, company's resources, and its marketing programme.

Qualitative or judgemental methods consider factors related to expertise and human judgement. These methods are generally used in conjunction with some others to build more confidence in the forecast. Qualitative approaches have the advantage of adjusting to sudden shifts in environmental circumstances. These methods include (1) jury of executive opinion, (2) Delphi method, and (3) sales force composite method.

The advantage of using quantitative methods of forecasting eliminates any subjectivity that is not possihle with qualitative methods. The limitations include the nature and validity of assumptions used and also the mathematical approaches tend to generalise on the basis of past experience. There is hardly any scope to adjust to sudden shifts as may happen in case of high technology industries. These methods include (1) simple projection, (2) time series analysis, (3) regression analysis, (4) econometric methods, and (5) market tests. Econometric models are complex and require the use of computers.

All methods of forecasting have certain advantages and drawbacks. To eliminate risks and develop more confidence in forecasts, companies often use a combination of more than one forecasting method.

Keywords

Sale forecast: A sales forecast refers to an estimate of sales in monetary terms or physical units, in a future period of time, under an assumed set of macro-environmental factors influencing the business unit for which the forecast is made, under a given marketing programme.

Market potential: Market potential (industry potential) refers to the highest possible expected industry sales of a product or service. Market potential often serves as a starting point for preparing a sales forecast.

Company Potential: Company potential is a quantitative estimate of maximum possible sales opportunities for a company within a given market area for which the forecast is made under assumed ideal conditions and marketing efforts.

Company sales forecast: Company sales forecast represents the sales estimate that the company actually expects to achieve, based on market conditions, the company's resources, and its marketing programme.

Qualitative Methods: Qualitative or judgemental methods consider factors related to expertise and human judgement.

Delphi Method: A group of experts expresses their views on different relevant issues such as the expected direction of future business conditions, technology, business activities, new product development, and expected market changes.

Review Questions

1. What is the distinction between market sales potential, company sales potential and company sales forecast?
2. Why do companies believe in developing a sales forecast?
3. Suggest two methods of sales forecasting for an industrial products company. Give your reasons for their suitability.

4. Suggest two methods for developing sales forecast for a company dealing in mass consumption, non-durable products.

Further Readings

Philip Kotler, *Marketing Management*, Prentice-Hall, 11th Ed. 2003.

"World's New Steel King," *Hindustan Times*, 26 October 2004.

Robin T Peterson, *"The Role of Experts' Judgement in Sales Forecasting,"* Journal of Business Forecasting (Summer 1990).

Unit 3 Marketing Implementation and Control

Unit Structure

- Introduction
- Marketing Implementation
- McKinsey's 7-S Framework
- Components of Implementation
- Organising Marketing Department
- Role of Marketing in Structuring
- Alternatives to Organising Marketing Department
- Implementation of Marketing Programmes
- Mechanisms to Control Marketing Implementation
- Performance Evaluation Methods
- Summary
- Keywords
- Review Questions
- Further Readings

Learning Objectives

At the conclusion of this unit, you should be able to:

- Identify factors must be taken care of to implement a marketing plan
- State importance of internal and external marketing
- Realise concept of quality control
- Discuss approaches to organising marketing department
- Explain the implementation of marketing programmes

Introduction

Marketing implementation and control activities are very important and focus on "how" of putting marketing strategies into action. It need not be emphasised that the surest way to making the best of marketing strategies unsuccessful is to combine it with bad implementation. However, we can't escape the truth that almost all marketing strategies turn out somewhat differently than intended. Based on views of Orville C Walker, Jr., and Robert W Ruekert it can be said that firms have two types of strategies, the intended strategy and realised strategy. The intended strategy is developed during the planning phase for implementation and the realised strategy is the one that actually takes place. During the process of implementing the intended strategy, the realised strategy happens and is often worse than the intended strategy.

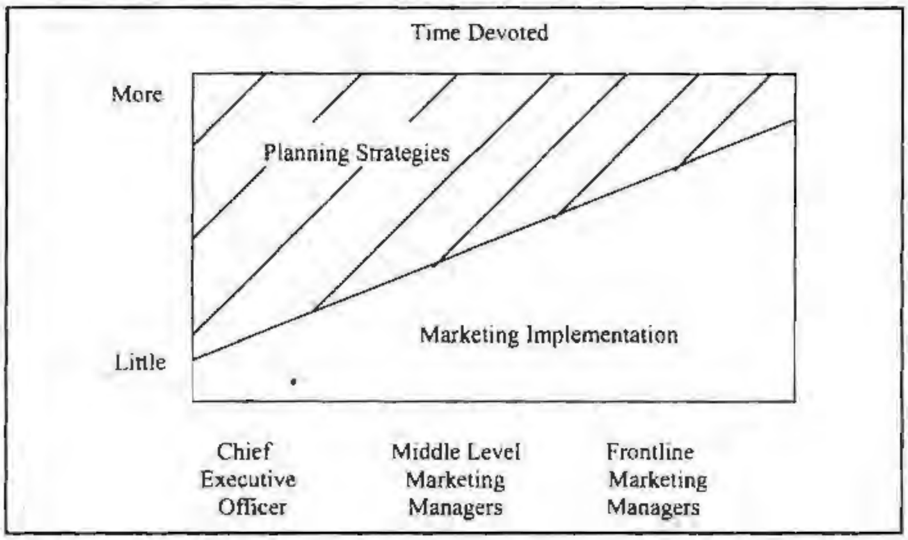
Marketing Implementation

The most common reason why this shift from the intended strategy sometimes happens is that managers fail to appreciate the importance of the fact that proper implementation is just as important as the marketing strategy. For example, several issues that involve both strategy and implementation include morale problems, employee compensation, performance appraisal, career development, etc. Robert Howard reports this relationship generally gives rise to three major problems:

Relationship between Strategy and its Implementation

There is close relationship between the strategy and its implementation and can be viewed as two sides of the same coin.

1. *The responsibility for marketing strategy and its implementation are separated:* This is often the key hurdle in the implementation stage of marketing strategy. Typically, it is the top management in the firm that develops the marketing strategies, and the responsibility to implement these strategies rests at the frontline of the firm. This distancing can hinder implementation because it is the frontline that daily interacts with customers, and not the top management.



Source: Adapted with changes from O. C. Ferrel, George Lucas, and David J Luck, Strategic Marketing Management: Text and Cases, 1994.

Figure 3.1: Separation of Strategy Planning and Implementation

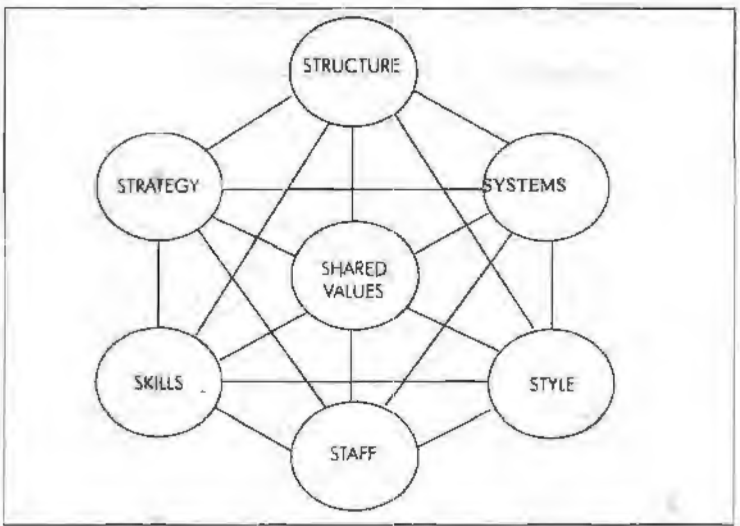
2. *Marketing strategy and its implementation are closely related:* Firms that face this problem of difference between intended strategy and realised strategy almost always assume that planning marketing strategies comes first, followed by implementation. In reality, the formulation of marketing strategies and their implementation activities should be developed at the same time. It makes sense to appreciate that implementation activities may require modification or changes in strategies.

3. *Marketing strategy and implementation are constantly evolving:* Keeping in view the dynamic nature of marketing environment, the shifts in customer wants, or competitive moves, etc., the strategy and implementation must remain flexible and be able to quickly respond to changes taking place in the market and its environment.

   In a typical company, there are market information systems, strategic planning systems, finance, budgeting, and accounting systems, production and quality control systems, and performance appraisal systems.

McKinsey's 7-S Framework

The people-system in companies refers to the importance of human resources in the process of implementation and includes their quality, diversity, and skills. In this regard, their recruitment, selection, training, and motivation have great impact on the success of marketing strategies implementation. Closely linked to this is the art and skill of managing company personnel. The core element of marketing implementation is "shared values." Shared values and goals bind all the components of the firm together into a single, functional entity and are instrumental in successful implementation of marketing strategies. The main objective of a detailed mission statement is to clearly define the organisational philosophy and direction, that is, the shared values and goals of an organisation. McKinsey & Company's 7–S framework depicts this appropriately. According to this framework, strategy is just one of seven components that influence business success. In the absence of shared goals, different components of the company might pursue different objectives, thus limiting the chances of a company's success. In the presence of these seven elements, companies are usually more successful at strategy implementation.



Source: Thomas J. Peters and Robert H. Waterman, Jr., In Search of Excellence, Harper & Row (1982).

Figure 3.2: McKinsey & Company's 7–S Framework

1. Strategy is a coherent set of actions aimed at attaining a sustainable competitive advantage, improving the company's position with customers, or allocating resources.
2. Structure shows the company's organisation and depicts who reports to whom in the hierarchy.
3. Systems refer to the processes and flows showing how a company gets things done in its day-to-day functioning such as information systems, capital budgeting systems, manufacturing processes, quality control systems, and performance measurement systems.
4. Style refers to tangible evidence of what management considers as important, not by what it says, but the way management actually behaves.
5. Staff means all the people in a company. It is not about their individual personalities but about company demographics.
6. Skills refer to the capabilities that are possessed by a company as a whole, needed to carry out the company's strategy.
7. Shared values are the guiding values that almost all employees share, not merely the simple goal statements in determining corporate identity.

Components of Implementation

Marketing managers can adopt different approaches to implementing marketing strategies. In this regard, two general approaches to implementation are (1) internal marketing, and (2) quality control management. Both these approaches are not mutually exclusive and are often used when developing marketing activities.

Internal Marketing

Company employees are the internal customers, and external customers are all those individuals who patronise a company. Internal customers (company employees) are the ones who work to satisfy external customers. Thus, the needs of these two groups need to be met to ensure successful implementation. It is understandable, that if the internal customers are not satisfied, that external customers may not be served in a manner that would result in their satisfaction. Companies, besides directing their communications to external customers, also use internal marketing to attract, train, motivate, and retain qualified and competent internal customers (employees). Internal marketing in itself is a management philosophy that coordinates the exchanges between the company and its employees to better accomplish successful company exchanges with external customers.

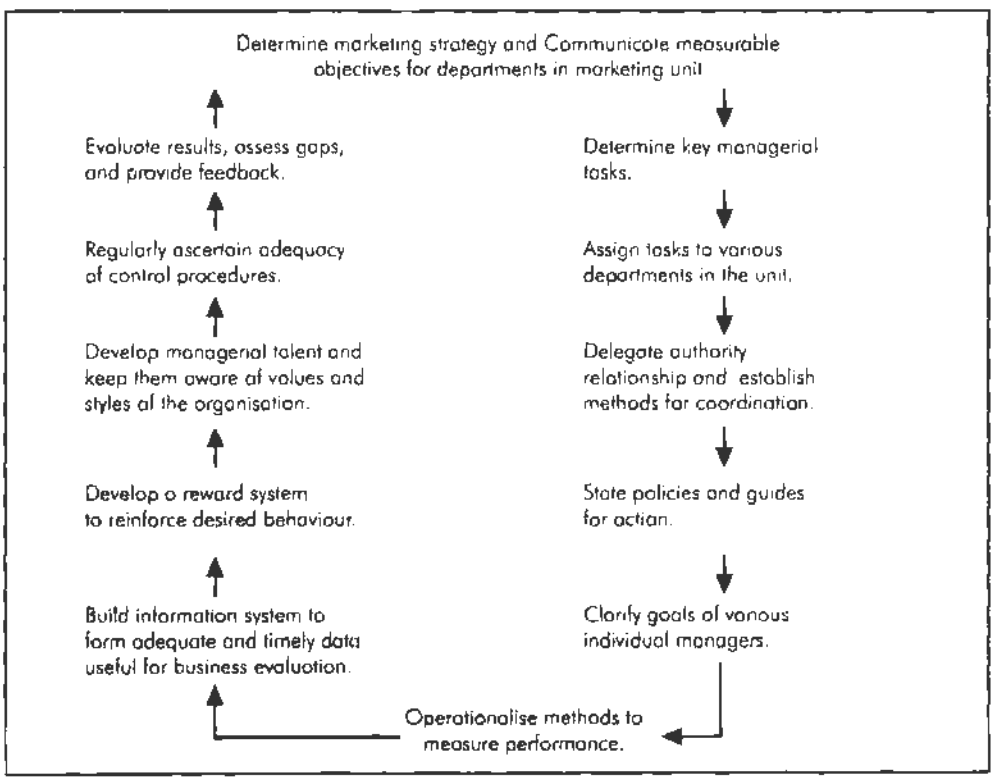


Figure 3.3: Marketing Implementation Process

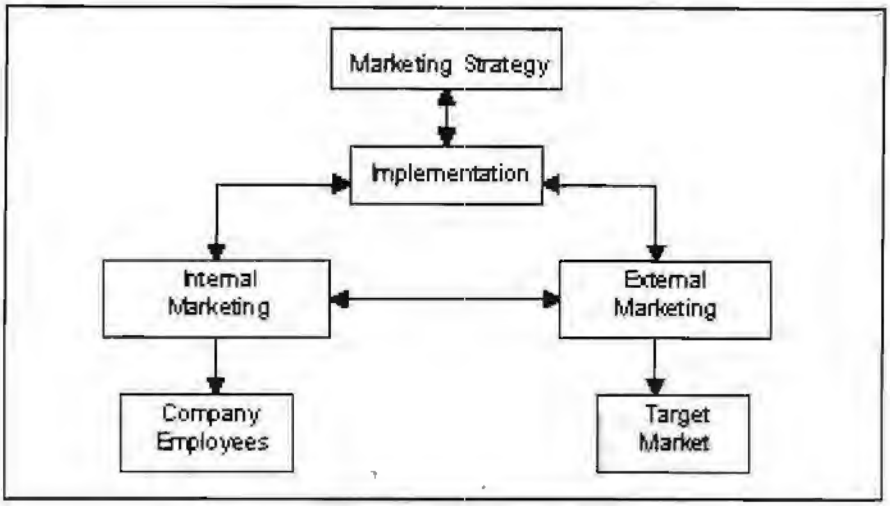


Figure 3.4: Internal and External Marketing Framework

To implement internal marketing, management at all levels takes necessary steps to making understand and accept their respective roles in the implementation of marketing strategy and the importance of delivering satisfaction to the company's customers.

These activities involve market segmentation, product development, research, promotion, and distribution.

Internal marketing activities focus on designing programmes to satisfy the needs of company employees. Many companies use planning sessions, employee workshops, appreciation letters, and personal conversations to ensure that employees understand the company mission, objectives, and the marketing strategy. Some companies also conduct formal meetings to take inputs from employees at all levels in the company before finalising the marketing strategy. All these efforts ultimately result in more satisfied company employees and improved customer relations.

Quality Control Management

With increasing competition, declining market shares, and more demanding customers, quality has become a major concern in many companies. As a result, some companies are adopting philosophies called Total Quality Management (TQM), Quality Function Development (QFD), and a relatively new approach, called Return On Quality (ROQ). According to David Greising, those advocating ROQ pursue a policy of improving quality only in those dimensions that produce tangible customer benefits, lower costs, or increased sales. This focus on bottomline forces companies to ensure delivering the quality level that customers actually want. Joseph R Janlonsky is of the view that TQM relies heavily on three basic principles:

1. Philip B Crosby believes quality is free and not having quality products and services can prove to be very expensive, especially in terms of dissatisfied and lost customers. Continuous quality improvement building in quality, right from the beginning, may become necessary to the extent of even redesigning the product. It is a slow and long-term process of incorporating small improvements, as major advancements are often the result of an accumulation of these small improvements.

2. *Employee empowerment* is critical to implement TQM successfully. The process of employee recruitment, selection, training, and their motivation are the key factors to the successful implementation of marketing activities. Frontline employees interact daily with customers, and their empowerment means giving them authority and responsibility to make marketing decisions without first seeking approval from their superiors. This allows employees to perform their jobs in a befitting manner, consistent with company mission.

Box 3.1: Principles of TQM

1. Quality must be perceived by customers.
2. Quality must be reflected in every company activity, not just in company products.
3. Quality requires total employee commitment.
4. Quality requires high-quality partners.
5. Quality can always be improved.
6. Quality improvement sometimes requires quantum leaps.
7. Quality does not always cost more.
8. Quality is necessary but may not be sufficient.
9. Quality drive cannot save a bad product.

3. Quality improvement circles approach relies on teamwork by getting the best and the brightest employees from different functional areas as well as suppliers and customers and with a variety of perspectives. They are assigned to work on a quality improvement issue. It is well-known that suppliers can have a significant impact on a company's ability to deliver quality to customers. On the other hand, customers are in the best position to know what they and others in the same target market want and expect from the company.

Organising Marketing Department

To what extent a company's marketing chief has authority to plan and implement marketing strategies depends on how the marketing function is organised. The structure of the marketing department directly influences lines of authority, responsibility, and relationships. Steven J Skinner is of the opinion that when customers are not satisfied, chances are that the fault lies in organisational structure. The structure of the company must be consistent with its marketing strategy. According to Trudy Heller, authority is the organisationally sanctioned right to make decisions without the approval of a higher-level executive. For example, when authority is delegated to the advertising manager to perform functions relating to advertising, the individual has the right to make whatever decisions are essential to perform those functions. These elements affect coordination among company personnel and ultimately affect how the individuals connect to perform the marketing activities.

Role of Marketing in Structuring

This aspect has been discussed in case of companies truly adopting marketing concept. With intensifying competition in domestic as well as global markets in almost all the industries, marketing activities gain importance and have become central to being competitive and successfully conducting business. According to Rohit Deshpande and Frederick Webster, Jr., the outcome of adopting a marketing concept is to develop and sustain a culture based on shared set of beliefs and values that focus on customer needs and wants for all company decisions about strategy and operations. As a philosophy of conducting business, marketing concept requires marketing to be closely coordinated with other functional areas such as design, production, finance, and human resources.

Ajay K Kohli and Bernard J Jaworski report that a marketing oriented company culture focuses on effectively and efficiently producing a sustainable competitive advantage by undertaking analyses of customers and competitors, and by integrating company resources to provide superior customer value, satisfaction and long-term profits.

Alternatives to Organising Marketing Department

Marketing department structure establishes the lines of authority and relationships among personnel and establishes who is responsible for taking which particular type of decisions, and for performing specific activities.

There is no single approach to organising the marketing department that suits all types of businesses. Much depends on the number and diversity of products, target market, customer characteristics and their needs, the nature of competition, etc. Marketing activities can be organised on the basis of:

1. Functions
2. Products
3. Customer Groups
4. Regions

In real life marketing operations, companies often put in place some kind of carefully considered combination of functions, products, customer groups, taking into account regional considerations. This approach provides the marketing department with the flexibility required to prepare and implement appropriate marketing plans to match customer needs more effectively and efficiently.

Organising by Functions

This is a fairly popular approach to organising a marketing department. It also works well for some relatively less centralised businesses. Examples of organising the marketing department on the basis of functions include marketing research, product development, sales, advertising, distribution, and customer relations. All these functional managers report directly to the top marketing executive (Figure 3.5).

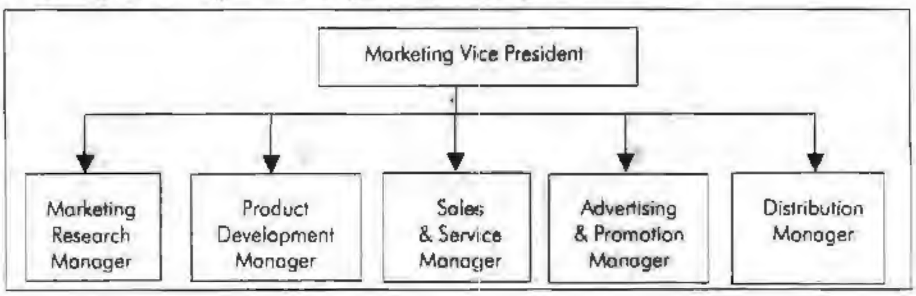


Figure 3.5: Organising by Functions

Organising by Products

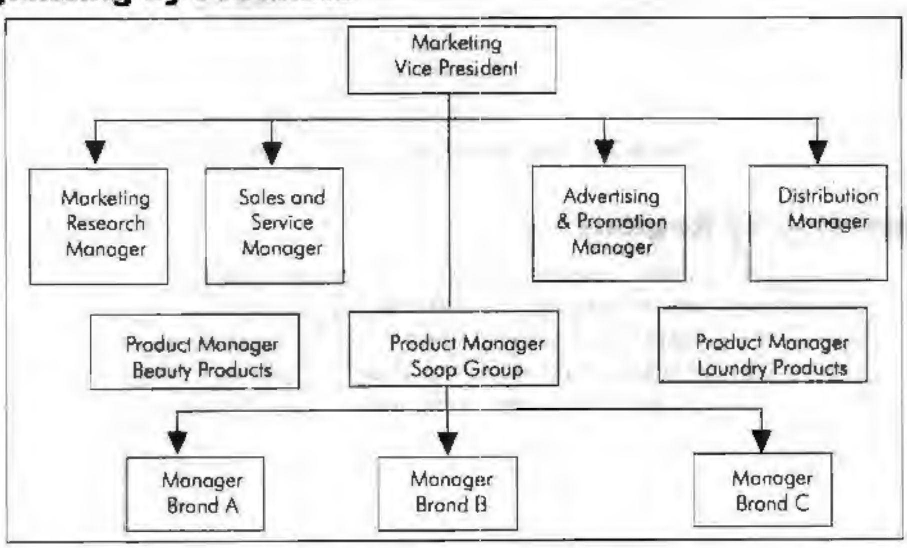


Figure 3.6: Organising by Products

Businesses operating with diverse product categories sometimes find it more appropriate to organise the marketing department by product groups. This arrangement provides the required flexibility to develop separate marketing programmes for different product groups. Procter & Gamble (P&G) operates with this arrangement. P&G has product category management arrangement to manage different product categories. Under each category manager, there are product managers. The product managers can also draw on the resources of the company's specialist staff in the area of advertising, research, distribution, etc. This approach, though providing flexibility, is somewhat more expensive as it creates more layers of management and increases the number of employees. However, in this arrangement each division is responsible for its own product planning, implementation of plans, monitoring performance, and corrective actions (Figure 3.6).

Organising by Customer Groups

This approach is appropriate for businesses that have several significantly different customer groups whose problems and needs are distinctly different. Some computer companies serve businesses, educational institutions, research laboratories, resellers, advertising agencies, home users, etc. Some other examples include companies such as Hyundai, Philips, Bajaj, and Larsen & Toubro, that serve many different customer groups. Such businesses require different marketing decisions and activities, as these highly diverse customer groups are considerably different in terms of their product and service needs. Marketing heads of these groups direct most marketing activities with respect to the specific customer group. These marketing heads report directly to top marketing executive in the company (Figure 3.7).

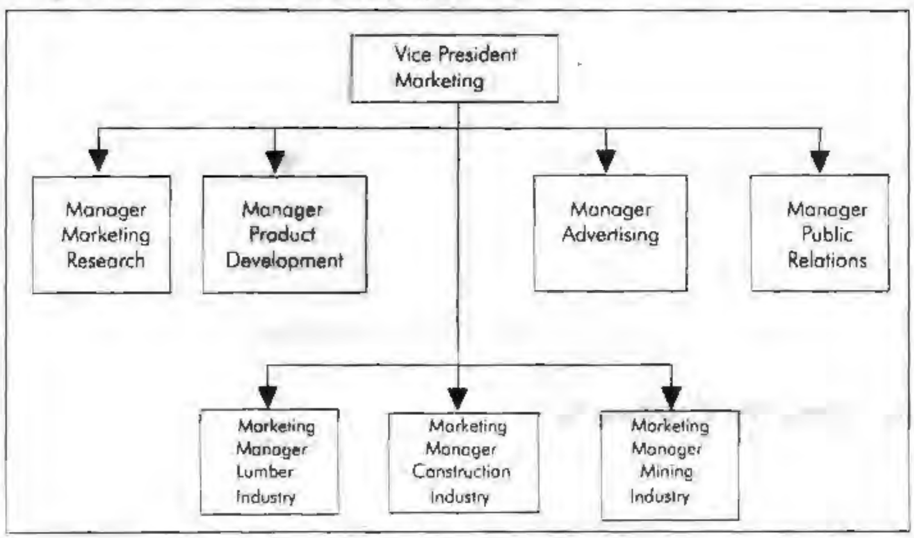


Figure 3.7: Organising by Customer Groups

Organising by Regions

Large business houses that market products in domestic or in the global markets sometimes structure the marketing operations based on regional or geographic considerations. The markets may be divided on the basis of countries/regions, and the country or regional marketing directors report directly to the vice president marketing. This arrangement is appropriate for companies whose customer characteristics and needs differ in important ways in different regions. For example, fast food companies structure their marketing activities based on regional considerations. This facilitates closer contact with customers and responding quickly to market conditions (Figure 3.8).

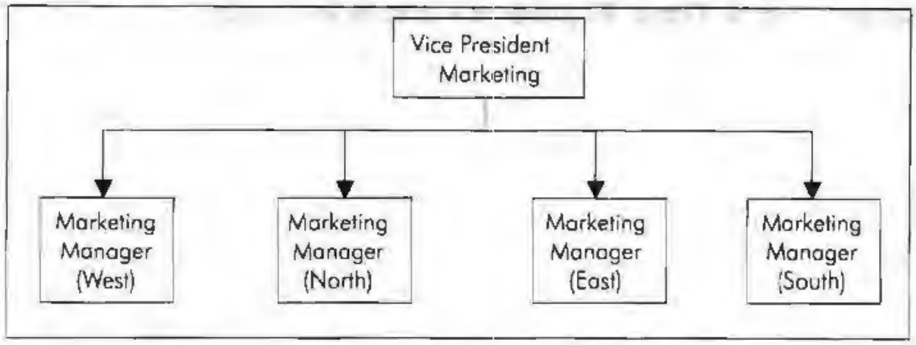


Figure 3.8: Organising by Regions

Implementation of Marketing Programmes

Effective implementation of marketing programmes essentially depends on:

1. Marketing Personnel Motivation.
2. Communication within Marketing Department.
3. Coordination of Marketing Programmes.
4. Establishing a Time Frame for Each Activity.

Marketing Personnel Motivation

This requires sincerity in finding out what are their physical, psychological, and social needs. It is necessary to learn what they think, feel, and want to accomplish. On the basis of these findings, suitable, fair, and ethical measures to motivate employees can be developed that are well understood by the department personnel. Developing the right combination of motivational tools is not easy and requires considerable deliberation. Any incentives to reward excellent or outstanding performance must be related to marketing goals.

Communication within Marketing Department

Timely and effective communication not only works to motivate personnel but also coordinates their efforts. Internal communication upward and downward concerns employees working in marketing research, sales, advertising, sales promotion, and distribution. Two-way external communication, includes package designers, resellers and, most importantly, customers. Equally important is internal upward communication with top management to ensure consistency with company mission and its overall objectives. This also is crucial to integrating activities with other company departments supporting marketing activities, such as finance, new product development, production, and human resource. All this requires establishing reliable and timely information system to support different types of activities such as planning, budgeting, sales analysis, performance evaluation, and preparation and delivery of timely reports.

Coordination of Marketing Programmes

It is essential for marketing managers to work closely with other departmental heads in marketing research, product development, operations, finance, accounting, and human resource to accomplish coordination of all marketing and other departments' activities. Within the marketing department, different marketing-related activities of sales, advertising, marketing research, and distribution need synchronisation to achieve the established marketing objectives and contribute to successful accomplishment of overall company objectives. External to marketing department, it is necessary to coordinate with research providers, advertising agencies, resellers, and those involved in physical distribution.

Establishing a Time Frame for Each Activity

It is imperative that all employees clearly understand what their specific responsibilities are. Unless all the employees understand this, they would not be sure about what is expected of them, or most of them may have only some vague ideas about what is expected of them. Not only must they understand their responsibilities thoroughly, they must be fully aware of the time frame for the completion of each activity. Activity completion time frame is quite visible at McDonald's. Each activity is related to preparing and delivering the burger to customers, right from taking the order to delivering the burger. All concerned employees know the specific time frame for the completion of their activities. Successful implementation of marketing activities requires establishing a time frame and involves several steps such as:

1. Specifying different activities.
2. Determining the time frame for the completion of each activity.
3. Identifying activities requiring performance in a sequence and those that should be performed simultaneously.
4. Establishing in what proper order the activities require performance.
5. Assigning the completion responsibility for activities to managers, teams, or individuals.

Mechanisms to Control Marketing Implementation

All the implementation control procedures relate to: (1) setting performance standards, (2) measuring actual performance against these standards, and (3) taking corrective timely actions to reduce gaps between desired and actual performances.

Setting Performance Standards

Developing marketing plans and controlling activities are closely linked. Statements made in the plan document with respect to accomplishing different goals clearly determine performance standards and provide control criteria. For example, if the marketing objectives included a sales increase by 10 per cent and this got translated into achieving a monthly sales of ₹ 5,00,000, then it becomes a performance standard. Performance standards can also be spelled out in terms of market share, reducing a certain percentage of expenditure in case of accomplishing an objective, improvement in product quality, reduction in customer complaints, or providing customer service, etc.

Measuring Actual Performance against Set Standards

Actual performance concerns not only different departments within the marketing unit but also some outside organisations contracted or hired for providing different goods and services such as advertising agencies, research providers, resellers, consultants etc. Measuring performance of individuals, teams, or departments within the marketing unit does not pose any problems. Performance of different departments within the marketing unit often significantly depends on the performance of outside assistance providers. The best that the marketing control process can do, in the case of external assistance providing firms, is to monitor their activities as closely as possible.

Taking Corrective and Timely Actions

For taking corrective actions to control or reduce the gap between set standards and the actual performance, there are a number of options available to marketing managers. In general, they can opt for steps to improve the actual performance, or totally modify or change the performance standards by making appropriate changes in the objectives, or develop a combination of these two general approaches. For example, to improve the sales performance, salespeople may be given additional training in some aspect of selling, or revise the sales targets.

Evaluating Problems

There is an overlap between marketing activities and other business activities and because of this, determining accurately the costs of marketing activities by marketing managers is nearly impossible. In the absence of accurate cost measurements of marketing activities, the question arises whether the exercise is worth the expenses involved. Besides, it is also true that it may be quite difficult to develop precise measurement standards. For example, to measure the sales results directly flowing from advertising is a very difficult proposition. Other problems include the cost of required information from outside firms; unavailability of information, the severity, and frequency of unpredictable environmental changes can adversely affect control of marketing activities.

Performance Evaluation Methods

Marketing objectives are often stated in terms of sales, costs, profits, product or brand awareness, etc. Performance evaluation always relates to measuring the accomplishment of objectives. Three general approaches to evaluation focus on sales, costs, and marketing audit.

Sales Analysis

Analysis of sales is extremely important for evaluation of marketing strategy and programmes. The sales data is conveniently available in almost all companies and is believed to be a reliable indicator of target market response to the company's marketing efforts. This sales data alone is insufficient and must be compared with the forecasted sales to provide a useful basis for analysis. Some companies also compare the sales data with industry sales and, more often, a particular competitor's sales and costs involved in achieving that sales level. For example, if the forecasted sales were ₹ 5,00,000 and the actual sales in the year for which the forecast was made were ₹ 5,25,000, then it tells the management the level of success of marketing strategy and programmes. It is also important to know the costs involved in achieving this sales level and for this, the budgeted expenditure is compared with actual expenditure. If the total expenditure were less by 5 per cent than budgeted, then it throws important light on the level of success of their programmes. Due weightage is given to price increases or decreases in evaluating the results.

The market share of any company's product or brand indicates the percentage of sales in that product industry. This provides the company a measure to compare its market share with those of its competitors reflecting the level of success of the company's marketing strategy.

Marketing cost analysis usually starts with a scrutiny of accounting records. These records are prepared by usually classifying different costs on the basis of how the money was spent, such as towards rent, wages and salaries, utilities, supplies, insurance, etc. These costs are listed on the basis of expenditure type and not by purpose and are called natural accounts. To illustrate the point, if the expenditure is incurred towards rent, it does not specify rent for what. The rent could be for a warehouse, production facility or some other purpose. To classify costs, marketing managers often reclassify some types of the costs by purpose of expenditure and these are called functional accounts. Such functional accounts include expenditure towards marketing research, personal selling, advertising, sales promotion, storage facility, order processing, and customer credit.

Cost analysis proceeds by generally reclassifying costs into natural accounts and functional accounts. Generally, four broad types of costs are considered:

1. Fixed Costs
2. Variable Costs
3. Traceable Common Costs
4. Non-traceable Common Costs

Fixed costs include rent, salaries, office supplies, utilities, etc., and refer to how the money was actually spent, but often do not mention which marketing functions were performed. For example, to mention that ₹ 5,00,000 was spent on rent annually does not explain rent for what? The analyst is unable to know if the rent was for storage facility or production facility.

Variable costs refer to costs that are directly allocated to perform some specific marketing activity such as advertising expenses incurred in different media to sell a particular product or service, or salaries of the sales force hired to sell a particular brand or product, selling in a specific geographic area, or to a certain customer group.

Traceable common cost can be attributed indirectly to some marketing function such as the cost of temporary support salesperson to man the toll-free telephone line and answer customer queries or handle customer complaints. This would be classified as a traceable common cost of selling a product or product line.

Non-traceable common cost cannot be attributed to a particular marketing function according to any logical criterion and is ascribed on an arbitrary basis such as taxes, interests, and the salaries of top management.

Much depends on the analyst's approach to cost analysis that determines to what extent these types of costs are considered in actual cost analysis. In case the analyst adopts the full cost approach, it will then include variable costs, traceable common costs, and non-traceable common costs. Full cost approach supporters believe that all costs must be considered in the analysis to get the correct profit picture. Those opposed to this point of view argue that since non-traceable common costs are ascribed on an arbitrary basis, full cost approach falls short of yielding actual costs as it uses different criteria for non-traceable costs. To avoid any inconsistency in using criteria, analysts may apply direct cost approach that considers variable costs, and traceable common costs. However, direct cost approach excludes non-traceable common costs because of arbitrary criteria used to determine these costs. Those against this approach are of the opinion that this approach is inaccurate because of the omission of one cost category.

Marketing Audit

Marketing audit is the final method of marketing evaluation and refers to a thorough, systematic, objective examination of its objectives, strategies, organisation, and performance. The primary purpose of audit is to identify weak areas in executing marketing activities and recommends actions to improve performance in these areas. It also highlights activities where the company does well. Companies regularly conduct accounting or financial audit. Likewise, the marketing audit should also be conducted on a regular basis and not just when performance evaluation points to problems with the system, or when there is a crisis.

Marketing audit helps evaluation by undertaking the following:

1. Describing the present activities and realised results in the areas of sales, costs, prices, profits and feedback with respect to other areas of performance.
2. Analysing information about factors that may have an impact on marketing strategy such as environmental conditions, target customers, and competition.
3. An analysis of opportunities, threats, and deciding suitable alternatives for marketing strategy.
4. Develop a comprehensive database to be used in the evaluation of objective and achievements.

A company may use external consultants or company personnel. Hired auditors are more expensive though experienced in this specialised work, and not being from within the company, adopt an objective approach while devoting full time to this work.

Student Activity

1. Define internal marketing.
2. Define the concept of marketing audit.

Summary

Marketing implementation is an important function of marketing management process. To achieve effectiveness in implementing marketing strategies and programmes, marketing managers must consider why the intended strategies do not turn out as planned. Actual marketing strategies often differ from the planned strategies. This happens because marketing strategy and implementation are inseparably related and constantly evolving and the responsibility for strategy development and implementation are separated. There is close relationship between the strategy and its implementation and they can be viewed as two sides of the same coin. Then, managers must also consider important implementation related issues like resources, systems, people, leadership, and shared goals to ensure the proper implementation of the strategies. The core element of marketing implementation is shared values and goals that bind all the components of the firm together into a single, functional entity and are instrumental in successful implementation of marketing strategies. The main objective of a detailed mission statement is to clearly define the organisational philosophy and direction, that is, the shared values and goals of an organisation.

Companies follow two major approaches to ensure proper strategy implementation. These are internal marketing and total quality management. Internal marketing refers to the coordination of internal exchanges between the firm and its employees to better accomplish satisfying external exchanges between the firm and its customers that include internal and external customers. The total quality management approach relies heavily on employee talents and participation to improve the quality of products and services. This involves perpetual quality improvement, empowered employees, and the use of quality improvement teams.

Control involves evaluation and effectiveness of marketing strategies, sales analysis, marketing cost analysis, and marketing audits. Sales analysis relies on sales results in terms of monetary value or market share to evaluate the firm's current performance.

Marketing cost analysis breaks down and classifies different costs to examine which costs are associated with specific marketing activities. It usually requires reclassification of natural accounts into functional accounts based on three broad categories, that is, direct costs, traceable common costs, and non-traceable common costs. The direct-cost method includes only direct costs and traceable common costs.

The marketing audit is a thorough, systematic, and objective examination of a firm's marketing, mission, objectives, strategies, organisation, and performance. This attempts to unearth what functions a marketing department is doing well, pinpointing problems in the execution of functions, and recommending methods and means to improve these marketing functions.

Keywords

Implementation: The process of implementing the intended strategy, the realised strategy happens and is often worse than the intended strategy.

McKinsey and Company's 7-S framework: According to this framework, strategy is just one of seven components that influence business success.

Internal marketing: Internal marketing activities focus on designing programmes to satisfy the needs of company employees.

Employee empowerment: is critical to implement TQM successfully. The process of employee recruitment, selection, training, and their motivation are the key factors to the successful implementation of marketing activities.

Cost analysis: makes it possible to evaluate the level of a strategy's effectiveness by comparing sales achieved and costs incurred even during the continuing implementation process or at its conclusion.

Fixed costs: It include rent, salaries, office supplies, utilities, etc., and refer to how the money was actually spent, but often do not mention which marketing functions were performed. For example, to mention that ₹ 5,00,000 was spent on rent annually does not explain rent for what? The analyst is unable to know if the rent was for storage facility or production facility.

Variable costs: It refer to costs that are directly allocated to perform some specific marketing activity such as advertising expenses incurred in different media to sell a particular product.

Marketing audit: Marketing audit is the final method of marketing evaluation and refers to a thorough, systematic, objective examination of its objectives, strategies, organisation, and performance.

Review Questions

1. Why does intended marketing strategy often differ from implemented strategy?
2. What are the major problems associated with the implementation of marketing programmes? Can these problems be minimised? Discuss.
3. What is the difference between centralised and decentralised marketing departments? Which one is more appropriate in your view to practice marketing concept?
4. Is there some way to empower employees in a company? Why is this believed to be important?
5. A market-oriented department is suitable for what type of companies?
6. Discuss internal marketing. Why do managers often believe that internal marketing is essential to implement marketing strategies more effectively?
7. What is the significance of employee motivation in a marketing department?
8. Why is internal and external communication important for a firm in implementing marketing programmes?
9. Discuss the major steps involved in marketing control process.
10. What is sales analysis? What is its significance in the marketing control process?

Further Readings

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Unit 4 Marketing Environment Analysis

Unit Structure

- Introduction
- Scanning and Analysing Environment
- Demographical Environment
- Economic Environment
- Competitive Environment
- Socio-cultural Environment
- Political - Legal Environment
- Technological Environment
- Summary
- Keywords
- Review Questions
- Further Readings

Learning Objectives

At the conclusion of this unit, you should be able to:

- Realise concept of marketing environment
- Discuss method of scanning and analysing marketing environment
- Describe demographic, economic and competitive marketing environment
- Identify socio-cultural, political and technological environment for marketing

Introduction

Successful companies look beyond customer needs and wants and are sensitive to marketing environmental forces because a company operates within a generally uncontrollable external environment. It would be extremely dangerous for a company to be rejoicing and neglecting environmental forces when the company business is prospering and growing, customers are satisfied, and not much threat appears to exist from competitors. Environmental forces can pose serious threats to any business neglecting these forces.

Scanning and Analysing Environment

Companies undertake environmental scanning and analysis to effectively monitor changes that may throw up opportunities and threats. Environmental scanning refers to systematically collecting information about environmental forces that affect the performance of not only the company but also all the players involved in the process of conducting businesses in the macro environment. Some players are less affected than others by the changes that take place in the environment. Companies ignoring or resisting such changes find themselves in very difficult situations. For example, Hindustan Motors and Premier Autos lost their dominant position to Maruti when it introduced a small car with a modern engine and low fuel consumption, and sold at a reasonable price. Ram Subramanium, Kamlesh Kumar, and Charles Yauger suggest that environmental scanning gives companies some advantage over competitors in taking advantage of changing trends. However, companies must know how to take advantage of such information in their strategic planning process. Scanning requires observation, collecting information from business, trade, government, general interest publications, etc. Environmental analysis means assessing and interpreting the gathered information through various sources, evaluation of information accuracy, resolve inconsistencies, assign importance to the findings, and forecast the impact of trends. This helps bring to light the opportunities and threats arising due to changes in the environment and successful companies take serious note of environmental changes and develop appropriate strategies.

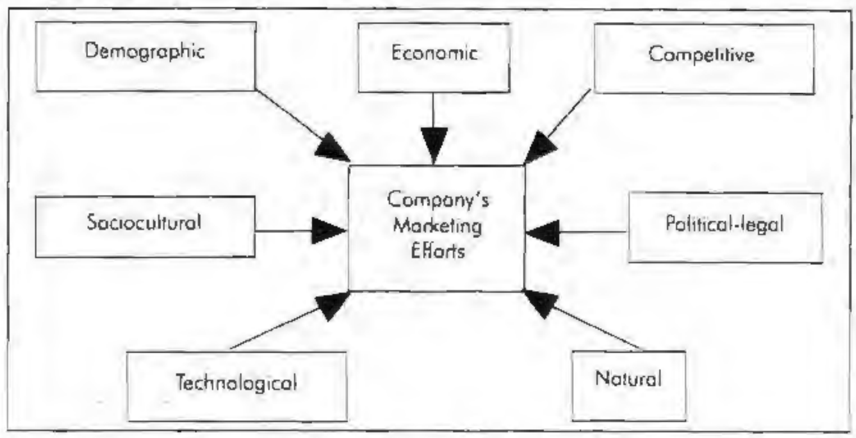

Figure 4.1: Marketing Environmental Factors

A well-managed company takes a reactive approach and attempts to prepare itself to respond quickly and appropriately to major changes in the environment. Carl P Zeithaml and Valarie A Zeithaml propose a second approach of being proactive toward environmental forces. Some marketing professionals argue that marketing environment forces can be controlled to some extent and believe marketing itself is an important force and can be put to use to induce change and extend its impact on environment. Philip Kotler recommends lobbying, legal action, advertising of key issues, and public relations that can help alter some environmental forces. One or the other of these approaches may suit different companies, while some other companies may prefer to use both approaches to suit their objective.

Demographical Environment

The most important environmental factor that needs proper and continuous monitoring is the 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. The slowing down of population growth rate in European economy has led marketers to look for emerging markets like India and China. Demographical studies reflect the population growth rate in cities, towns, urban areas, villages, age distribution of population, educational level and household patterns, regional characteristics and migration of population.

The second most important factor is the 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. Let us take the Japanese population mix. The percentage of people above sixty can outnumber the people below thirty, leading to an imbalance in demographical as well as social dimensions. A country with high percentile population below ten, will be a good market for children products like toys, milk food, dresses and medicines whereas for an ageing population, demand for products that support digestion, viewing and mobility and services like nursing and old age care will be high.

Though a market can be characterized by a geographical boundary to be called as a 'country market', like Indian market, but in reality it is the sum total of some sub markets identified more closely with the ethnic and language based classifications in India. Though the Indian market can be characterized with demographical characteristics, but we understand that consumption, lifestyle and habits of people in different states varies significantly, putting pressure on the marketer to localize his offer for each of these markets. A consumer durable company has to offer a festive discount program throughout the year in different parts of the country e.g. during dussehra in east, onam in the south, diwali in the north. Each group has certain wants and needs which evolves over a larger cultural backdrop of that particular state and it may not be evident in other states.

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. Different educational groups often show different kind of consumption patterns. While it is difficult for clones to survive in a market where people have some level of education, they could survive in the rural heartland of India due to the poor level of education of the people. Literacy level is also another indicator of the population's involvement in informed choices. In a country like USA, where their 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 explain the family types in a demographical environment. We have seen the rise of nuclear family in urban India where parents with a child or two is the norm. This is not true for rural India where its a joint family system. In majority of houses, we have seen families with grand parents living together. 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. Market for fast food, restaurants, convenience, packaged and processed food, consumer durables like refrigerators, washing machines and vacuum cleaners are on a rise in India.

The marketing manager should also monitor gengraphical shifts in population. Over the years, a large number of people have moved out of villages and rural areas to urban India in search of job and better conditions of living. Rural exodus is a big crisis in a country like India because it affects the civic and urban amenities and results in large-scale exploitation of such a huge unorganized work force. Such exodus also affects the rural economic system. People started moving out during the lean agricultural seasons and now they are not ready to go back to the rural heartland. This has resulted in growth of slums and crime in the society and poor usage of village resources like land, forest and water reserves. But with such maladies, there is one key benefit for the marketer. These migrants are responsible for taking urban brands to the rural markets and increasing 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 posses products and services that will make them more urban.

Economic Environment

Opportunity to consume largely depends on the kind of economic system in which the consumer makes purchases. In developed economies, consumer has more choice to make in the same category and more avenues are available to spend compared to a developing or agrarian economy. The current state of the economy also influences the available disposable income for the consumer. Economic environment has the highest influence on the marketing decisions, as it affects the purchasing power of the consumer. By economic environment we mean all those macro economic factors like income distribution, level of saving, debt and credit available to consumers and stage in business cycle. They affect the marketing decisions in combination with available economy of scale enjoyed by individual firms.

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. In a deteriorating economy, financial institutions do well as saving levels go higher and people stop consuming products which they would have done otherwise in a boom condition. So economic environment has a sizable influence on the way marketers operate.

Competitive Environment

In an open economy there is hardly a chance of not having competition and the nature and intensity of the prevailing competition influences the demand of a particular company's products and services. Competition in business terminology generally refers to the availability of other products and services by different marketers that are similar to or can be substituted for a particular company's products or services in the same market. Increasing popularity of Internet in urban areas and on-line services particularly in large cities is increasing the intensity of competition in the market place, by adding an entirely new dimension.

Four general types of competitive structures include monopoly, oligopoly, monopolistic competition, and pure competition. On one extreme is monopoly, where a company markets a product that has no close substitutes and a particular marketer is the only source of supply. For example, before the economic liberalisation in India, the government was the only supplier of Petrol, LPG, and telephone service. The other extreme is pure competition that refers to a large number of marketers offering a homogenous product, a situation where no member can influence the price or supply, such as food grains. These are extreme situations and most businesses operate in a competitive environment in between these two extremes. In case of oligopoly, there are few competitors such as Broadband Internet service providers. Monopolistic competition refers to a situation when many firms are marketing the same or similar products and each company attempts to differentiate its product to appeal customers that its product is a better choice. For example, Apple computers are highly differentiated with many substitutes.

Socio-cultural Environment

Socio-cultural factors in every country have a significant effect on society and its culture(s). These forces have their impact on learned behaviours in everyday life including buying behaviour by influencing attitudes, beliefs, norms, customs, and lifestyles. Culture influences consumers through the norms and values established by the society in which they live. It is the broadest environmental factor that influences consumer behaviour. Cultural values are enduring and any attempts to change them generally fail.

The study of culture is concerned with a comprehensive examination of factors such as language, religion, knowledge, laws, art, music, work patterns, social customs, festivals, food, etc., of a society. In fact, culture includes everything that reflects its personality. However, culture does not determine the nature or frequency of instinctive drives but can influence how and when a particular drive will be gratified.

Individual and household lifestyles evolve within the given framework of culture. The boundaries set by culture on behaviours are referred to as norms, derived from cultural values and are the rules permitting or prohibiting certain types of behaviours in specific situations. Members of a society obey cultural norms without deliberation because behaving otherwise is viewed as not only unacceptable but unnatural. Culture is viewed as a mirror of both the values and possessions of its members. D K Tse and R W Belk believe that cultures are not static but evolve and change slowly over time. Availability of products and services popular in other cultures influence the desire of consumers. According to R W Pollay, D K Tse and Z Y Wang, the massive export and multinational advertising of consumer goods, especially heavily symbolic goods such as cigarettes, soft drinks, clothing, athletic gear, as well as experiential goods such as music, movies and television programming, impacts the culture and desired lifestyles of importing countries.

In the context of Indian culture, strong family bonds have been one of the core values and a major driving force in the Indian market. Members of a particular society hold some core beliefs and values that tend to persist over time. These values are often visible in marketing communications of different products in India showing a caring mother or housewife such as in ads for Maggi, Chayavanprash, Vicks Vaporub and many other products.

Political - Legal Environment

Marketing decisions are influenced in important ways by the political and legal environment in any given country. Political, legal, and regulatory forces in a nation and its markets have close interrelationship. Legislations are passed; courts at different levels interpret legal decisions and different regulatory agencies are created and operated, in most cases by elected or appointed officials. The current laws, government agencies, and pressure groups put limits on marketing decisions and strategies of companies. Industries and organisations almost always maintain good relations with political officials to minimise the possibility of enacting unfavourable laws and regulations. Another major reason to stay on the right side of political power is that governments are the big buyer. In India public sector companies, armed forces, and other agencies participate in economic activities as buyers and sellers of different goods and services.

Some companies believe that such forces are uncontrollable and remain only reactive and adjust to conditions, while some industry associations openly protest against the actions of legislative bodies. It is important for industries and individual organisations to understand the political - legal forces and different political ideologies of groups at the state and central government levels.

The degree of political – legal intervention in business and industry varies across countries. For example, in India the extent of intervention is significant and the government decides the rules in respect of foreign private investment, imports, exports, advertising certain product categories such as tobacco products, Monopolies and Restrictive Practices Commission (MTPC), etc. There is comparatively very low intervention in USA and the emphasis is on free economy.

Sometimes, major changes in the economic policy of a country can spell opportunities and threats. For example, after a major change in the economic policy in early 1990s, markets have opened up for foreign companies and private investors. Long ago, because of policy changes in India, Coca-Cola and IBM wound up their business in India rather than agreeing to adjust. Similarly, stricter laws concerning environmental pollution often restrict the activities of many businesses. In some developed economies, mandatory recycling laws opened up opportunities for recycling industry. In recent times, government agencies and pressure groups are turning against the use of non-biodegradable plastics.

Technological Environment

Technological changes occur in two ways. Some changes evolve over a period of time and consumers hardly mark the difference, as they do not alter their level of consumption. But some technological changes are so strong and disruptive in nature that they establish a new consumption patterns. Technology is one of the dramatic forces that shape the lives of people. Every new technology that is of the second order, is a force of creative destruction. 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. Today marketing related transactions have crossed geographical boundaries and people can transact, trade and post their complaints at real time over the Internet. Revolutions in the world of biotechnology, genetic engineering are in the waiting, for the benefit of the consumers and the speed at which these changes embrace our civilization makes past seem to lose its significance as a trend-setter for the future. 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.

Decades ago people were hardly aware of products which are the common lingo of this generation. Products like iPods, biometric identifiers, satellite telephones, personal interactive digital assistants, voice programs are examples of new generation products, which have contributed towards the accelerated adaptation of new technology in the society. The future is so bright that people need not go to their work place and can start working from home through telecommuting. Virtual reality is used very often for gathering information about consumer reactions to new product designs, by offering design alternatives in three dimensions and computer-generated environment through sound, sight and touch. Today's entertainment has become three dimensional through virtual reality games. As already mentioned, technology-related regulations are increasing because of both technological and business uncertainty.

Student Activity

1. Define demographic environment.
2. What do you understand by economic environment?

Summary

The marketing environment includes six major external forces: demographic, economic, competitive, sociocultural, political-legal, and technological that directly or indirectly affect a company's marketing activities. Changes in any one of them may trigger changes in one or more other factors and the combined total effect may influence acquisition of inputs such as personnel, financial resources, raw materials, and information. These changes may also influence a company's outputs of goods, services, or ideas.

Demographic characteristics such as population and its growth rate, age-mix, gender, education, income, changes in family structure, and geographic shifts in population, etc., are important factors. The size of population is an indicator of market size to some extent.

Economic conditions determine the demand and influence marketing activities. Buying power and willingness to spend significantly influences consumer demand. The buying power depends on income, prices, tax structure, availability of credit, wealth, family size, and the economic outlook. The overall state of the economy depends on four general business cycles, namely, prosperity, recession, depression, and recovery.

Competition may include domestic and global players, in particular, the geographic market offering similar or substitute products. Several factors influence the intensity of competition depending on the type of competitive structure.

Sociocultural factors in every country have a significant affect on society and its culture(s). These forces have their impact on learned behaviours in everyday life including buying behaviour by influencing attitudes, beliefs, norms, customs, and lifestyles.

Marketing decisions are influenced in important ways by the political and legal environment in any given country. Political, legal, and regulatory forces in a nation and its markets have close interrelationship. Legislations are passed; courts at different levels interpret legal decisions and different regulatory agencies are created and operated, in most cases by elected or appointed officials. The current laws, government agencies, and pressure groups put limits on marketing decisions and strategies of companies.

Technology refers to the application of knowledge and tools to solve problems and achieve more efficiency. It represents powerful forces that influence human lives in important ways. Whenever a new technology shows its impact, many existing technologies become obsolete. However, a new technology may not always prove to be advantageous, unless the new technology creates successful products.

Keywords

Marketing environment: It includes all the forces that directly or indirectly influence marketing operations, by affecting an organisation's acquisition of inputs/creation of outputs such as human, financial, and natural resources and raw material, information, goods, services, or ideas.

Scanning: It requires observation, collecting information from business, trade, government, general interest publications, etc.

Environmental analysis: It means assessing and interpreting the gathered information through various sources, evaluation of information accuracy, resolve inconsistencies, assign importance to the findings, and forecast the impact of trends.

Demographic Environment: The size of population and its growth rate in urban, rural, state level, and nation is an important factor because people have needs and wants and constitute a market.

Economic recovery: It refers to the business cycle stage when the economy moves from recession or depression to prosperity.

Discretionary income: Discretionary income represents the money available after buying basic necessities such as food, clothing, and shelter.

Socio-cultural factors: Socio-cultural factors in every country have a significant effect on society and its culture(s).

Review Questions

1. Why do you think environmental scanning and analysis of information so gained are important?
2. What are the major environmental forces? Briefly discuss each.
3. In your view, what business cycle are we in India experiencing currently? Give your reasons.
4. What factors influence the buying power of consumers? Discuss.

5. Discuss the impact of technology on marketing activities.
6. Discuss the impact on consumption patterns in the Indian society due to cultural changes as a result of latter day marketing activities.
7. In what ways are Indian cultural values changing? How are marketers responding to these changes?
8. Discuss how technology influences society. How does it affect marketing activities?
9. Discuss the changing role of women in Indian society? What impact do you see in marketing activities due to these changes?
10. Did the environment influence marketing activities of some foreign companies in India? How did they respond?

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Unit 5 Information System and Marketing Research

Unit Structure

Learning Objectives

At the conclusion of this unit, you should be able to:

- Know how marketing information system is organised and maintained
- Discuss important data sources and their utility
- Describe the need for marketing research and important steps involved in research process
- Identify types of research and major research tools and techniques
- Discuss types of data and data collection approaches
- Realise the use of marketing research

Introduction

Marketing success depends on making correct and timely decisions. Marketing managers need reliable and timely information about a large number of external and internal factors relevant to decision areas. Practically every decision area relevant to marketing requires the input of information. In a highly competitive business environment today, availability or otherwise of reliable and timely information might mean the difference between success and failure of a business enterprise. The society today is information based and businesses with access to superior and timely information can make better choices of markets, their offerings, do a better marketing planning job and ultimately enjoy a competitive advantage. Marketing is becoming a game where reliable and timely information, rather than raw marketing muscle wins the race.

Information About Factors that Affect Marketing

In the absence of adequate knowledge about various factors that affect marketing, strategic decisions are likely to be misguided. For instance, products that have little chance of success may be introduced, that eventually fail, attractive product-markets may be overlooked and new markets may be entered despite conditions that make success unlikely, products may be targeted at wrong market segments overlooking the attractive opportunities for the same product in another market segment, pricing may be too high or low affecting sales adversely, promotional money may be poorly spent on inappropriate promotion mix elements, and choice of distribution channels may not be the most suitable. Most often, the errors in such decision areas are a result of ill-informed or under-informed marketing decisions.

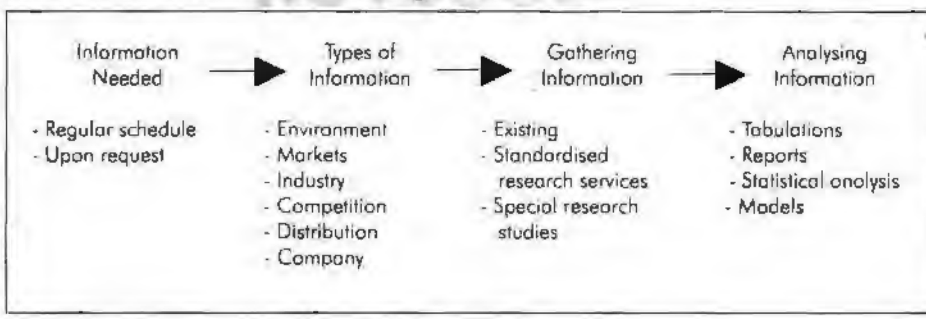


Figure 5.1: Information and MIS Planning

Rapidly changing marketing environments, expanding business boundaries of global and domestic companies, shifts in incomes, changing lifestyles and preferences of consumers, etc., have made marketers realise the need to have quick access to a large amount of reliable information to facilitate sound decision-making. Floyed Kemske believes that information will be the catalyst in the present global economy. The need for information and information technology has never been greater than now. Computers and other IT related products are being increasingly used by almost all the businesses, large or small. Despite this, many business establishments lack proper information systems.

Marketing Information Systems (MIS)

The term 'Marketing Information Systems' refers to a programme for managing and organising information gathered by an organisation from various internal and external sources. MIS assesses the information needs of different managers and develops the required information from supplied data in time regarding competition, prices, advertising expenditures, sales, distribution and market intelligence, etc. Information sources for MIS include a company's internal records regarding marketing performance in terms of sales, and effectiveness and efficiency of marketing actions, marketing databases, marketing intelligence systems, marketing research, and information supplied by independent information suppliers.

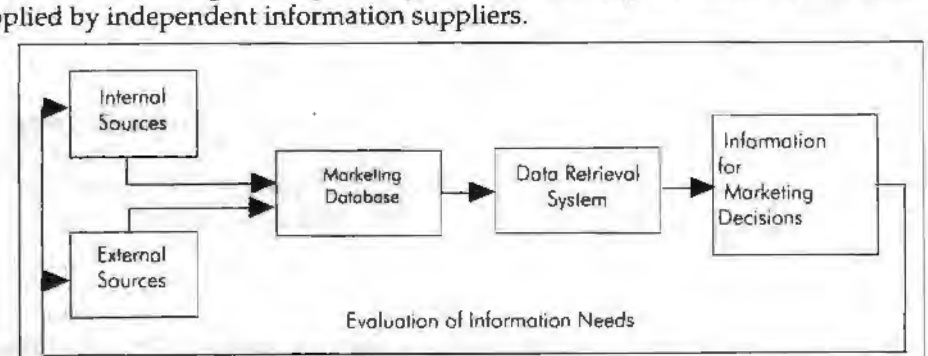


Figure 5.2: Elements of MIS

Databases

A database refers to the collection of comprehensive information about customers and prospects such as demographic and psychographic profiles, products and services they buy, and purchase volumes, etc., arranged in a manner that is available for easy access and retrieval. Databases allow marketers access to an abundance of information, – often through a computer system – such as sales reports, news articles, company news releases, and economic reports from government and private agencies, etc., that can be useful in making various marketing decisions.

Internal Records

Modern technology is making information required for marketing decisions ever more accessible. It is possible to track customer buying behaviour and better analyse and understand what customers want. The integration of various modern technologies is allowing companies to access valuable information. Ever increasing numbers of market researchers and managers are having access to e-mail, voice mail, teleconferencing, videoconferences, and faxes.

Internal database is the most basic starting point in developing a strong MIS. Marketers, not just the growing numbers of large retailers in our country, need information about what is demanded more by customers and what is not. Internal record systems help in tracking what is selling, how fast, in which locations, to which customers, etc. Availability of all such information relies on reports available on orders received from sales people, resellers, and customers, copies of sales invoices, prices, costs, inventories, receivables, payables, etc. Getting inputs and designing systems to provide right data to the right people at the right time is critical for marketing decisions.

External Sources

Census Bureau is one key source of information regarding various demographic variables. Besides Census Bureau of India, other sources include Newspapers, Trade Publications, Technical Journals, Magazines, Directories, Balance Sheets of companies, Syndicated and published research reports. Various third party information suppliers offer a variety of information about customers as per marketer's requirements, for a price. For example, Reader's Digest markets a database covering 100 million households. It is one of the best databases to assess potential markets for consumer products. It lets Reader's Digest management know the likes and dislikes of many of its readers.

Computer Networks and Internet

Present day computer networks enable marketers to access data sources and customers with immediate information about products and performance. Through such networks, marketers can exchange e-mails with employees, customers, and suppliers. On-line information services such as CompuServe and America On-line typically offer their subscribers access to e-mail, discussion groups, files for downloading, chat rooms, and databases and other related research materials. Marketers can subscribe to "mailing lists" that periodically deliver electronic newsletters to their computer screens. This helps increased communication with a marketer's customers, suppliers, and employees and boosts the capabilities of a company's marketing information system. On-line information services are available only to subscribers. However, the Internet allows global exchange of e-mails, discussion through newsgroups on almost any subject, downloading of files, chat rooms, etc. A well-maintained database enables a company to analyse customer needs, preferences, and behaviour. It also helps in identifying right target customers for its direct marketing efforts.

Data Mining and Data Warehousing

The term 'data mining' refers to automated data analysis of large amount of data stored in a data warehouse. This is similar to extracting valuable metals from mountains of mined ore. The purpose is to unearth – with the help of modern computing power – meaningful patterns of information that might be missed or remain undiscovered. Data mining creates customer database, which is extremely important for all narrowly defined target-marketing efforts. Data mining also leads to build database on resellers, distribution channels, media, etc. Data warehousing refers to storing subject-based, integrated, non-volatile, time variant data in support of managerial decisions. It can be viewed as a central collection of clean, consistent, and summarised information gathered from several operational systems. With increasing computing capabilities, organisations are collecting large amounts of a variety of information or data possibly faster than they can use, and for this reason all the collected data or information needs to be sorted, classified and warehoused, so that it can be retrieved when needed in a meaningful manner.

Marketing Intelligence Systems

In the current fast-paced business climate, keeping up with macro-environmental changes, and competition is becoming increasingly difficult. Marketing intelligence system refers to systematic and ethical approach, procedures, and sources that marketing managers use to gather and analyse everyday information about various developments with regard to competitors and other business trends in the marketing environment. This intelligence is collected from various sources such as newspapers, trade publications, business magazines, talking with suppliers, channel members, customers, other managers, and sales force people.

About competitive intelligence, the general idea is that more than 80 per cent information is public knowledge. The most important sources from which to obtain competitive intelligence include competitors' annual and financial reports, speeches by company executives, government documents, trade organisations, on-line databases, and other popular and business press. The company can take certain steps to obtain quality marketing intelligence. The company should take steps to train and motivate field sales personnel about the types of information to report regularly on any relevant developments in the market place. Besides sales force, the company can take steps to motivate channel members to pass along important intelligence. The company can also purchase competitors' products, and attend trade fairs.

Marketing Research Process

For conducting marketing research, companies develop systematic procedures for collecting, recording, and analysing data from secondary and primary sources to help managers in making decisions. Marketing research is different from market research, which is information collected about a particular market or market segment.

Defining Marketing Research

"Marketing Research is the function which links the consumer, customer, and public to the marketer through information – information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance, and improve understanding of marketing as a process."

(Definition by American Marketing Association, according to
Tull and Hawkins, 6th Ed.)

According to Tull and Hawkins, "Marketing research is a formalised means of obtaining information to be used in marketing decisions."

(Donald S. Tull and Del I. Hawkins, Marketing Research, 1993)

The six steps presented (Figure 5.3) should be viewed as an overall approach to conduct marketing research and should not be viewed as a fixed set of rules for each and every project. The decision-makers must consider each of the steps carefully and examine how they can best be adjusted to address a given problem or opportunity at hand. Various opportunities for error are present in the marketing research process and for this reason, it is important that all those who use research results be well-informed and critical users of information that results from such research results.

The research process involves defining a marketing problem or opportunity and establishing research objectives; decide research design; establish data collection approach; finalise sampling procedure; collect data; analyse data and present report.

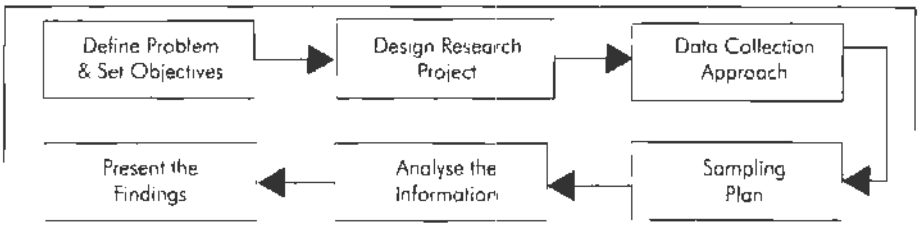


Figure 5.3: Steps in Marketing Research Process

Define the Marketing Problem and Set Objectives

The starting step focuses on uncovering the nature and boundaries of a negative, or positive situation or question and calls for the marketing manager and the researcher to analyse the situation and carefully define the problem to be addressed. There is a popular saying, "A problem well-defined is half solved." However, the definition of marketing problem may not always be easy because the real issue may not be apparent to decision-makers and has to be identified and precisely defined.

Marketing departments, particularly in large organisations, maintain Marketing Information Systems (MIS), which provide a continuous, and systematic flow of information for use in making marketing related decisions. Firms with inadequate information often find it difficult and time consuming to define the problem accurately and good research on the wrong problem is a waste of money and effort.

Problem Definition

The company's sales are declining and not producing the expected profits. Last year our market share slipped 10 per cent in men's jeans, and 12 per cent in men's footwear. Studies conducted show we are losing sales to other competitors in the same business and that customers are confused about our position in the market. We need to decide how we position ourselves in the future market place.

The statement clearly defines the specific and measurable problem that the research project has to address. All the five questions help specify relevant objectives for which the research should provide the information needed by the decision-makers to decide on a new positioning strategy for the marketer. This would facilitate the company in developing appropriate marketing plans, along with advertising and promotion strategies to communicate the new positioning to audiences in the target market(s) and hopefully regain the lost market position and increase profitability.

The research objective defines what information is needed to solve the problem. To design a promising research project, the first prerequisite is to refine a broad, indefinite problem into a precise researchable statement. A clear definition of problem and subsequent setting of relevant and precise objective(s) facilitates deciding what kind of basic research approach would be appropriate.

Going by the above mentioned problem definition, we can have a definite statement of research objective(s):

Research Objectives

We must find out: (1) Who are our customers? (2) Who are the customers of the competing brands? (3) What do these customers like and dislike about us and the competitors? (4) How are we currently perceived among customers? And (5) What must we do to clarify and improve the customers' existing perceptions?

Design Research Project

Marketing research design refers to the specification of methods for gathering and analysing the data necessary to facilitate identifying or reacting to a problem or opportunity. The users of research and those that conduct the research both should be aware why the research is being conducted.

To achieve accuracy and gain useful information through marketing research, the research design should be developed carefully and strict standards should be applied for collecting and tabulating the data. The advertiser must ensure that the collected data is valid and reliable to be useful. Validity means the research must actually measure what is being investigated. For example, if a market consists of 5 million people and the researcher shows a prototype of a mixer-grinder to just 10 individuals and 8 of them say they like it, it would mean 80 per cent favourable attitude. But a sample size so small is not enough for a minimum sample, and the prototype shown to them would probably bias their response. The test cannot be considered reliable because if repeated with another 10 individuals, it might get an entirely different response. Reliability of a test means that approximately similar results can be obtained if the research is repeated. For example, an entrance test for MBA is reliable in case a student scores similar marks after taking it a second time. Validity and reliability depend on a number of key factors, such as the sampling methods, the design of survey questionnaire, data tabulation approach, and the method of analysis.

According to Tull and Hawkins, many researchers have found it useful to consider three categories of research based on the type of information required. These are briefly discussed below:

Exploratory Research

This category of research aims at discovering the general nature of the problem and to correctly understand the involved variables. In case managers face serious doubts about the marketing problem and need more information about a problem, exploratory research ends to rely more on secondary data such as company's database, publicly available data, questioning experienced and knowledgeable persons inside or outside the company such as salespeople and resellers etc. It can be conducted with a very limited sample size such as convenience or judgement samples. Exploratory research studies are particularly useful in addressing broad problems and developing a more specific educated or informed guess, called a hypothesis, which is a statement that specifies how two or more measurable variables such as age, attitude, and purchase behaviour are related.

Descriptive Studies

Such studies are more extensive in scope. In such studies, information is collected from a representative of respondents and the information collected is analysed by using statistical methods. Such studies generally demand much prior knowledge and assume that the problem is clearly defined. A lot of marketing research involves descriptive studies and may range from general surveys of consumers' age, education, occupation, market-potential studies, product usage studies, attitude surveys, and media research, for example, specifics such as how many consumers bought a Maruti Zen last month, or how many adults between the age of 18 to 25 visit McDonald's 4 times a week and how much they spend. Such studies could help developing new products or services. Accuracy is quite critical in such studies as the errors can lead to results that could prove to be misleading to marketing decision-makers. To minimise the chances of such errors, much care should be taken in sampling procedure, design of questionnaire, and information reporting.

Causal Research (Experimental Research)

As the name suggests, such research studies are conducted to establish cause and effect relationship between different variables. Suppose it is assumed that variable X causes variable Y. To prove or disprove this, the researcher must try to hold constant all other variables in the experiment except X and Y. If a marketer wants to learn the influence of rising income and change in lifestyle on purchases of a more expensive car model, the results may show that increasing income levels and lifestyle changes favourably affect the sales. Daniel C Smith and C Whan Park reported a study conducted to test the hypothesis that brand extensions increase new product market share. The researchers found that brand extensions do in fact contribute positively to market share.

Such research may be conducted in a laboratory setting such as central location to respond to experimental variables and might include interview rooms, one-way mirrors, video equipment, tape recorders etc. Such studies are called laboratory experiment. For example, to determine the effect of various levels of sweetness in a soft drink on consumer taste preference, consumers may be invited to a taste room. The researchers would ask respondents to taste different versions of the soft drink and afterwards would be asked to rank the preference of each level of sweetness. In a laboratory setting, variables can be controlled.

Data Collection Approach

There are four basic methods for collecting data in marketing research. These include secondary data, observation data, survey data, and experimental data. The nature of collected data can be put under either secondary or primary category.

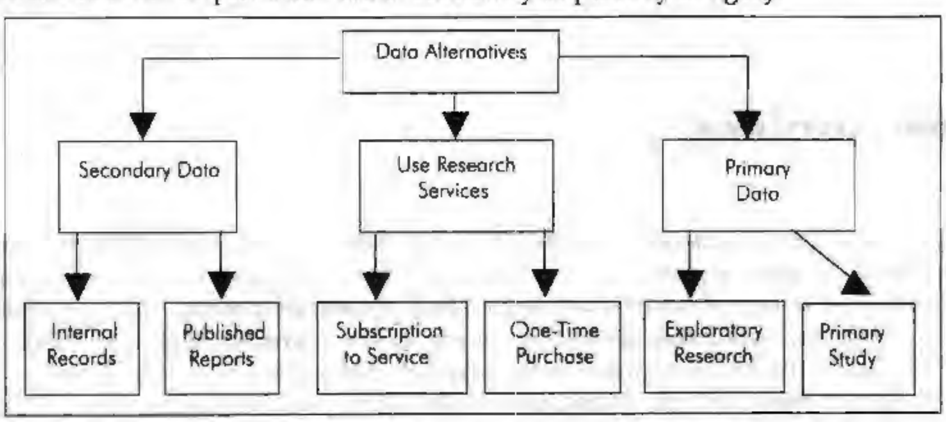


Figure 5.4: Data Collection Alternatives

Secondary Data

Secondary data is any information originally generated for some other purposes rather than the current problem under consideration and can be either internal or external to the organisation. It includes findings based on data generated in-house for earlier studies, customer information collected by company's sales or credit departments and research conducted by outside organisations. The act of locating secondary data is called secondary research. Original research done by individuals or organisations to meet specific objectives is called primary research.

Sometimes, secondary data uncovers enough useful information related to the present problem that it eliminates the need to conduct primary research and collect primary data. In most cases, secondary data offers clues and direction for the design of primary research. Secondary data is relatively easily available, without much effort, time, and money. Company's information database, government agencies, industry sources, trade associations, marketing research firms, advertising agencies, and Internet are important sources of secondary data.

With the opening up of the Indian economy and the ever-increasing requirements of a variety of specific information by business organisations, a fairly significant number of large, medium, and small research suppliers are available. Some important research agencies include A C Nielsen, Taylor Nelsen Sofres MODE, IMRB, NCAER, NRS, IRS, and ORG-MARG.

Primary Data

In case the needed data are not available from secondary sources, it is dated, accuracy is doubtful, or unreliable, it becomes necessary for the researcher to obtain primary data through full-scale research. To collect primary data, the researcher undertakes either qualitative research or quantitative research.

Qualitative Research

Data collection techniques for qualitative studies include focus group, depth interviews and projective techniques. All these techniques relate to psychoanalytic and clinical aspects of psychology. The emphasis is on open-ended and free-response types of questions so that the respondents reveal their unconscious thoughts and beliefs. These techniques are frequently used in early stages of attitude research to learn product-related beliefs or attributes and the resulting attitudes. Four popular methods of data collection include:

1. Depth interviews
2. Focus group
3. Projective techniques
4. Laddering

Depth Interviews

Depth interviews are designed to determine deep seated or repressed motives. A depth interview is lengthy, unstructured and informal and is between a respondent and a trained researcher. It generally lasts anywhere between 30 minutes to an hour. After establishing the general subject to be discussed, the researcher keeps her/his own participation to the minimum possible level. The questions are general and respondents are encouraged to talk freely about their needs, desires, motives, interests, activities, emotions and attitudes, in addition to the product or brand under study. Questioning is sometimes indirect such as, "Why do you think some your friends use a Bajaj Pulsar motorcycle?" This method attempts to bypass the respondent's inhibitions about revealing inner feelings. Such studies furnish valuable ideas about product design, insights for product positioning or repositioning and marketing communications.

A new technique for probing respondents' inner feelings, called autodriving, involves exposing respondents to photographs, videos and audio-recordings of their own behaviour. This approach provides them with the opportunity of having a deeper look at self and commenting on their consumption related behaviour. This technique is believed to help in making the qualitative data more meaningful.

Interview results are interpreted by trained professionals and are subjective in nature rather than quantitative and for this reason there is increased possibility of bias. Another source of error is the small size of samples, which may not be representative of the entire population.

Focus Groups

Focus group is a popular technique for exploratory research and brings together about eight to ten people with similar backgrounds to meet with a moderator/analyst for a group discussion. The discussion is "focused" on a product, service or any other subject for which the research is conducted. The moderator/analyst guides the discussion encouraging the participants to freely discuss their interests, attitudes, reactions motives, lifestyles, and feelings about the product and usage experience, etc. These sessions generally last for two hours and are videotaped.

The sessions are usually held in specially designed conference rooms with one-way mirrors permitting the researchers to observe the session without inhibiting the responses.

Collage focus research is a variation of the focus group. The respondents are provided with scissors, paper, paste and magazines and are asked to make a collage representing themselves and their relationship with the product or service under study.

Focus groups can be helpful in:

1. Generating hypotheses about consumers and market conditions.
2. Suggesting refreshing new ideas.
3. Checking an advertisement, product package, or product concept to determine any flaws.
4. Understanding consumers' motivations, lifestyles and personalities.
5. Doing a post-mortem on failed products.

Projective Techniques

Projective tests require the respondent to decide what the other person would do in a certain situation. These techniques explore the underlying motives of individuals who consciously or unconsciously get involved in rationalisations and concealment because they may be reluctant to admit certain weaknesses or desires. Projective techniques involve a variety of disguised tests containing ambiguous stimuli such as untitled pictures, incomplete sentences, inkblots, word-associations and other-person characterisations. The respondent taking the test is required to describe, complete or explain the meaning of different ambiguous stimuli. It is believed that respondents' inner feelings influence their perceptions of ambiguous stimuli. By taking the tests, they project their inner thoughts revealing their underlying needs, wants, aspirations, fears and motives, whether or not the respondents are fully aware of them. Some examples of projective techniques are:

1. ***Thematic Apperception Techniques (TAT):*** Respondents are shown pictures or cartoons concerning the product or the topic under study and asked to describe what is happening in the picture. It is believed that respondents will actually reveal their own motivations, attitudes, personalities and feelings about the situation.
2. ***Word Association Test:*** This is a relatively old and simple technique. Respondents are read a series of words or phrases, one at a time and asked to answer quickly with the first word that comes to mind after hearing each one. By responding in rapid succession, it is assumed that they indicate what they associate most closely with the word or phrase spoken and reveal their true feelings.
3. ***Sentence Completion Test:*** The interviewer reads the beginning of a sentence and the respondent is required to finish it. This technique is believed to be useful in uncovering the images consumers have about products and stores. The information collected can be used to develop promotional campaigns.
4. ***The Third-person Technique:*** The interviewer asks the respondent to describe a third person. For this, respondents are presented with some information about

the person. It is believed that when they describe a neighbour or a third person, they usually respond without hesitation and in doing so, they express their own attitudes or motives as they infer the attitudes or motives of someone else.

5. ***Laddering (Means-end Chain Model):*** This is a relatively new research method for data collection. The assumption here is that very specific product attributes are linked at levels of increasing abstraction to terminal values. The consumer concerned has highly valued end states and chooses among alternative means to attain these goals, and therefore products are valued as the means to an end. Laddering uses in-depth probing directed toward uncovering higher-level meanings at attribute (benefit) level and the value level. According to Thomas J Reynolds and Jonathan Gutman ("Advertising is Image Management," Journal of Advertising Research, February/ March 1984) it facilitates uncovering linkages between product attributes, personal outcomes, and values that assist to structure components of the cognitive network in a consumer's mind.

Quantitative Research

There are three basic approaches to collecting data in quantitative study:

1. Observation
2. Experimentation and
3. Survey

Observation

One important approach to gain an in-depth understanding of consumers is to observe their behaviour in the process of buying and using products. By watching consumers, researchers gain a better understanding of what a product symbolises to a consumer because in most cases consumers do not realise that they are being observed and their behaviour remains natural. Observational research provides valuable information, which is used in product advertising. It is also widely used by experientialists to understand the buying and consumption process.

Experimentation

In experimental studies, the researcher can test the relative sales appeals for package designs, prices, promotional offers and copy themes, etc., by designing suitable experiments to identify cause and effect. In such studies, called causal research, only one independent variable is manipulated at a time and others remain constant. This ensures that any difference in dependent variable (results) is because of changes of independent variables such as consumers' attitudes or purchase behaviour and not due to the influence of any extraneous factors. For example, to determine whether the size of a magazine ad affects readers' attention, the size of the ad might be changed, keeping other variables such as message or appeal and the colour of the ads constant so that they would not influence the results.

Survey

In a survey for data collection, consumers are aware of the fact that they are being studied and participate actively. A survey can be conducted by personal interview, by mail, or by telephone.

1. ***Personal interview survey*** is a direct face-to-face interaction between interviewer and the respondent in home or in a retail shopping area (called mall intercept). A large amount of relatively accurate information can be obtained by this approach. A major advantage of this approach is the flexibility. The interviewer can modify the questions as per the situation and can also provide any clarifications to the respondent if necessary. The drawback is its high cost.

2. *Mail surveys* are conducted by sending questionnaires directly to individuals who complete it at their leisure and return it, usually in a postage paid envelope. Mail surveys can largely reduce respondents' reluctance to reveal sensitive information because they are seldom asked to identify themselves. The cost per respondent of mail survey is low and widely dispersed consumers can be covered, generating large amount of data. On the negative side, mail surveys can result in small number of responses because many consumers do not return the completed questionnaires.

3. *Telephone surveys* also provide interviewer-respondent interaction, though not face-to-face and can be a useful alternative to personal interview. The method is quicker and far less expensive than personal interviews. Telephone surveys work well when the objective is to learn about certain behaviour at the time of the interview, such as before or after viewing a TV programme. Telephone surveys generally generate higher response rate than mail or personal interview. The information collected during each interview is limited because of the difficulty of keeping respondents interested and on phone for extended period. Also, it is not possible to determine the intensity of respondents' feelings on telephone. SMS surveys are an emerging trend as an alternative to get two or three word answers, such as yes/no about something. In our country so far, more of SMS in this respect is used to get opinions about controversial issues, or as a tool to participate in some sales promotional contests that require short answers.

4. *E-mail surveys* are likely to emerge as an alternative to telephone surveys in more developed countries. Researchers can send questionnaires to individuals who provide their e-mail addresses and agree to participate as respondents. E-mail would also be relatively interactive and permit respondents to seek any clarification of specific questions, or raise their own specific questions. E-mail interviewing can offer the potential advantage of quick response and relatively lower cost than traditional mail or telephone survey where broadband Internet services are widely available. It is believed that since the number of PC owning households connected to Internet or on-line information services is increasing, marketing research in the future is likely to rely heavily on e-mail surveys.

Table 5.1: Advantages and Limitations of Data Collection Methods

	Personal interview survey	Telephone survey	Mail survey
Costs of data collection	High	Medium	Low
Time required to collect data	Medium	Low	High
Sample size for a given budget	Small	Medium	Large
Data quantity per contact	High	Medium	Low
Can reach widely dispersed sample	No	Maybe	Yes
Reach to special locations	Yes	Maybe	No
Level of interaction with respondents	High	Medium	None
Degree of interview bias	High	Medium	None
Presentation of visual stimuli	Yes	No	Maybe
Response rate	High	Medium	Low

Data Collection Instrument: The method of data collection depends on the type of research. The primary method of data collection for quantitative study is the questionnaire. Researchers can use a questionnaire to conduct any of the three types of surveys (personal interview, mail and telephone).

A questionnaire consists of a set of questions presented to respondents for their responses. Constructing a good questionnaire requires considerable expertise. Typical problems include asking the wrong questions, asking too many questions and using the wrong words. Effective survey questions have three attributes: focus, brevity and clarity. They focus on the topic of survey, are as brief as possible and they are expressed simply and clearly. The questions must be interesting, objective, unambiguous and easy to answer truthfully and completely.

Box 5.1: Personal Interview Questionnaire to Determine Consumers' Feelings toward a Superstore

1. Do you intend to shop at (store name) between now and Sunday?

   Yes 1 No 2 (if No, proceed to Q. 5).

2. Do you intend to buy something specific or just look around?

   Yes 1 Look around 2

3. Have you seen any of the items you intend to buy advertised by (store name)?

   Yes 1 (continue) No 2 (proceed to Q. 5)

4. Where did you see these items advertised? Was it in (store name), you received in the mail, the pages of local newspaper, on TV, or somewhere else? (Specify one or more).

   a. In-store advertisement b. Local newspaper c. On TV

   d. Received in mail e. Somewhere else (specify) f. Don't recall

5. Please rate the (store name) advertising on the attributes listed below. Please tick the number that best reflects your opinion of how the ad insert rates on each attribute. Ticking No.4 will mean that you are neutral. Higher or lower number ticked will indicate you believe it describes the (store name) ad insert.

Looks cheap	1	2	3	4	5	6	7	Looks expensive
Unskilful	1	2	3	4	5	6	7	Cleverly done
Unappealing	1	2	3	4	5	6	7	Appealing
Merchandise displayed unattractively	1	2	3	4	5	6	7	Merchandise displayed attractively

6. Please indicate all of the different types of people listed below you feel this (store name) advertising is appealing to:

Young people	Quality-conscious people	Bargain hunters
Low-income people	Conservative dressers	Budget watchers
Fashion-conscious people	Older people	Rich people
Middle-income people	High-income people	Women
Men	Office workers	Smart dressers
Career-oriented women	College going students	Others (specify)

Questionnaires include both questions that are relevant to the topic of study and are pertinent demographic questions. This facilitates analysis and classification of responses into suitable categories. Questionnaires are first pre-tested and any errors are removed before their widespread use.

The true purpose of a questionnaire itself can be disguised or undisguised. Sometimes the answers to a disguised questionnaire are more truthful than to an undisguised questionnaire because the former avoids responses that respondents may think are expected. There are two types of questions, open-ended and closed-ended. Open-ended questions require information in the respondent's own words and closed-ended questions require the respondent only to check the appropriate answer from the given list. Open-ended questions reveal more because they do not restrain respondents' answers but are difficult to tabulate and analyse. Closed-ended questions, which are checked by respondents, are relatively simple to code and interpret but reveal limited information based on alternative responses provided.

The most common types of questions are:

1. Open-ended (The respondent is free to express her/his opinion about the issue).
2. Dichotomous (The respondent can choose only one of the two alternatives, such as yes or no).

3. Multiple-choice (The respondent can make two or more choices).
4. Semantic differential (scale) (The respondent can rate on the scale divided between 1 and 5, where 5 may represent excellent and 1 poor).

To develop an effective questionnaire, the following points should be considered:

1. List specific research objectives. There is no point in collecting irrelevant data.
2. The questionnaire should be short. Long questionnaires may tax the respondent's patience. The researcher may get careless or ignore some questions.
3. Questions should be clear. There should be no chance of misunderstanding. Avoid generalities or ambiguities.
4. First, prepare a rough draft. Sharpen and polish it.
5. Opening statement should be short. Include interviewer's name, company name, and the objective of the questionnaire.
6. Put the respondent at ease. Begin with one or two easily answered and inoffensive questions.
7. Structure questions logically. Ask general questions first before moving to more detailed ones.
8. Avoid questions that may be suggestive of an answer. Such questions bias the results.
9. Include a few questions that crosscheck respondent's earlier answers. This helps ensure validity.
10. Put personal questions concerning age, income, education, etc., at the end of the questionnaire.
11. Pretest the questionnaire. To be reasonably sure, it is necessary to pretest the questionnaire with 20 to 30 people.

Instead of using a questionnaire, sometimes researchers use a list of statements and ask respondents to indicate their degree of agreement or disagreement (called inventories). Sometimes, researchers use a list of product attributes or products and ask respondents to indicate their relative evaluations or feelings. Researchers also use attitude scales to collect this type of evaluative data. Attitude scales include Likert scales, Semantic differential scales, and Rank-order scales.

Likert scale is the most popular form of attitude scale, being easy to prepare and interpret and simple for respondents to answer. Use of this approach involves compiling a list of statements relevant to the attitude under study. The respondents are asked to check or write the number corresponding to their level of agreement or disagreement with the statement.

Semantic differential scale is relatively easy to construct and administer. It consists of a pair of bipolar pair adjectives (such as good/bad, like/dislike, expensive/inexpensive, sharp/blunt, aggressive/docile) or antonym phrases at both ends of the scale with response options spaced in between in five or seven points. Respondents are asked to mark the position on the continuum that most closely represents their attitude toward a product, concept, or company on the basis of each attribute. Semantic differential scale is useful for preparing graphic consumer profiles of the concept under study. It is also employed in comparing consumer perceptions of competitive products and measuring perceptions of existing product against perceptions of "ideal" product.

Box 5.2: Example of a Likert Scale

	Strongly agree	Agree	Undecided	Disagree	Strongly disagree
Big Shopper is generally a progressive store.	_____	X	_____	_____	_____
Big Shopper is generally well stocked.	X	_____	_____	_____	_____
Big Shopper's merchandise is generally reasonably priced.	X	_____	_____	_____	_____

Box 5.3: Semantic Differential Scale

Healthy	___	___	___	___	___	___	___	Unhealthy
Fresh	___	___	___	___	___	___	___	Stale
Soft	___	___	___	___	___	___	___	Hard
Expensive	___	___	___	___	___	___	___	Inexpensive
Young	___	___	___	___	___	___	___	Old
Old fashioned	___	___	___	___	___	___	___	Modern

Rank-order scales involve asking the respondents to rank items in order of preference against some criterion such as quality, value for money, or image. Rank-order scaling reveals important competitive information and helps identify areas of product design improvement.

Box 5.4: Rank-Order Scale

The following are six brands of toothpaste. We are interested in learning your preference for each of these brands. Place a 1 alongside the brand that you would be most likely to buy, a 2 alongside the brand you would next be most likely to buy. Continue doing this until you have ranked all six brands.

_______ Colgate Total
_______ Pepsodent
_______ Close-Up
_______ Neem
_______ Anchor
_______ Vicco Vajradanti

Sampling Plan

A sample design addresses three questions: who is to be surveyed (sampling unit), how many to survey (sample size), and how should the respondents be chosen (the sampling procedure). Deciding whom to survey (sampling unit) requires that the researcher must define the target population (universe) that would be sampled. For example, if Sahara Airlines conducts a survey, should the sampling unit be business travellers, vacation travellers, or both? Should travellers under age 30 years be interviewed? Interviewing the correct target market or the potential target market is basic to the validity of research.

Investigating all members of a population is virtually impossible as the time and resources available for research are limited. However, the research must reflect the universe (the entire target population). Researchers obtain the needed amount of data through sampling. They select a limited number of units (sample) that they expect to represent the characteristics of a population. As a rule, the size of a sample must be large enough to achieve accuracy and stability. Larger sample size ensures more reliable results.

Reliability though, can be achieved even with very small samples, such as 1% of the population. There are two broad types of sampling techniques: random probability samples and non-probability samples.

Table 5.2: Probability and Non-probability Samples

Probability sample	
Simple random sample	Every member of the population has an equal chance of being selected.
Stratified random sample	The population is divided into mutually exclusive groups (such as gender, age group),and random samples are drawn from each group.
Cluster or area sample	The population is divided into mutually exclusive groups (such as city, village) and the researcher draws a sample of the groups to be interviewed.
Non-probability sample	
Convenience sample	The researcher selects the most accessible population members to interview and obtain information (such as shoppers in a departmental store).
Judgement sample	The researcher uses her/his judgement to choose population members who are good prospects for accurate information (such as doctors).
Quota sample	The researcher finds and interviews a predetermined number of respondents in each of several categories (such as 50 males and 50 females).

Random Probability Sampling

The greatest accuracy is obtained from random probability samples because all units in a population have a known and equal chance of being selected. For example, in a lottery, when all the ticket numbers are mixed up, each number should have an equal probability of being selected. The difficulty with this method is that every unit (individual, or family, etc.) must be known, listed, and numbered to have equal chance of being selected. The task is often prohibitively expensive with customers of widely distributed products. Researchers use stratified sampling by dividing the population of interest into groups, or strata, based on some common characteristic and then conduct a random sample within each group. Area sampling is a variation of stratified sampling wherein researchers divide the population into geographic areas and select the units within the selected areas for a random sample.

Non-probability sampling: This sampling method is easier, less expensive and time consuming than probability sampling and for this reason, researchers use it extensively. This method involves the researcher's personal judgement and elements of the population do not have a known chance of being selected, so there is no guarantee the sample is representative and the researchers cannot be as confident in the validity of the responses. Most research situations in marketing or advertising require general measures of the data and non-probability method of interviewing suffices to find out the shopping preferences, customers' attitudes, image perceptions, etc. Non-probability sampling techniques include quota sampling, judgement sampling, and convenience sampling.

Table 5.3: Differences between Qualitative and Quantitative Research

	Qualitative Research	Quantitative Research
Main techniques used for data collection	Focus groups and in-depth interviews	Surveys and scientific sampling.
Kinds of questions asked	Why? Through what thought process? In what way? What other behaviour or thoughts?	How much? How many?

Contd...

Interviewer's role	Interviewer must think carefully and quickly frame questions and probes in response to whatever respondents say. Highly trained professionals required	Critical role important, but interviewers need only be able to read scripts. They should not improvise or deviate. Little training needed, responsible personnel are most suitable.
Questions asked during interview.	Position of questions may vary in sequence and phrasing from group to group and in different interviews. New questions are included and old ones dropped	No variation. Must be the question for each sequence and phrasing of questions must be carefully controlled.
Number of interviews	Fewer interviews but the duration of each interview is more	Many interviews to ascertain scientific sample that is worth projecting
Nature of findings	Develop a hypothesis, gain insight, explore language options, refine concepts, add numerical data, provide diagnostic for advertising copy	Test hypothesis, arrange factors according to priority, furnish data for mathematical modelling and projections

Deciding how many people should be surveyed (sample size) depends on the budget and the required confidence in research findings. As a rule, large samples give more reliable results than small samples. If the sampling procedure is credible, sample sizes of less than 1% of a population can give reliable results.

How should the respondents be chosen (sampling procedure)? If the researcher wants to project the findings to the total population, then a probability sample should be selected. If the findings are just to be "representative" of the population, then a non-probability sample can be chosen.

Analyse the Information

It is important to appreciate that raw data by itself does not serve the purpose of marketing research. After the research data has been collected, it is time to gain valuable insight from the findings. The researcher tabulates the data for analysis. At this stage, simple frequency counts or percentages are often used. Statistical analysis might consider using mean, median, mode, percentages, standard deviation, and coefficient of correlation. Computers make it possible to use more advanced analytical tools such as test of significance, factor analysis, multiple determinant analysis, and regression analysis.

Cross tabulation of data can show how males and females differ in some type of behaviour. Statistical interpretation reveals how widely responses vary and what is the pattern of distribution in relation to the variable being measured. When interpreting statistics, marketers rely on estimates of expected error from the true values of population. The analysis and interpretation aspect of marketing research calls for human judgement and intuition to accept or reject the research findings.

Present the Findings

Report writing requires taking an objective look at the findings to see how well the collected facts suit the research objectives to solve a stated marketing problem. It is very difficult and – in most cases quite unlikely – that research will furnish everything needed to solve the defined marketing problem. It is perhaps necessary to point out the lack of completeness and the reasons for it.

The research report presenting the results and recommendations is usually a formal, written document. To start with, the research report has an executive summary, as senior managers may not be in a position to go through the entire detailed report. The summary presents the main research findings and recommendations.

Student Activity

1. Define marketing research.
2. Define data collection instruments.

Summary

Marketing success depends on making correct and timely decisions. Marketing managers need reliable and timely information about a large number of external and internal factors relevant to decision areas. Practically every decision area relevant to marketing requires the input of information. The term 'Marketing Information Systems' refers to a programme for managing and organising information gathered by an organisation from various internal and external sources. Its focus is on data storage, classification, and retrieval.

In the current fast-paced business climate, keeping up with macro-environmental changes, and competition is becoming increasingly difficult. Marketing intelligence system refers to systematic and ethical approach, procedures, and sources that marketing managers use to gather and analyse everyday information about various developments with regard to competitors and other business trends in the marketing environment.

Marketing research is the collection, analysis, and interpretation of data for guiding marketing decisions. It is characterised by detailed analysis of specific problems or opportunities related to marketing. The research process involves defining marketing problem or opportunity and establishing research objectives; decide research design; establish data collection approach; finalise sampling procedure; collect data; analyse data and present report.

Keywords

Marketing Information Systems: Marketing Information Systems refers to a programme for managing and organising information gathered by an organisation from various internal and external sources.

Marketing Research: "Marketing research is a formalised means of obtaining information to be used in marketing-decisions."

Focus groups: Focus group is a popular technique for exploratory research and brings together about eight to ten people with similar backgrounds to meet with a moderator/ analyst for a group discussion.

Projective Techniques: Projective techniques involve a variety of disguised tests containing ambiguous stimuli such as untitled pictures, incomplete sentences, inkblots, word-associations and other-person characterisations.

Personal interview survey: It is a direct face-to-face interaction between interviewer and the respondent in home or in a retail shopping area (called mall intercept).

Mail surveys: Mail surveys are conducted by sending questionnaires directly to individuals.who complete it at their leisure and return it, usually in a postage paid envelope.

Telephone surveys: It also provide interviewer-respondent interaction, though not face-to-face and can be a useful alternative to personal interview.

E-mail surveys: E-mail surveys are likely to emerge as an alternative to telephone surveys in more developed countries.

Open-ended questions: reveal more because they do not restrain respondents' answers but are difficult to tabulate and analyse.

Closed-ended questions: which are checked by respondents, are relatively simple to code and interpret but reveal limited information based on alternative responses provided.

Rank-order scales: Rank-order scales involve asking the respondents to rank items in order of preference against some criterion such as quality, value for money, or image.

Review Questions

1. Why should companies go for marketing research? Write a statement of research problem.
2. What has made marketing research important in the present day marketing?
3. What is a marketing information system? How can MIS serve marketing managers?
4. How are data for MIS collected? What are important external data sources in India?
5. What are the important steps involved in marketing research process? What are the main categories of research?
6. Briefly discuss qualitative research.
7. What are the methods used to conduct quantitative research?
8. What are different data collection instruments? Discuss different methods of conducting surveys.
9. Discuss situations in which it would be appropriate to use random sampling, quota sampling, and area sampling.
10. What is a questionnaire? Mention five points that should be kept in mind while preparing a questionnaire.

Further Readings

Floyd Kemske, *"Brains Will Replace BTUs,"* Information Age, June 1990.

Laurence N Goal, *"High Technology Data Collection for Measurement and Testing,"* Marketing Research, March 1992.

"Measure for Measure," Marketing Tools, 1994.

Daniel C Smith and C Whan Park, *"The Effects of Brand Extensions on Market Share and Advertising Efficiency,"* Journal of Marketing Research, August 1992.

Unit 6 Market Segmentation, Targeting and Positioning

Unit Structure

- Introduction
- Market Segmentation
- Requirements for Effective Segmentation
- How Segmentation Helps
- Bases for Segmentation
- Psychographic Segmentation
- Product Positioning
- Positioning Errors
- Summary
- Keywords
- Review Questions
- Further Readings

Learning Objectives

At the conclusion of this unit, you should be able to:

- Discuss the advantages of segmenting a market
- Describe the Requirements for effective segmentation
- Analyse the Commonly used segmentation variables
- Explain the Frequently used market segment targeting approaches

Introduction

The concept of market segmentation emerged as an extension of the marketing concept in the latter part of 1950s. It is based on the simple observation that all the existing and potential consumers are not alike: there are significant differences in their needs, wants, tastes, background, income, education and experience, etc., and these characteristics change over time with lifestyle changes. Had they been alike, it would have eliminated the need to have different variations of the same basic product and one promotional campaign is all that would have been needed. For example, there would have been only one type of soap, one detergent, one car, one computer, one washing machine and so on.

Market Segmentation

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

A market segment is a portion of a larger market in which the individuals, groups, or organisations share one or more characteristics that cause them to have relatively similar product needs.

Three decision processes comprising market segmentation, target marketing, and positioning are closely related and have strong interdependence and essentially need to be examined carefully and implemented to be successful in managing a given product-market relationship. Peter Doyle cites an international example:

"In England, Japanese companies have outperformed their British rivals across a range of industries. A major reason for this was that the Japanese were better at managing the segmentation, targeting, and positioning relationships. Thus, only 13 per cent of the Japanese firms versus 47 per cent of the British were unclear about their target segment of customers and their special needs."

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.

How Segmentation Helps

Segmentation studies are used to uncover needs and wants of specific groups of consumers for whom the marketer develops especially suitable products and services to satisfy their needs.

Marketers also use these studies to guide them in redesigning, repositioning, or targeting new segments for the existing product. For example, the heavy user adult market has been targeted for Johnson baby shampoo. For sensitive skins Dove has come out with a variant, Dove Gentle Exfoliating Bar (it has a pH range of 6.5 - 7.5, almost neutral, neither acidic nor alkaline).

Segmentation studies help in identifying the most appropriate media for promotional messages. Almost all media vehicles use segmentation studies to determine the characteristics of their audience and publish their findings to attract marketers seeking a similar audience.

Bases for Segmentation

Markets are complex entities that can be segmented in a variety of ways. It is an important issue to find an appropriate segmentation scheme that will facilitate target-marketing, product positioning, and developing successful marketing strategies and action programmes.

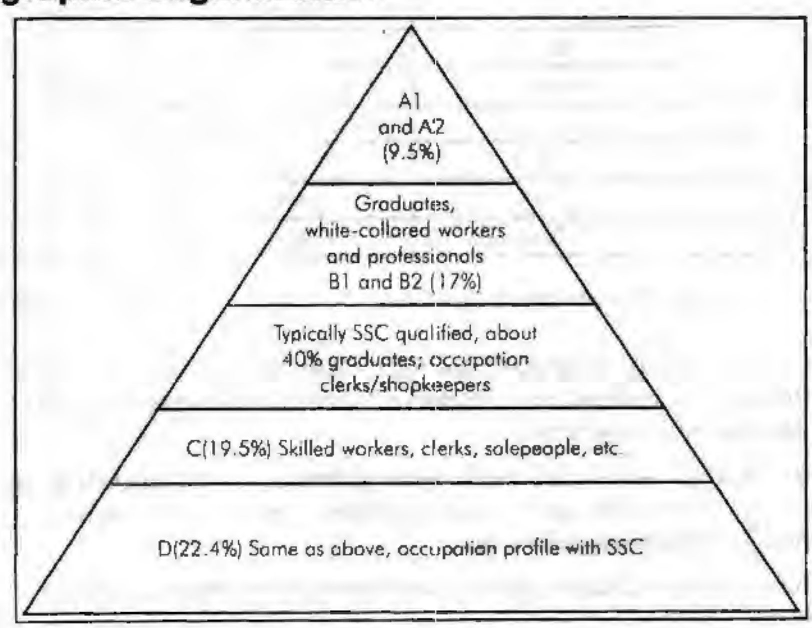
Geographic Segmentation

Geographic segmentation focuses on dividing markets into different geographic units, such as regions, nations, states, urban, rural, etc. Customers located in different geographic areas vary in terms of climates, terrain, natural resources, population density, culture, service needs, sales potential, growth rates, competitive structure of the market, frequency of purchases for a variety of goods and services. For example, Jeeps are more popular in rural areas in India than in urban areas. Shopping malls are located only in larger cities in India, and raincoats are sold more in rainy areas. Geographic segmentation is used both in consumer and organisational markets, particularly where customers are not willing to travel far to acquire goods and services.

Geo-demographic Segmentation

Many segmentation approaches involve both geographic and demographic descriptors. This approach is based on the premise that people who live close to one another are likely to have similar economic status, tastes, preferences, lifestyles and consumption behaviour. Geo-demographic segmentation is particularly useful when a marketer is capable of isolating its prospects with similar personalities, goals, interests, and in terms of where they live. For products and services used by a wide cross-section of society, this approach may not be suitable. For example, some retailers who propose to open new stores are interested in knowing something about the people who live within a defined area whom they aim to attract.

Demographic Segmentation



Source: A & M, October (1991).

Figure 6.1: Socio-economic Pyramid of Indian Population

Demographic characteristics are commonly used to segment the market. Factors such as age, sex, education, income, marital status, household life cycle, family size, social class, etc., are used singly, or in a combination, to segment a market. Shaving products for women are based on the demographic variable of gender. Toy manufacturers such as Funskool and Mattel Toys segment the market on the basis of age of children. Auto manufacturers segment the market by considering income as an important variable. Producers of refrigerators, washing machines, microwave ovens etc., take income and family size as important variables in segmenting the market. Ready-to-wear garment producers often segment the market on the basis of social class. Examples are Chiragh Din, Arrow, Van Heusen, Louis Phillipe, Levis and others. In general, the social class can represent lower, middle and upper class depending on education, income, status, etc. For example, an engineer and a clerk are considered as members of different social classes.

Psychographic Segmentation

When the segmentation is based on personality or lifestyle characteristics, it is called psychographic segmentation. Consumers have a certain self-image and this describes their personality. There are people who are ambitious, confident, aggressive, impulsive, modern, conservative, gregarious, loners, extrovert, or introvert etc.

Lifestyle

It is an indicator of how people live and spend their time and money. What people do in their spare time is often a good indicator of their lifestyle.

Consumers in different countries and cultures may have characteristic lifestyles (Table 6.1). For example, Indian women are more home-focused, less likely to visit restaurants, more price-sensitive, spend time preparing meals at home and are fond of movies.

Table 6.1: Lifestyle 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
Club membership	Fashion	Education	Dwelling
Community	Food	Products	Geography
Shopping	Media	Future	City size
Sports	Achievements	Culture	Stage in life cycle

Source: Joseph T. Plummer, "The Concept and Application of Lifestyle Segmentation", Journal of Marketing 38, January 1974.

Lifestyle segmentation is particularly useful in case of product categories where the users' self-image is considered as an important factor, such as perfumes, beer, jewelry and other ego-intensive products.

AIO inventories are a useful addition to demographic data but marketers have found the original AIO inventories as being too narrow. Now, psychographics or lifestyle studies generally include the following:

1. Attitudes, which include evaluative statements about, people, products, ideas and places etc.
2. Values, which refer to widely, held beliefs about what is right/acceptable/ desirable etc.
3. Activities and interests that cover behaviours with respect to activities other than occupation to which consumers devote time and effort, such as hobbies, interests, social service etc.
4. Demographics that relates to gender, age, education, occupation, income, family size and geographic location etc.
5. Media preferences – which specific media the consumers prefer and use.
6. Usage rates that relate to measurements of consumption level within a particular product category and is generally recorded as heavy, medium, light or non-user.

VALS (Values and Lifestyles)

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. Figure 6.2 depicts the VALS framework.

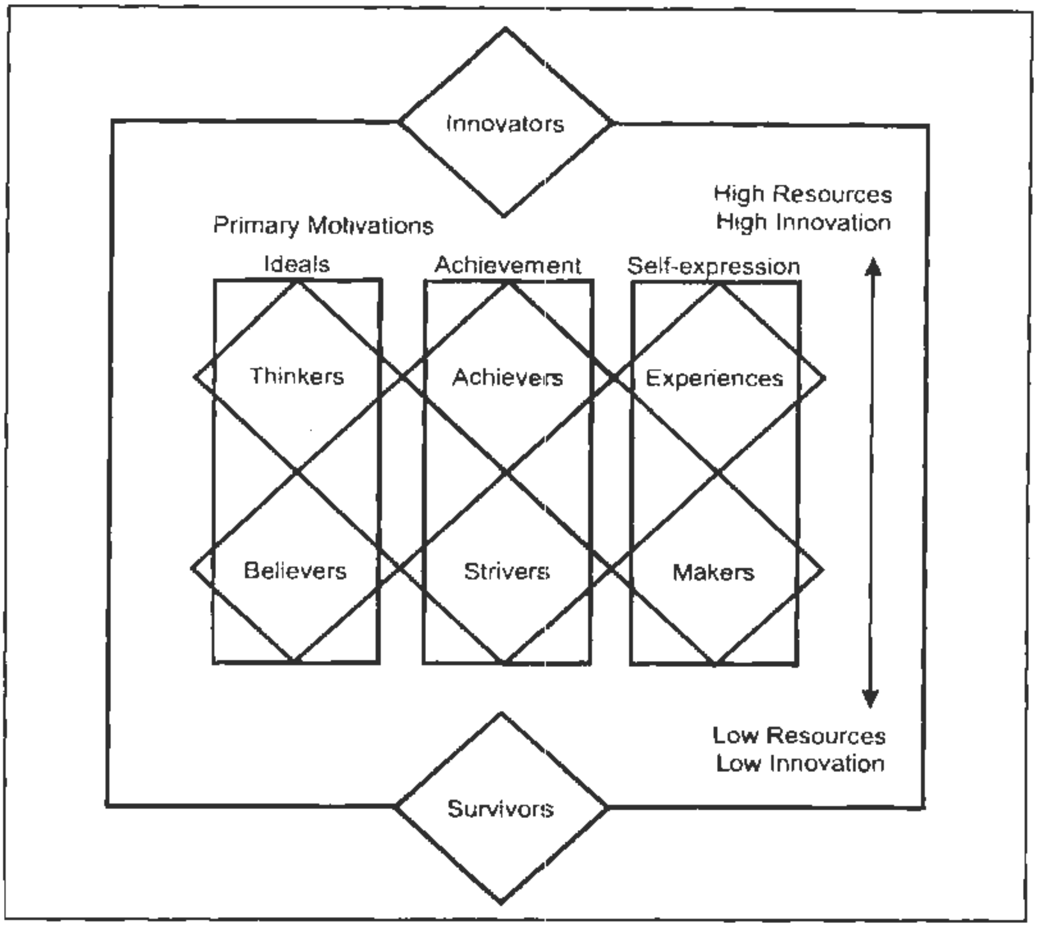


Figure 6.2: Current Values and Lifestyle (VALS) Framework

According to the present classification schemer (Figure 6.2), 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.

Innovators (formerly actualisers): This segment is small in size compared to other seven but may be the most attractive market 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.

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.

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.

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.

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.

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.

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 an[illegible]. 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.

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.

Behaviouristic Segmentation

Dividing the market on the basis of such variables as use occasion, benefits sought, user status, usage rate, loyalty status, buyer readiness stage and attitude is termed as behaviouristic segmentation.

Buyers can be identified according to the use occasion when they develop a need and purchase or use a product. For example, Archies greeting cards are used on many different occasions. User status, such as non-users, potential users, or first time users can be used to segment the market. Markets can also be segmented into light, medium, or heavy users of a product. Brand loyalty of varying degree can be present among different groups of consumers and may become the basis to segment the market. There are consumers who are very loyal to cigarette brands, beer and even toothpaste. Markets may also be divided on an imaginary Likert-type scale by considering level of product awareness such as unaware of the product, aware, interested, desirous, or contemplating to purchase the product. Based on attitude, consumers may be enthusiastic, indifferent, or hostile towards the product, and these differences can be used to segment the market.

Benefit Segmentation

By purchasing and using products, consumers are trying to satisfy specific needs and wants. In essence, they look for products that provide specific benefits to them. Identifying consumer groups looking for specific benefits from the use of a product or service is known as benefit segmentation and is widely used by marketers. For example, there are distinct groups of auto buyers. One group might be more interested in economy, the other in safety and still other in status.

Segmentation bases, such as demographics are descriptive. These variables are useful but do not consider why consumers buy a product. Benefit segmentation has the potential to divide markets according to why consumers buy a product. Benefits sought by consumers are more likely to determine purchase behaviour than are descriptive characteristics.

Table 6.2: Benefit Segmentation of Toothpaste Market

Principal Benefit Sought	Psychographic Characteristics	Behavioural Characteristics	Demographic Characteristics	Brands Much Favoured
Brightness of teeth (cosmetic)	Outgoing, active fun-loving, high sociability	Smokers	Teenagers, youngsters	Close-Up, Promise, Aquafresh
Decay prevention (medicinal)	Health conscious	Heavy users	Large families	Pepsodent, Colgate Total, Forhans
Taste (good taste, flavour)	Self-indulgent, hedonistic	Mint lovers	Children	Aquafresh, Colgate
Low price (economy)	Price-conscious, independent	Heavy users, deal prone	Men, traditional	Neem, Babool, Vicco Vajradanti

Source: Adapted with changes from Russel J. Haley, "Benefit Segmentation: A Decision Oriented Research Tool. Journal of Marketing, July 1963, pp. 30-35. Also, Haley, "Benefit Segmentation - 20 Years Later," Journal of Consumer Marketing, Vol. 1, 1984, pp. 5-14

Demographic-psychographics Segmentation (Hybrid Approach)

Demographic and psychographic profiles work best when combined together because combined characteristics reveal very important information about target markets. Demographic-psychographics information is particularly useful in creating consumer profiles and audience profiles. Combined demographic-psychographic profiles reveal important information for segmenting mass markets, provide meaningful direction as to which type of promotional appeals are best suited and selecting the right kind of advertising media that is most likely to reach the target market.

Segmentation Variables for Organisational Markets

Main approaches to segment organisational markets can be grouped under four heads:

1. ***Geographic Location:*** This refers to customers' location in certain sates, cities, or specified industrial locations. For example, the areas or regions where there are cotton textile manufacturers, or auto producers. Companies that process natural resources are often located close to the source to minimise transportation costs. International companies segment markets geographically.

2. ***Customer Size:*** Business customer size can be based on factors such as number of production facilities, sales volume, number of sales offices, and number of employees. The customer size could be grouped as large, medium, or small on the basis of purchase value or other variables.

3. ***Product Use:*** Segmenting market based on the type of use. For example, steel producers may segment their market, as do auto manufacturers, steel furniture producers, and construction companies. A paint manufacturing company might sell to customers in various industries.

4. ***Type of Organisation:*** A company selling to several business organisations in a variety of industries may want to segment its market based on industry: for example, companies that are highly dependent on after sales service, are highly price sensitive, or which demand credit facility.

5. ***Buying Behaviour and Situation:*** Business markets can be segmented on the basis of degree to which buying activity is centralised. A centralised buyer is likely to consider all purchases with a given supplier on a national or global basis, to be concerned about cost savings, and minimise risk. In a more decentralised company, the buyer is likely to be more concerned about the user's need, to emphasise quality, fast delivery, and to be less cost conscious.

In actual practice, companies generally use a combination of different segmentation variables to more accurately target an attractive segment.

Targeting Market Segments

Instead of aiming a single product and marketing programme at the mass market, most companies identify relatively homogeneous segments and accordingly develop suitable products and marketing programmes matching the wants and preferences of each segment. It should, however, be realised that all segments do not represent equally attractive opportunities for a company. Companies need to categorise segments according to their present and future attractiveness and their company's strengths and capabilities relative to different segments' needs and competitive situation. The following sequential steps present a useful framework managers can use for this purpose:

1. Establish criteria to measure market attractiveness and business strength position.
2. Evaluate market attractiveness and business strength factors to ascertain their relative importance.
3. Assess the current position of each potential segment on each factor.
4. Project the future position of each market segment based on expected environmental, customer, and competitive trends.
5. Evaluate Segment Profitability.
6. Evaluate implications of possible future changes with respect to strategies and requirement of resources.

A company may decide to enter a segment that otherwise does not currently appear to be a positive under certain conditions, such as when there is belief among the managers that the segment's attractiveness or the company's business strength is likely to improve in the coming few years, or they believe such segments would offer opportunity to enter more attractive markets in the coming years.

There are three basic targeting strategies:

1. Undifferentiated Mass Marketing.
2. Differentiated Multiple Segment Marketing.
3. Single Segment Specialisation or Niche Marketing.

(a) ***Undifferentiated Mass 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. Hamdard offers its Rooh Afza based on this strategy. Undifferentiated marketing provides cost economies.

(b) ***Differentiated Multiple Segment Marketing:*** The marketer decides to enter several market segments and develops separate offers for each. For instance, Maruti is producing different models of cars for various segments, Nike offers athletic shoes for different sports and Coca-Cola and Pepsi are offering 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.

(c) ***Single Segment Specialisation or Niche Marketing:*** Many companies succeed by producing a specialised product aimed at a very focused market or a niche. This strategy also appeals to firms with limited resources. The company targets a segment and goes for a larger market share instead of a small share in a larger market segment. Recycled paper producers often focus on the market for greeting cards or wedding cards. Oshkosh Truck is the largest producer of airport rescue trucks. Concentrated strategy may involve more than normal risks. If a large competitor decides to enter the same segment, the going may become quite tough for the smaller company.

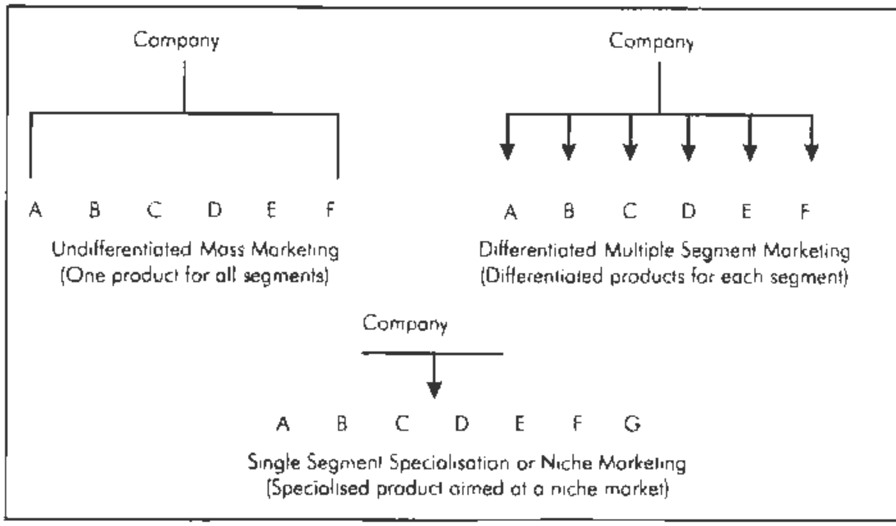


Figure 6.3: Three Basic Targeting Strategies

Product Positioning

Positioning is the perception of a brand or product it brings about in the mind of a target consumer and reflects the essence of that brand or product in terms of its functional and non-functional benefits as judged by the consumer.

Nestle's Maggi noodles has been successfully positioned as the "two minute" noodle in the minds of target consumers and has created a distinctive brand image. HUL's soap Lux is the "beauty soap" of female film stars and Dettol is the antiseptic for minor nicks and cuts. BMW car is positioned as the "ultimate driving machine" As markets become more crowded and competitive with similar types of products, consumers rely more on the product's image than on its actual characteristics in making their buying decisions.

The right positioning is probably more important to the ultimate success of a brand than are its actual attributes. Marketers sometimes assign different images to the same product or service in different market segments or at times, reposition the same product without actually making it any different physically.

They attempt to create a distinct position for their brand so that consumers perceive it as being different and occupying a niche no other product does and thereby try to create a product image congruent with the relevant self-image of the target consumers. Marketers strive to differentiate their products or services by emphasising attributes that they claim to be better able to satisfy consumer needs and wants than competing brands.

Products or services are 'mapped' together on a 'positioning map'. This allows them to be compared and contrasted in relation to each other. This is the main strength of this tool. Marketers decide upon a competitive position which enables them to distinguish their own products from the offerings of their competition (hence the term positioning strategy).

The marketer would draw out the map and decide upon a label for each axis. They could be price (variable one) and quality (variable two), or Comfort (variable one) and price (variable two). The individual products are then mapped out next to each other Any gaps could be regarded as possible areas for new products.

Figure 6.4 depicts an example of Positioning Map in which the countries as tourist attractions are positioned on a map:

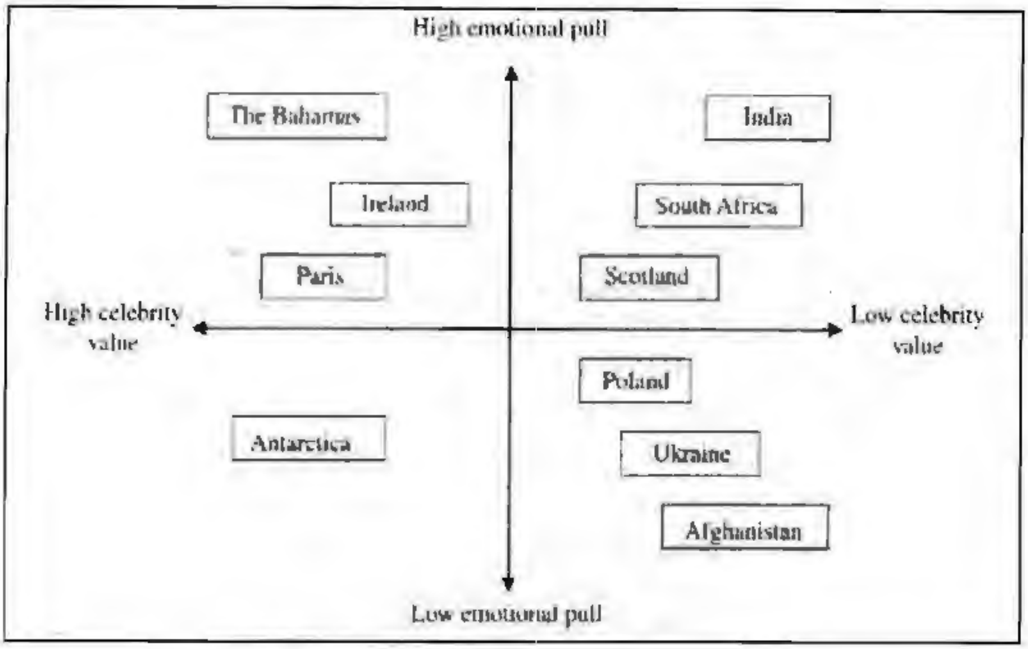


Figure 6.4: Example of Positioning Map

Process of Determining the Positioning Strategy

The exercise to determining the positioning strategy is not easy and could prove to be difficult and quite complex. It is important to fix a competitive point of reference by defining customer target market and nature of competition because arriving at the proper positioning requires establishing correct points-of-parity and points-of-difference associations.

Points-of-parity mean those associations that are not necessarily unique to the brand in some way but may in fact be shared with other brands. These associations can be of two types: category points-of-parity refer to those associations that consumers consider as being necessary within a certain product or category to make it a legitimate and credible offering. They may be necessary but not sufficient in themselves for brand choice. These attributes are minimally at generic product level and most likely at expected product level. For example, consumers might not consider a bank truly a "bank" unless it offers saving account facility, cheque books, fixed deposit, and a range of other services, convenient banking hours, ATM, etc. Over the years, facilities may change depending on technological developments and consumer trends, but the attributes and benefits that function as category can be seen to play the marketing game. Competitive points-of-parity associations attempt to discard or weaken competitors' points-of-difference associations, or other such type of benefit. If a brand offers the same benefit plus more in some other areas, the brand is likely to emerge stronger and have a better competitive position.

Points-of-difference refer to strong, favourable and unique associations for a brand in consumers' perceptions. These may be related to virtually any type of attribute or benefit association, functional, performance-related or imagery-related psychological considerations, to become a point-of-difference in the minds of consumers. They strongly associate these attributes and benefits with a brand, positively evaluate, and have a firm belief that they could not find these to the same extent in other competing brands. This is actually similar to USP concept pioneered by Rosser Reeves.

Nivea created strong points of difference on the benefits of "gentle," "protective," and "caring' and became a leader in skin cream category. As the company leveraged brand equity into categories such as deodorants, shampoos, and cosmetics, Nivea found it necessary to establish category points of parity before the company could promote its extension brands' points of difference. Nivea's points of difference of gentle, protective, and caring were of little value unless consumers believed that its deodorant was strong enough, its shampoo would produce beautiful enough hair, and its cosmetics would be colourful enough. Once points of parity were established, Nivea's heritage and other associations could be introduced as compelling points of difference.

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.

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 Ramon 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.

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.

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.

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.

Making the positioning decision: Up to 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.

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.

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 maximize the chosen positioning strategy.

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

1. ***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.
2. ***Benefits*** are directly related to products, such as Volvo's emphasis on safety and durability. "Sticks in a snap," Fevi Kwick. Fairglow soap is"fairness soap."
3. ***Usage*** includes end use, demographic, psychographic, or behavioural segments for whom the product is meant. It also includes product popularity. For example, Chayavanprash to build body resistance of children or elders, Farex for small kids, Bajaj Pulsar "definitely male" for customers of a certain psychographic profile.
4. ***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.
5. ***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.
6. ***Ingredients*** are sometimes highlighted to create a position. For example, some garment manufacturers claim "One hundred per cent cotton," or "Hundred per cent Merino wool."
7. ***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).
8. ***Comparison*** with a competitor's product is a fairly common positioning approach. Avis compared itself with Hertz, stressing that it tries harder because it the second-biggest can rental company. Samsung Laser Printer compared itself with HP Laserjet ... and thereby jumped cleverly onto the came platform.
9. ***Pro-environment*** approach to positioning aims to show that the company is a good citizen. Canon mentions on its packages, "Made from recycled material."
10. ***Product class***, such as freeze-dried coffee shown as a product that is a different one from instant or regular coffee. Dove soap positioned as a moisturiser and not the toilet soap, and Pears as a glycerine soap.

11. ***Price/quality*** is a powerful positioning technique. Zenith computers say "Multinational quality, Indian price."
12. ***Country or geographic area,*** such as German Engineering, Russian Vodka, Benarsi silk sari, or Dehradun rice.

Writing a Positioning Statement or a Value Proposition

It is a statement expressed clearly and in few words that identifies the target market for which the product is intended. It also specifies the product category in which it competes and highlights the unique benefit it offers.

Table 6.3: Example of a Positioning and Value Proposition Statement

Positioning Statement	Value Proposition
For upper-middle and upper class Indian families, Volvo is the car that provides the utmost in safety and durability.	1. Target market: Upper-middle and upper class Indian families.
	2. Benefits: Provides safety and durability.
	3. Price: 20 per cent above similar cars.

How Many Differences to Promote?

Successful positioning depends on effectively communicating the brand's differential advantage. The critical question is how many differences to promote? Famous advertising Savant. Rosser Reeves said that a company should develop a Unique Selling Proposition (USP) for each brand and stick to it. The brand manager should pick a brand attribute, not being used by competitors, and tout it as "number one" on that attribute. Consumers have a tendency to remember "number one" better, especially in a cluttered advertising scene. For instance, 'Lux' is the beauty soap of female film stars. "Promise" toothpaste touts clove-protection for teeth, though almost all toothpastes contain clove oil. Some positions worth promoting are "Best quality", "Most advanced", "Best service", "Lowest price", etc. A firm that consistently promotes one of these positions and delivers the product or service as promised probably will become best known and remembered for its 'position'.

A USP is an outstanding advantage and the best strategy to create a product's position, provided it is not only persuasive for the consumers but also sustainable. For instance, Union Carbide developed the zinc chloride technology in India to produce batteries for torches and other products of everyday use. It could have been a USP but the company realized that soon it would be copied and wisely decided not to use it for positioning.

A number of advertising professionals believe that when the rule of USP was written, products did have genuine, tangible differences and it made really good sense to use USP in advertising. However, the times have changed. Products are reaching a uniformly excellent level of quality but the differences among brands in a product category are getting fewer and fewer. They say that ESP (emotional selling proposition) or the UEP (unique emotional proposition) has replaced USP.

There are others who say USP is not dead at all, but has become more important than ever before, given the need to be unique because of the ever increasing number of ad messages competing for attention.

As companies increase the number of claims for their brands, they begin to realise that this approach runs the risk of evoking disbelief and a loss of clear positioning. If a brand tries to be everything for everybody, it is likely to end up being nothing to anybody. The market situation has changed to a level where one size does not fit all and requires differentiated product and service offering.

Positioning Errors

Common errors in positioning are:

1. ***Underpositioning:*** This refers to a state of buyers having only a vague idea of the brand and considering it just another "me too" brand in a crowded product category. The brand is not seen to have any distinctive association.
2. ***Overpositioning:*** In this situation, buyers have too narrow an image of the brand. Thus, buyers might think that Apple makes only very expensive computers when, in fact, Apple offers several models at affordable prices.
3. ***Confused positioning:*** Sometimes, attempts to create too many associations or to frequently reposition the brand only serves to confuse buyers.
4. ***Doubtful positioning:*** This situation may arise when customers find brand claims unbelievable keeping in view the product features, price, or the manufacturer.

Student Activity

1. What is a market?
2. Define market segmentation.

Summary

The concept of market segmentation is based on the fact that all consumers are not alike. They differ in their needs, wants, desires, income, education, lifestyles and so on. Market segmentation is the process of dividing the heterogeneous market into relatively homogenous sub-groups of consumers with somewhat similar characteristics. When a marketer selects one of more segments and develops a distinct marketing programme to accomplish marketing objectives, it is called target marketing. There are certain conditions that must exist for segmentation to be meaningful. Many approaches are used for segmenting the market. Some of the popular bases for segmentation are geographic, demographic, psychographic and behavioural. Other specific approaches have been used and found to be quite effective, such as segmentation based on lifestyles. Lifestyle approach is based on studying how consumers spend their spare time, what they consider important in their surroundings, what are their beliefs on broad issues and their self image. Such data is generally combined with demographic variables to furnish a clearer picture about consumers. The marketer generally has options either to adopt undifferentiated marketing, differentiated marketing, or concentrated marketing.

Keywords

Market Segmentation: Market segmentation is the process of dividing the total market into relatively distinct homogeneous sub-groups of consumers with similar needs or characteristics that lead them to respond in similar ways to a particular marketing programme.

Geographic segmentation: Geographic segmentation focuses on dividing markets into different geographic units, such as regions, nations, states, urban, rural, etc.

Demographic Segmentation: Demographic characteristics are commonly used to segment the market. Factors such as age, sex, education, income, marital status, household life cycle, family size, social class, etc.

Lifestyles: It is an indicator of how people live and spend their time and money.

Geographic Location: This refers to customers' location in certain sates, cities, or specified industrial locations. For example, the areas or regions where there are cotton textile manufacturers, or auto producers.

Customer Size: Business customer size can be based on factors such as number of production facilities, sales volume, number of sales offices, and number of employees.

Product Use: Segmenting market based on the type of use. For example, steel producers may segment their market, as do auto manufacturers, steel furniture producers, and construction companies.

Product positioning: It is a decision reached by a marketer to try to achieve a defined brand image relative to competition within a market segment.

Positioning: Positioning usually involves segmenting the market and choosing one or more segments.

Repositioning: The product may be provided with some new features or it may be associated with some new uses and offered to the existing or new markets.

Review Questions

1. Why would a company want to segment a market?
2. What factors should be considered for effective market segmentation?
3. Discuss various bases of market segmentation.
4. What segmentations bases would you suggest to a manufacturer of ready-to-wear garments?
5. How should a company choose target markets?

Further Readings

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Unit 7 Consumer Behaviour - Personal and Organisational

Unit Structure

- Introduction
- Consumer Behaviour
- Social Factors
- Psychological Factors
- Personal Factors
- Demographic Factors
- Situational Factors
- Involvement Level
- Consumer Decision-making Process
- Organisational Consumer
- Summary
- Keywords
- Review Questions
- Further Readings

Learning Objectives

At the conclusion of this unit, you should be able to:

- Discuss impact of culture, subculture, family, social class, and reference groups on consumer preferences and behaviour
- Realise influence of motivation, perception, learning, attitudes, personality, demographic factors, lifestyle, situations, and involvement on consumers' buying behaviour
- Discuss consumers' decision process steps
- Realise in what ways do organisational consumers differ from personal consumers in their purchase decisions
- Explain the different decision situations for business consumers and the decision process

Introduction

One of the very few aspects common to all of us is that we are all consumers and the reason for a business firm to come into being is the presence of consumers who have unfulfilled, or partially fulfilled needs and wants. Buyer behaviour is an extremely important and complex subject for any marketer. At the same time, it is important to appreciate that there is no unified, tested, and universally established theory on this subject. Buyer remains an enigma and her/his mind is viewed as a black box. Before businesses can develop marketing strategies, they must understand what factors influence buyer behaviour and how they make purchase decisions to satisfy their needs and wants. Understanding buyer behaviour and "knowing buyers" are not that simple. It is almost impossible to predict with one hundred per cent accuracy how buyers will behave in a certain situation. Buyers are moved by a complex set of deep and subtle emotions. Their behaviour results from deeply held values and attitudes; their perceptions of the world and their place in it, from common sense, impulse, or just plain whimsy.

Consumer Behaviour

"Consumer behaviour refers to the mental and emotional processes and the observable behaviour of consumers during searching, purchasing, and post consumption of a product or service."

Satish K Batra and S H H Kazmi, 'Consumer Behaviour', Excel Books, 2004.

Buyer behaviour has two aspects: The final purchase activity visible to any observer and the detailed or short decision process that may involve the interplay of a number of complex variables not visible to anyone. Actual purchase is just one activity, but the process is initiated several steps prior to a purchase and often progresses beyond consumption. In fact, purchase behaviour is the end result of a long process of consumer decision-making, influenced by many variables.

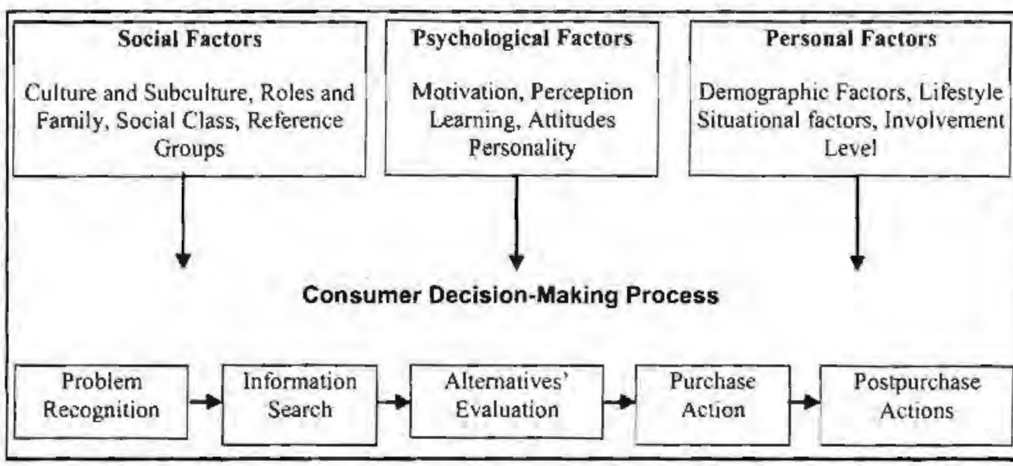

Figure 7.1: Various Factors Influencing Consumer Behaviour

The terms 'buyer' or 'consumer' are used both for personal consumers and organisational consumers and refer to two different kinds of consuming entities. The personal consumer buys products or services for personal or household consumption for final use, such as salt, toothpaste, computer, gifts, etc.

The term 'organisational consumer' includes for profit and not-for-profit organisations. They buy products, equipments, and services required for running these organisations, such as stationery, raw materials, computers, telephone services, advertising services, etc.

Buying Behaviour

Different consumers follow different steps in making their choice of products and services. The common types of buying behvaiour are:

1. *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.

2. *Complex Buying Behaviour:* This is a case 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 favor of the brand by using 'Golden Eye' benefit in its brand communication.

3. *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.

Buyer's 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 characterize the roles in the context of purchase decision. The following are the eight 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.

Difference between Consumer and Customer

A consumer is anyone who typically engages in any one or all of the activities mentioned in the definition. Traditionally, consumers have been defined very strictly in terms of economic goods and services wherein a monetary exchange is involved. This concept, over a period of time, has been broadened. Some scholars also include goods and services where a monetary transaction is not involved and thus the users of the services of voluntary organisations are also thought of as consumers. This means that organisations such as UNICEF, CRY, or political groups can view their publics as "consumers."

The term consumer is used for both personal consumers and organisational consumers and represents two different kinds of consuming entities. The personal consumer buys goods and services for her or his personal use (such as cigarettes), or for household consumption (such as sugar, furniture), or for just one member of the family (such as a pair of shoes for the son), or a birthday present for a friend (such as a pen set). In all these instances, the goods are bought for final use, referred as "end users" or "ultimate consumers."

The other category of consumer is the organisational consumer, which includes profit and not-for-profit organisations. Government agencies and institutions (such as local or state government, schools, hospitals etc.) buy products, equipment and services required for running these organisations. Manufacturing firms buy raw materials to produce and sell their own goods. They buy advertising services to communicate with their customers. Similarly, advertising service companies buy equipment to provide services they sell. Government agencies buy office products needed for everyday operations. The focus of this book is on studying behaviours of individual consumers, groups and organisations who buy products, services, ideas, or experiences etc. for personal, household, or organisational use to satisfy their needs.

Anyone who regularly makes purchases from a store or a company is termed as "customer" of that store or the company. Thus a customer is typically defined in terms of specific store or company.

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.

(a) *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, neighbors 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.

(b) *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 at least one grand parent 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 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 recognize 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.

(c) *Roles and Status:* Consumers participate in different roles in different groups like family, professional and recreational association and formal organizations. 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 organization. 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 favorable brand associations by linking their brands and products with the meaningful status connotations in society.

Cultural Influence

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 characterized by the concept of social class.

(a) *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. Colors 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 recognize 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.

(b) ***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. Below is a list of cultural values relevant in the context of consumption.

(c) ***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. The following factors contribute to the social class of an individual.

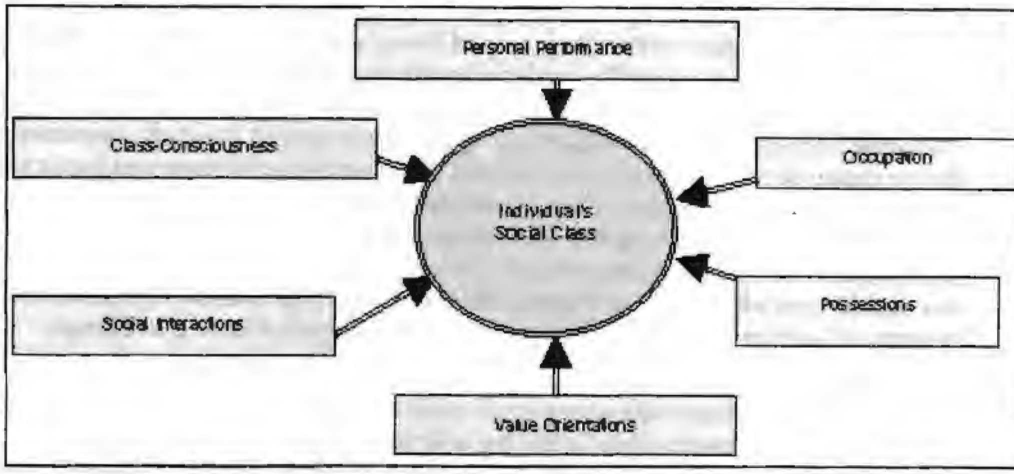

Figure 7.2: Factors Explaining Individual's Social Class

Caselet: Rituals Drive Market Opportunities around the World

There are few rituals as curious as a beauty pageant. Recent globalisation of this phenomenon provides a vivid illustration of the connections among rituals, values, and consumption behaviour. Just ask the young women of India, most of whom look up to role models like Aishwarya Rai who win beauty contests, and move through modelling into a career in films.

If rituals are about a culture affirming and expressing its values, then the rituals embedded in a beauty pageant are probably pretty obvious, and some would argue pretty superficial as well. Be that as it may, when Lara Datta was crowned Miss Universe in May 2000, many young women in India took notice and apparently approved of the outcome. The beauty pageant ritual and Miss Datta's subsequent emergence as a role model for women in India changed the way these women thought about themselves. With this change came a new set of values concerning personal appearance that no longer was restricted to traditional ways, but instead reflected a more international concept of beauty.

Is there hard evidence from the marketplace that values have shifted in India? Without a doubt! Analysts estimate that India's "beauty market" is worth in excess of $1.5 billion and is growing 20% each year – which is twice as fast as this market's growth in United States and Europe. The cosmetics business in India is booming with familiar players like L'Oreal, Revlon, and Clarins in hot pursuit of the opportunity. Additionally, Indian women are participating in health and fitness activities as never before. Gyms are opening from Bombay to Calcutta – and to do the gym thing the right way, one also needs all the appropriate workout gear. Even cosmetic surgeons in India have seen their business benefit from the new passion for beauty. When values shift in a culture, consumption shifts are sure to follow. Look to rituals as a way to better comprehend when and where these powerful forces are likely to manifest in the marketplace.

Source: "From the Runaway to Runaway Sales." Business Week, June 19, 2000.

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 and perception and attitude. 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 realization need. People will try to satisfy the most pressing need 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, organizes and interprets physical stimuli. It is influenced by various factors such as color, 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 dependent 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 information 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 organized 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 color 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 recognize 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 favor 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.

1. *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.

2. *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 favorable or unfavorable 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 favorable or unfavorable 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 favorable and unfavorable 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.

Personality

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 takes 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.

Personal Factors

Personal factors include those aspects that are unique to a person and influence purchase behaviour. These include demographic factors, lifestyle, and situational factors.

Demographic Factors

Demographic factors include individual customers' age, gender, education, occupation, income, marital status, family size, etc. These characteristics affect the purchase and consumption behaviour of persons. Demographic considerations have given rise to broad ways of looking at markets, such as child market, teenage market, youth market, and senior citizen market. Similarly, marketers also look at markets from the income angle: low-income group, middle-income group, high-income group, and dual income households. In general, income affects purchases because it determines how much people can afford to spend.

Buyer behaviour also varies among urban and rural consumers in conjunction with other characteristics such as education and income. It is believed that consumers with common demographic characteristics behave in relatively similar manner and tend to have similarity in many aspects, such as product and service preferences.

Demographic characteristics may affect purchase behaviour during specific stages of purchase decision process. In the present scenario, a person's age and income may affect the number and types of information sources used. For example, a university professor's and a taxi driver's income may be the same but their purchases of dresses and other discretionary products would be different. Composition of household and stage in family life cycle also influence purchase behaviour.

Younger generation in cities, with resources, use the Internet to search a variety of information and often make purchases on-line for some types of products. They are the ones who mainly patronise fast food outlets. The effect of occupation and education is also seen on consumer buying behaviour. Educated consumers seek more information and better quality products.

Life Style

Lifestyle is an indicator of how people live and express themselves on the basis of their activities, interests, and opinions. Lifestyle dimensions provide a broader view of people about how they spend their time, the importance of things in their surroundings, and their beliefs on broad issues associated with life and living and themselves. To some extent, people determine their own life styles, but the pattern is also influenced by demographic factors and personality.

Marketers use lifestyle research to segment markets, as lifestyles have strong effect on many aspects of consumer purchase decisions, including product needs, brand preference, media habits, and how and what types of shopping outlets they choose. Consumers in different countries and cultures may have characteristic lifestyles. For example, Indian women are home focused, less likely to visit restaurants, more price-sensitive, spend time preparing meals at home and are fond of movies. (Lifestyle is discussed in detail later in this unit).

Situational Factors

There are three broad types of situational variables:

1. Communications situation.
2. Purchase situation.
3. Usage or consumption situation.

The Communication Situation

The communication situation refers to the setting in which consumers are exposed to information from interpersonal or commercial sources that has an impact on their behaviour. Whether the consumer is alone or in a group, in a good or foul mood, in a hurry or relaxed; it may determine the degree to which the consumer will notice, understand and retain the information. K. R. France and C. W. Park report that some key questions that the management must answer with respect to communications situation focus on answering whether it would be better to advertise on a happy or sad TV programme, or a calm or exciting programme.

Three types of communication situations may influence consumer response:

1. The exposure situation
2. The context of the communication
3. The consumer's mood while exposure to communication occurs.

Considering the exposure situation to advertising, there may exist several possibilities, such as:

1. The consumer may read a certain magazine when at home or outside.
2. The consumer reads the magazine as a pass-on issue.
3. The consumer views a TV commercial alone, with family members, or friends.
4. The consumer views the TV commercial in the middle of an involving programme.
5. He hears a radio commercial while driving his car or while relaxing in his living room.
6. He will appear for his final exam tomorrow.
7. He is suffering from common cold.

Purchase Situation

Situations may also affect consumer decision about product selection. Three factors particularly influence marketing strategy with regard to purchase situation:

1. In-store purchase situation.
2. Whether or not the purchase situation relates to gift giving.
3. Whether or not the purchase situation is anticipated or unanticipated.

In-store environment

Several stimuli present in the in-store environment include décor, sounds, aroma, lighting, dress and behaviour of sales personnel; product availability, shelf position, price deals, displays and physical space are important factors.

Service atmosphere is an important factor in influencing consumers' consumption behaviour. J. D. Herrington and L. M. Capella found that music, particularly the type consumers liked, increased their perception of how long they waited for a service. Music increased their emotional response to the service environment, to waiting itself and also enhanced their willingness to continue using and recommending the service provider to others.

Gift-giving Situation

Whether the product is being purchased for personal consumption or for giving a gift also influences purchases. Marketers offer a wide range of products for gift-giving occasions.

Consumers are likely to be more involved while purchasing a gift than purchasing the same item for personal consumption. Research shows that wedding gifts tend to be utilitarian such as durable, useful, based on newlyweds' need and often high performance; while birthday gifts are often enjoyable, unique, durable and tend to be fun. Thus, both gift giving and gift-giving occasion influence consumers' purchase behaviour. Also, the relationship between the giver and the recipient too influences purchase behaviour.

Unanticipated Purchase Situations

Sometimes, purchase situations occur which are not anticipated. A common situation is when unexpected guests arrive and consumers have to rush for special shopping. A product failure or going out-of-stock are important situations and precipitate the need for making purchase decision. For example, the cooler fan suddenly stops working on a hot summer day, or the consumer finds a food item out of stock and may have to make a purchase trip immediately if the item is really important. It frequently happens in India that consumers learn about sudden hike in the prices of fuel and rush to petrol pumps to get their auto tanks filled before the new prices become applicable.

Usage or Consumption Situations

The consumption situation refers to the occasion of consumers' product use. When guests arrive, the type and number of items served during meals change than what is generally consumed in the family. People use different dresses to wear at home and at work. A consumer may use a particular brand of deodorant for a special occasion and another one for everyday use.

Social surroundings refer to the presence of other individuals during the purchase or consumption process. As already pointed out elsewhere, social influence is a significant force that affects our behaviour. Presence of guests, the social occasion, the importance of friends and neighbours at the time of a purchase or consumption influence behaviour. Individuals tend to meet group expectations, particularly when the behaviour is visible. Salespeople know that they can frequently use the shopper's companion as an effective sales aid by asking her/his opinion and advice.

Antecedent states are momentary conditions such as shopping when in a bad mood, tired or anxious, or buying on impulse. Since consumers actively manage their moods, marketers often advertise their products or services by communicating "mood enhancement" as one of the benefits. Marketers use statements in their ads such as "You deserve a break," or "Give yourself a treat" in an attempt to induce positive mood.

Involvement Level

Purchase involvement is the level of concern for, or interest in, the purchase process stimulated by the need to consider a certain purchase. It is important to realise that consumer involvement can take many forms and a broad distinction is that it can be cognitive, such as a consumer may be motivated to learn about the latest specifications of the new iMac or emotional when a consumer is considering the purchase of a gift for his wife on their first marriage anniversary. A consumer may be very involved with a product category (coffee) or brand (Maruti Zen) and yet have very low -involvement with a particular purchase because of brand loyalty, time pressure, or other reasons. Or, a consumer may have low-involvement with a product such as car tyre but is highly involved because of her/his desire to save money. According to Marsha L. Richins, Peter H. Block and Edward F. McQuarrie, there are several broad types of involvement related to the product, the message, or the perceiver.

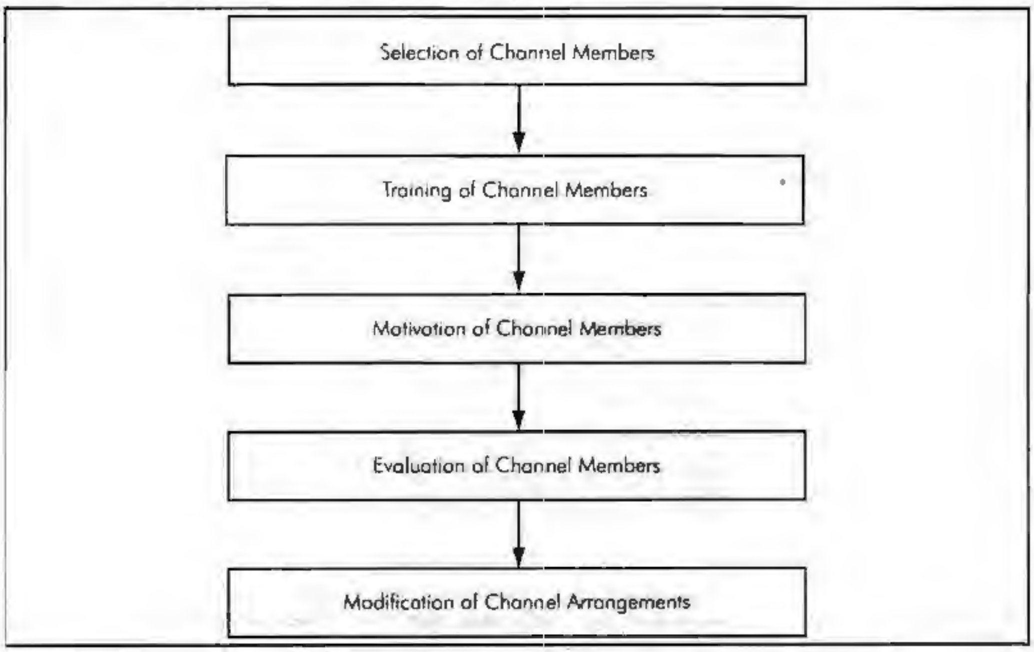

Figure 7.3: Channel Management Decisions

Product involvement refers to a consumer's level of interest in a certain product. Marketers communicate many sales promotions to increase consumer involvement in a product. Tata Indica V2 sponsored a contest in which participants were to submit five words that describe the car starting with the letter "V."

Advertising involvement refers to the consumer's interest in processing the ad messages. Television is said to be a medium of low involvement and consumers process information in a passive manner. In contrast, print is a high-involvement medium as the readers actively process information.

Purchase situation involvement may occur while buying the same item in different contexts. For example, when a consumer wants to impress someone, she/he may buy a different brand that reflects good taste than the usual one that she/he buys.

Nominal Decision-Making

At one end of choice continuum is nominal decision-making, also referred to as nominal problem solving, habitual decision-making, or routine problem solving. Recognition of need is likely to lead directly to an intention to buy. Information processing is very limited or non-existent. There is generally low-involvement with most low-priced and frequently purchased products, which are consumed on an ongoing basis and involve nominal decision-making. A problem is recognised, consumer's internal search from long-term memory comes up with a single preferred solution, the preferred brand is purchased and no brand evaluation occurs unless the brand fails to perform as expected. Some of these decisions are so nominal that the consumer does not even think of purchasing an alternative brand. For example, a consumer notices that she/he is nearly out of Close-Up toothpaste. When at the store, the consumer simply picks it up from the shelf or asks for it without any consideration of alternative brands, their prices, or other relevant factors.

Nominal decision-making is generally the outcome of continued satisfaction with a brand which was initially chosen after an extended decision-making process, or the consumer does not attach much importance to the product category or purchase. The consumer buys Aquafresh toothpaste without further consideration because it meets her/his overall needs, even though using the best available toothpaste is important to her/him. In the second situation, consumers may not attach much importance to salt or sugar they buy for household consumption. Having tried Tata Salt and found it satisfactory, they now repeat purchase it without any thought when needed. In this category, sales promotions can lead to considerable brand switching.

Joseph W. Alba and J. Wesley Hutchinson note that such choices characterised by automatic behaviour are made with minimal effort and without conscious control. To some, such thoughtless behaviour may seem stupid, but it is actually quite efficient in most cases of routine purchases. The development of such routinised, habitual, or repetitive behaviour helps consumers to minimise the time and effort devoted to mundane purchase decisions.

Nominal decision making	Limited decision making	Extended decision making
Low-cost products		More expensive products
Frequent purchases		Infrequent purchases
Low -involvement		High-involvement
Familiar product/brand		Unfamiliar product/brand
Little thought, search or time given to purchase		Extended thought, search and time given to purchase

Figure 7.4: Manufacturer Sponsored Vertical Marketing System

Limited Decision-Making

Limited decision-making is usually more straightforward and simple. It involves internal (long-term memory) and limited external search, consideration of just a few alternatives, simple decision rules on a few attributes and little post-purchase evaluation. As pointed out earlier, it covers the middle ground between nominal and extended decision-making. Buyers are not as motivated to search for information, or evaluate each attribute enthusiastically, but actually use cognitive shortcuts. According to Wayne D. Hoyer, when the level of consumer involvement is lowest, limited decision-making may not be much different than nominal decision-making. For example, while in a store, the consumer notices a point-of-purchase display of Nescafe and picks up one pack based on her/his memory that its aroma and taste is good. If the consumer's decision rule is to buy the cheapest brand of instant coffee available, she/he looks at different brands of coffee for prices and buys the least priced brand. Sometimes, emotional factors may influence limited decision-making. For instance, a consumer may buy Colgate Total toothpaste instead of her/his regular brand just because she/he desires a change and not because of dissatisfaction with the earlier brand. Such a decision may involve just reading of what is written on the carton and noticing that it has some different flavour than the brand she/he had been using.

Extended Decision-Making

Consumer purchases involving extended decision-making correspond most closely to the traditional decision-making perspective. Such decisions involve extensive internal (long-term memory) and external (outside sources) information search followed by a rigorous evaluation of several alternatives because consumers do not possess any meaningful information about the product or service and need much of it. The evaluation often involves careful consideration of attributes of one brand at a time and taking stock of how the attributes of each brand measure up to a set of desired characteristics. All this happens in response to a high level of consumer's involvement in making a purchase decision. Such complex decisions are relatively few and may relate to buying a computer, stereo system, washing machine, laser printer, or a new house etc. Post purchase evaluation is more likely to be complex and dissonance causing.

Extended decision-making may also be involved in certain emotional decisions such as choosing a birthday gift for the girlfriend, decision to buy jewelry for the wife, choosing a designer dress, or going on a holiday abroad with family etc. Some of these decisions may appear to be related to cognitive effort. However, the needs being met and the criteria being evaluated are largely emotions or feelings rather than product or service attributes. Because of the involvement of emotions or feelings, there is less external information to search for.

Consumer Decision-making Process

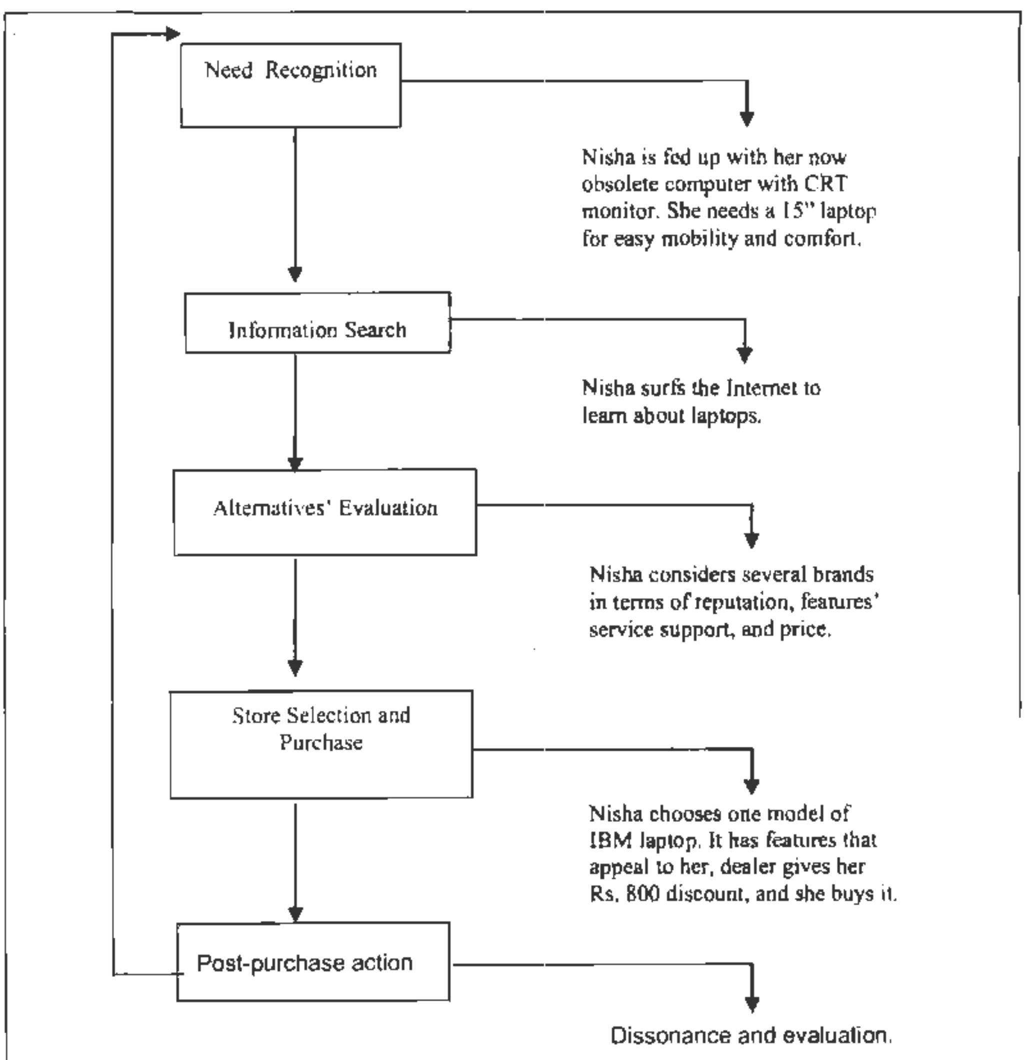

Figure 7.5: Stages in Consumer Decision Process

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.

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, 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

1. 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.
2. 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.

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, neighbors 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 organizations, trade association publications).
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.

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.

Stage of Purchase Decision

Finally 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.

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.

Organisational Consumer

The goals of organisational buyers and personal consumers are different. Organisational goals are concerned with producing a good or providing a service, or reselling an item and all the purchases are made to effectively perform the organisational activities.

Webster, Jr and Wind have defined organisational buying as "the decision-making process by which organisations establish the need for purchased products and services and identify, evaluate and choose among alternative brands and suppliers."

(Frederick E Webster, Jr., and Yoram J Wind, Organisational Buying Behaviour, Prentice-Hall, 1972.)

Organisational purchases are described as "rational" or "economic." Whether for-profit or not-for-profit, organisations make decisions ranging from routine replacement purchases, to frequently purchased commodity products such as pencils or paper. On the other extreme, the decisions might involve new, complex purchase decisions requiring careful problem definition, extensive internal and external search for information, a detailed and often highly technical evaluation process, a negotiated purchase and a long period of use and post-purchase evaluation.

Organisational Buyer Characteristics

Organisational buyer characteristics differ from final consumers in several important aspects.

1. *Group-based Decision-making:* Many organisational purchases are often costly and complex and may involve a group of personnel from engineering, production, finance, purchasing and even top management in making a purchase decision.
2. *Technical Knowledge:* Professional buyers, called purchasing agents in industrial, governmental and institutional organisations, make purchases and are highly knowledgeable about products or services. In case of resellers such as supermarkets, these individual experts are referred to as buyers and make purchases on their behalf.
3. *Rational Motives Dominate:* Organisational buyers are generally strongly directed by rational motivations because of the technical nature of purchases involved. Such factors are usually economically based and can be translated into monetary terms to carefully weigh the costs and benefits. For example, factors such as quality specifications and consistency, assurance of prompt delivery, price, terms of credit, warranty and post-sale service, etc., are all rather objective criteria that influence buyers in their selection of vendor.

Decision Approach and Purchase Patterns

Organisational purchases and buying patterns differ from final consumers in many ways:

1. *Formality:* Since many organisational purchases are likely to be complex and technical and financial risks are considerably high, buying behaviour is much more complicated as compared to final consumers. Due to these reasons, there is greater formality in decision-making and often proposals, quotation requests and purchase contracts are involved.
2. *Negotiations:* In most cases of organisational buying, there are extensive negotiations between buyers and suppliers over a longer period of time. Some of the important reasons for lengthy negotiations include (1) the product complexity requires that specifications must be carefully spelled out and agreed upon (2) the

order size tends to be large and purchase price is important and (3) usually many people are involved in reaching a final purchase decision. According to Paul A Dion and Peter M Banting, negotiations tend to be a cooperative process between buyers and suppliers.

3. ***Less Frequent Purchases:*** Organisations generally make purchases less frequently than do final consumers. Firms might buy capital equipment that will be used directly in the production process for a number of years. Similarly, computers, photocopying machines, printers etc., are infrequently purchased. Even office supplies consumed every day are purchased at intervals of a month or more. Raw materials and component parts are used continuously in production and replaced frequently but contracts for the sale and supply of these items are likely to be long-term agreements that are negotiated every few years.

4. ***Reciprocity:*** Sometimes organisational buying transactions involve an arrangement in which two organisations agree to buy from each other. For instance, a computer software manufacturer might agree to buy computer hardware from a company that is buying its software and computer supplies.

5. ***Service:*** In many instances, organisational products must be customised for a specific organisational buyer. Product support activities, such as service, installation, technical assistance and spare parts are critical.

Types of Decision Situations

The purchase decision process in organisations is significantly influenced by the complexity and difficulty of a given purchase situation. At one extreme, individuals or small groups make routine decisions without much effort because they are perceived as less complex and involve very little or no risk. At the other extreme end are organisational purchase decisions that are viewed as quite complex, entail much risk and have important implications for the organisation. The situation is slightly different in case of organisations as their purchases involve a larger range of complexity as compared with most individual or household decisions and involves three categories.

1. ***Straight Re-buy:*** It is like making habitual purchase and involves an automatic choice, as happens when the inventory level reaches a predetermined reorder point. Most organisations maintain an approved vendor list. These are rather routine purchases to meet continuing and recurring requirements and are usually under similar terms and conditions of purchase. The purchases are of minor importance, involving little uncertainty because satisfaction exists with past products, terms and service. The buyer is likely to have limited purchase power such as purchase of paper for printers and photocopiers. The typical purchase process involves no search for information, no evaluation of alternatives, no consideration is given to long-term issues and procedural control is substantial.

2. ***Modified Re-buy:*** These are somewhat important and involve limited decision-making. There is moderate level of uncertainty as the organisation wants to repurchase a product or service but with some minor modifications. There might be limited or many choices. For example, an ice cream producer might seek lower prices, faster delivery and higher quality of cream from suppliers to meet the changing market conditions. In case of a modified re-buy situation, competing suppliers may see an opportunity to obtain the company's business and regular suppliers might become more aggressive and competitive to retain a customer's business. P Doyle, A G Woodside and P Michell are of the opinion that new tasks and modified re-buy are rather similar but straight re-buys are quite different. The decision may involve limited information search, usually by speaking to a few vendors and moderate evaluation of alternatives that might probably involve one or few people.

3. ***New Task:*** Such purchase involves extended decision-making, as the decision is new because the item is being purchased for the first time to perform a new job

or solve a new problem. There is often a serious risk that the product may not perform as it should or that it will be too costly. New task purchase may involve development of product specifications, vendor specifications and procedures for future purchase of the product. In all such purchases, the organisational buyer needs a great deal of information and careful establishment of criteria on which to evaluate the product for purchase. This kind of purchase is quite significant for the supplier because, if the organisational buyer is satisfied with the new product and supplier's services, it may develop into a continuing profitable relationship between supplier and the buyer organisation.

Organisational Buyer Decision Process

The size of a decision-making unit (DMU) may vary according to how new, complex and important the purchase decision is; and how centralised, structured and specialised the organisation is. Large and relatively more formal organisations usually involve more individuals in a purchase decision than smaller and less formal organisations. For non-routine decisions, such buying centres are often formed on an ad hoc basis but for routine decisions, these centres are relatively permanent. In case of more important buying decisions, individuals from various functional areas and organisational levels take part in decision making than in case of less important purchase decisions.

The decision-making unit can be divided on the basis of functional responsibility and type of influence. Functional responsibility can include specific functions such as production, engineering, research and development, purchasing and general management. Each function evaluates the organisational needs differently and uses different evaluative criteria.

Problem Recognition

The first stage of organisational buying decision involves recognising a need or problem. Just like the consumer decision-making process, one or more people in the organisation perceive a difference of sufficient magnitude between the desired state and the actual state of affairs. Problem recognition may occur under a variety of internal or external circumstances such as breakdown of an old packaging machine, modifications to a currently manufactured product or the development of a new product that needs different packaging equipment. The organisation may also learn about the new packaging equipment from external sources through a visit to a trade fair, an advertisement seen in an industrial magazine, or a salesperson's call from a supplier.

Product Specification

In this stage, participants involved in the decision-making process assess the problem or need and determine what is required to resolve or satisfy it. The using department must prepare the detailed specifications of the product and communicate precisely what is needed. Product specifications may pertain to technical attributes, quality, durability, availability, warranty, support services, etc. For complex products, besides users, technical experts and financial executives will also be involved. For example, when a paint-spraying machine breaks down, in a two-wheeler auto manufacturing plant, engineers, technicians and machine operators assess the situation and determine the replacement needs. They finalise a set of attributes for a replacement machine, specify that it must paint 25 autos per hour, change colours of paint quickly and require only one operator. Finance executives then specify a price range for the machine.

Product and Vendor Search

At this stage, the organisation tries searching for possible products to solve the problem, and also to locate firms who may qualify to be suitable suppliers for those products. To collect information, the members of buying centre may look into company files and trade directories, contact suppliers for information, solicit proposals from known suppliers and examine catalogues and trade publications. Sometimes, in order to write specifications on complex products, the organisation must start with what products and vendors currently exist or, at times, the company may even decide to make the product in-house rather than buy it. Search efforts should generally result in a list of several alternative products and vendors. For example, the buying centre members of two-wheeler auto producer look for paint-spraying products that meet the set specifications and develop a list of paint-spraying machines available from various vendors.

Product and Vendor Evaluation

In this step, the buying centre makes an evaluation to determine which products meet the laid down specifications. Various vendors are also evaluated on criteria such as price, delivery, service, warranty, credit terms, etc. In our example of two-wheeler auto manufacturer, members of the buying centre evaluate the paint-spraying machines in the evoked set according to the evaluative criteria set by the engineers and technicians. The members also evaluate the vendors of these products to determine their ability to supply and provide after sales service. Some typical attributes listed below may be used by the buying centre for each vendor in order to choose the most suitable candidate.

- Overall reputation of the vendor
- Financing terms
- Vendor's flexibility in adjusting to buyer organisation's needs
- Experience with the vendor in comparable situations
- Technical service offered
- Confidence in the sales personnel
- Convenience of placing the order
- Data on reliability of the product
- Price
- Technical specifications
- Ease of product operation or use
- Preferences of principal user of the product
- Training support offered by the vendor
- Training time required
- Reliability of delivery date assured
- Ease of maintenance
- Expected post-purchase service from the vendor.

Product and Vendor Selection

Information gathered during evaluation stage is used to finally select the product to be purchased, as well as the vendor from which the purchase will be made. At this stage, the deciders and the buyers from two-wheeler auto manufacturer's buying centre finally decide to purchase a particular brand of paint spraying machine from XYZ vendor because the product and the supplier measure up to the established evaluative criteria. Terms and conditions, such as payments, delivery dates, warranties, etc., are both complex and critical in industrial markets.

Performance Evaluation

The last stage in purchase decision process involves an evaluation of the product as well as vendor performance. In case of organisational purchases, such evaluations are more formal than are household purchase evaluations. This stage is important in that it provides feedback so that the buying organisation and the vendor will be better able to work as a team. Management personnel from different departments may periodically rate the vendor's performance on criteria such as product quality, delivery and post-supply service. A major component of post-purchase evaluation is the service the seller provides during and after sale. Just like household buyers, dissatisfied organisational buyers may change vendors and/or engage in negative word-of-mouth. Suppliers seek to minimise dissatisfaction and to encourage those who become dissatisfied to complain to them and to no one else.

Student Activity

1. Define consumer behaviour.
2. Define performance evaluation.

Summary

Consumer behaviour refers to action and decision processes of buyers involved in buying goods and services to satisfy personal or organisational needs. Social, psychological, and personal factors influence consumer purchase decisions. Social factors are forces exerted by other people and include culture and subculture, roles and family, social class, and reference groups. Psychological forces are internal to individuals that affect purchase behaviour and include motivation perception, learning, attitudes, and personality. Personal factors are forces unique to an individual consumer and include demographic factors, lifestyle, situational factors, and an individual's involvement in purchase.

Consumer decision-making process involves five stages that include need/problem recognition, information search, evaluation of alternatives, store selection and purchase, and post-purchase actions.

Organisation buying behaviour refers to decision-making processes by which organisations establish the need for products and services, and identify, evaluate, and choose among alternative products and suppliers. Buying behaviour of organisations differs in important respects from personal consumers. Their purchases are made to accomplish certain organisational goals and effectively perform the activities such as producing a good or service, or reselling an item. Organisational purchases are described as 'rational' or 'economic', and generally relate to considerably larger purchases and often more than one person is involved in decision-making.

Keywords

Social Factors: Social factors refer to forces that other people exert and which affect consumers' purchase behaviour.

Reference Groups: A reference group refers to a group of people with whom an individual identifies herself/himself and the extent to which that person assumes many values, attitudes, or behaviours of group members.

Motivation: This refers to driving forces within an individual produced by a state of tension caused by unfulfilled needs, wants, and desires.

Perception: Perception is the process by which an individual selects, organises, and interprets stimuli into a meaningful and coherent picture of the world.

Learning: Learning is viewed as a relatively permanent change in behaviour occurring as a result information or experience, both direct and indirect.

Attitude: An attitude is an enduring organisation of motivational, emotional, perceptual, and cognitive processes with respect to some aspect of our environment.

Personality: Personality refers to a dynamic concept that describes the growth and development of an individual's whole psychological system, which looks at some aggregate whole that is greater than the sum of the parts.

Consumer involvement: Consumer involvement is considered as an important variable that can help explain how consumers process the information and how this information might influence their purchase or consumption related behaviour.

Review Questions

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?
6. 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?
9. In what ways does organisational buying behaviour differ from that of personal consumers? Discuss the factors that influence organisational buying behaviour.
10. Discuss different types of organisational purchase situations. What type of purchase behaviour is likely to occur?

Further Readings

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Unit 8 Product Concepts

Unit Structure

- Introduction
- Concept of Product
- Product Classification
- Product Line and Product Mix
- Summary
- Keywords
- Review Questions
- Further Readings

Learning Objectives

At the conclusion of this unit, you should be able to:

- Realise how products are classified
- Discuss product related concepts like product line and product mix and related decisions
- State the concept of product positioning and its importance
- Discuss the process of developing a positioning strategy, and errors to avoid
- Explain frequently used positioning approaches

Introduction

Taking a narrow perspective, a product can be defined as a set of attributes assembled in a distinct and identifiable form. One can distinguish a product by a commonly understood generic name such as salt, steel, computer, entertainment, or crèche. Other attributes such as brand name and any added services are not a part of this description; for instance, both Dell and Zenith are the same product – a PC.

The need of marketing is to have a more comprehensive definition of product to clearly understand that consumers don't really buy attributes. What consumers really buy are specific benefits that they perceive as solutions to problems and satisfactions for their needs. Thus, consumers want the instant sticking benefit, and not just a thick liquid-filled tube named Fevi Kwik. It is important to appreciate that any product feature can be meaningful only to the extent it delivers an expected benefit and satisfaction. Therefore, a product that provides the desired benefits can be some other alternative than just a tangible good. For example, to relieve pain there can be several alternatives other than painkiller drugs.

Concept of Product

This book adopts a sufficiently broad definition of product given by Philip Kotler. According to this definition, "A product is anything, tangible or intangible, which can be offered to a market for attention, acquisition, use, or consumption that might satisfy a need or want." Thus, a product can be a physical entity (e.g., computer, shirt, or soap), some service (e.g., healthcare, tuition, or bank), a retail store (e.g., music store, locality grocer, or supermarket), a person (e.g., a singer, physician, or politician), an organisation (e.g., business organisation, trade organisation, or not-for-profit organisation), a place (e.g., village, city, or country), or idea (e.g., social issues, concepts, or population control). We use the word 'product' innumerably in everyday life.

A product can be described at five levels:

- The first level is the core benefit that customers seek and is just a basic version of a product or service designed for the purpose of addressing and satisfying some fundamental need.
- The second level is a generic product, one that provides necessary attributes or properties to address the core need. At this level, depending on whether the product is durable, non-durable, or service, the product will have certain attributes such as a brand name, quality, styling, packaging, colour, and perhaps an instructions manual.
- The third level is the expected product that boasts of a set of attributes or characteristics that buyers normally expect in a product and which persuade consumers to buy it.
- The fourth level is the augmented product and refers to well thought out and deliberate additions of features, benefits, and services (such as in case of durable, complex products) delivery, installation, customer education and training, after sales service, guarantees or warranties, payment options, customer complaint redressal, etc. Marketers deliberately instigate the design and production of goods or services that meet or exceed customers' expectations.
- The fifth level is the potential product. This refers to all the possible augmentations and changes that the product can undergo.

Table 8.1: Five Product Levels

Level	Air-Conditioner
1. Core benefit	Cooling and comfort.
2. Generic Product	Sufficient cooling capacity and acceptable energy efficiency rating, reasonable air intakes, exhausts and so on.
3. Expected product	At least two cooling speeds, expandable plastic slide panels, adjustable louvers, removable air filter, vent for exhausting air, power cord at least 60-inches long, relatively safe refrigerant, one-year parts warranty and on-site service warranty, and five-years' warranty on the refrigeration system.
4. Augmented Product	Optional features might include electric touch-pad controls, a display to show indoor and outdoor temps. and the thermostat setting, an automatic mode to adjust fan speed based on the thermostat setting and room temperature, and a toll-free number for customer service, one or two free-services, etc.
5. Potential Product	Silent operation, temperature completely balanced across the room, and energy self-sufficient.

Product Classification

Products can be broadly classified into consumer products and business products.

Consumer Products

Consumer goods can be classified on the basis of their shopping habits. They are grouped as convenience goods, shopping goods, specialty 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. They often buy them in frequent consumption situations and they are purchased immediately and 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 routinized response behavior for this kind of products. Toothpastes and soaps fall under this category.

Impulse Goods: Consumer purchases without any planning or search effort. Purchase of a magazine or a chocolate candy are examples of situations 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 purchase of umbrella, antiseptic creams like Burnol or knife to cut down trees during the rainy season.

Shopping Goods: These are goods that the customer purchases by undergoing a comparative process of selection and purchase on such bases as price, psychological fitment, suitability, style and quality. Examples include furniture, electrical appliances, home furnishings and clothing. Shopping goods can be classified as:

- Homogeneous Shopping Goods which are the goods that are similar in quantity but differ in price levels, justifying a pricing comparison by the buyer
- Heterogeneous Shopping Goods which are the goods, which differ in product features, and services and these differences, are more important than price for a decision.

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

Organizational Products

Many of the goods coming out of a firm enter another firm's production process, so that the final goods can be made ready for consumption by individual 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.

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 and component parts. Raw materials can be of farm products like rice, maize, cotton, starch or natural products like fish, petroleum, gas, iron and aluminum ore. Farm products are renewable as they involves agricultural production. The natural products are very often limited and often available in great bulk and low unit value. There are a few but large producers and marketers supplying natural products. Long-term supply contracts are a common phenomenon in these categories, as the industry needs an uninterrupted supply of products and services for running their business process. 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 aluminum, pig iron to steel and cloth from yarn. 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. Installations are major purchases for the organization. Equipments include hand tools and office equipments like personal computers, laptops. These equipments are not permanent and they need to be replenished at different period 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, nailing and 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.

Product Line and Product Mix

Most companies generally market several products rather than just one or two. It is necessary for them to understand the relationship among all their products to coordinate their marketing of total group of products. Product item, product line, and product mix concepts help us understand the relationships among a company's different products.

A product item refers to a particular version of a product that is distinct, such as Surf Excel is a (premium) product item offered by Hindustan Lever Limited. A product line is a closely related 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. 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.

Product Line Decisions

Many companies start as a single product item or product line business. After getting a taste of success and with availability of more resources, companies decide to expand their product line and/or introduce newer product lines in consonance with market opportunities or in response to competitors' moves. For example, for quite some time, Nirma had only a single detergent brand and subsequently added a new product line by introducing a bathing soap. HLL realised the serious threat from Nirma washing powder and introduced cheaper versions of detergents.

Companies make decisions that concern either adding new items in existing product lines, deleting products from existing product lines, or adding new product lines. Another aspect relates to upgrading the existing technology either to reduce the product costs or to improve quality, for stretching (downwards, upwards, or both ways), or line filling.

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

Figure 8.1: Selected Product Mix Elements in Just Three Product Lines of HLL

Product managers need to closely examine the sales and profits of each item in a product line. The findings will help them decide whether to build, maintain, harvest, or divest different items in a particular product line.

Product Extention

1. *Product line extension* is the strategy of introducing variations of the same product. This variation may be simply of colour, packaging, size, or flavour etc. but the core product value remains the same. For example, Palmolive soap is available in pink, white and light bluish pack. Maggi noodles are available in different flavours.
2. *Product form extension* means that the same product is available in different physical forms such as Dettol soap cake and Dettol liquid soap. Many drugs are available as tablet, syrup, injections, or as inhalers.
3. *Product category extension* is diversifying into producing products in different categories and using the same established brand name. For example, Maggi noodles and Maggi tomato chilli sauce. Similarly there is Lux toilet soap and Lux shampoo, Ponds talcum powder and Ponds soap etc.

Line Stretching

Product lines tend to lengthen over the years for different reasons such as excess manufacturing capacity, new market opportunities, demand from sales force and resellers for a richer product line to satisfy customers with varied preferences, and competitive compulsions. Lengthening of lines raises costs in many areas and decisions are based on careful appraisal. However, at some point in time somebody, often the top management intervenes and stops this.

1. *Downward Line Stretch:* Companies sometimes introduce new products with an objective of communicating an image of technical excellence and high quality and locate at the upper end of the market. Subsequently, the company might stretch downwards due to competitor's attack by introducing a low-end product in response to competitive attack, or a company may introduce a low-end product to fill up a vacant slot that may seem attractive to a new competitor. Another possibility is that market may become more attractive at low-end due to faster growth rate. For example, P&G introduced its Ariel Microsystem detergent at high-end assuring high quality. Customer response was not encouraging and the

company saw more opportunities at lower end and introduced cheaper green alternative Ariel Super Soaker. Mercedes has offered its E Class model to compete at much lower price point than its high-end S Class models.

2. *Downward stretch sometimes poses risks:* For example, low-end competitors may attack by moving into high-end, or for a prestige-image company introduction of a low-end model may adversely affect its product-image. Parker pen stretched downward and introduced ballpoint pen at low-price. This hurt Parker as a high-class product. Another risk is that introducing a lower-end item might cannibalise (eat away sales) the company's high-end item.

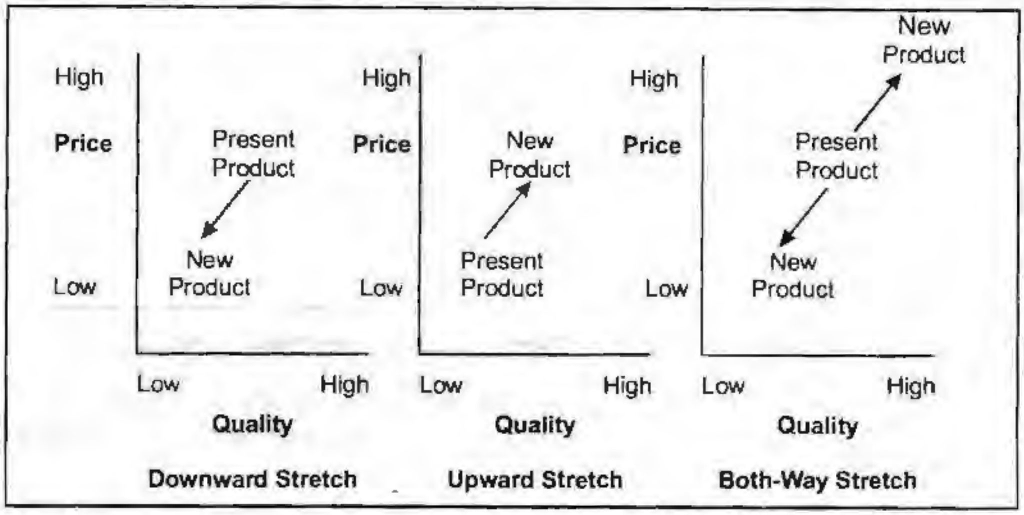

Figure 8.2: Line Stretching Decisions

3. *Upward Stretch:* In this situation, companies operating at low-end may opt to enter high-end because of better opportunities as a result of faster market growth, or the need to create an image of full line company. For example, Videocon entered the market with a twin-tub low-end washing machine. Subsequently, after the introduction of IFB automatic washing machine and entry of other players the market expanded. The average household income of middle class also showed positive trends. To take advantage of a market growing at the higher-end, Videocon also introduced an automatic washing machine. Maruti Udyog introduced its medium-priced models such as Maruti Zen, Maruti Esteem, Wagon R, Alto, and Swift after it had entered the market with its low-end Maruti 800 and Maruti Omni. Toyota introduced its Lexus luxury car as a standalone product (with no outward link to Toyota) for just this very reason. It did not want it to be in any way affected by Toyota's no-doubt superb, but mass market image.

   There may be certain risks associated with upward line stretching. These may include prospective customers' perceptions that the newcomer in the high-end category may not produce high-quality products, or competitors already well established in the high-end market may retaliate by introducing items in the low-end of the market. For example, long established footwear company Bata failed in its attempt when it tried upward stretch and finally introduced its Power line of economical sports shoes.

4. *Both-Way Stretch:* Companies operating in the medium range of the market may decide to stretch product line(s) both ways for reasons of opportunities arising in different market segments. The main risk is that it may prompt some customers to trade down. However, companies often prefer to retain their customers by providing low-end alternatives rather than losing them to competitors.

5. *Line Filling:* A company may decide to lengthen the existing product line(s) by adding more items. The possible objectives leading to line filling may include realising incremental profits, meeting dealers' demands in response to their

complaints that they lose sales because of missing items in the lines, excess capacity pressures, and trying to fill up vacant item slots to keep out competitors. For example, Videocon and some other TV and AC manufacturers have introduced models at various price-points right through high-end to low-end. Similarly, IBM, HPCompaq, Acer, and Sony etc. have introduced laptop PCs at various feature-price points ranging from high-end to low-end.

Line filling may sometimes lead to cannibalisation, apart from confusing customers about the products' positioning unless the company succeeds in clearly differentiating each item meaningfully in customers' minds.

Line Pruning

Line pruning is just the opposite to line stretching and involves a deliberate decision to cut down the number of items in product line(s). Over a period of time, market conditions and customer preferences change, and companies find that some of their product lines contain some unnecessary variants and pack sizes. Another reason for line pruning can be the shortage of current production capacity. It is necessary for product managers to periodically review their product lines by examining sales and costs to spot items that are negatively impacting the profits. Procter and Gamble (P&G) was known to have very lengthy product lines but decided to rationalise and pruned its product lines. For example, the Head & Shoulders shampoo line had 31 items; P & G subsequently pruned this product line to only 15 variants. The company now believes that it is better to maintain simpler product lines and do away with unnecessary complexity. If the company can use any existing product formula or package to enter a new market, it can save precious resources and move faster.

Product Mix Decisions

Most business entities have many products in their portfolio. By dealing in many products, companies aim to serve a much larger and varied group of customers who look for solutions to different types of needs. This also helps minimise the risks for a company across different products. For example, ITC diversified from tobacco-based products to hospitality products, financial services, and consumer non-durables such as edible oil and atta. Keeping in view the growing opposition from consumer advocates and restrictions being imposed by governments on certain types of promotional activities concerning cigarettes, ITC with only a single product line of different brands of cigarettes would have experienced high business risk.

Companies make decisions concerning product mix based on competitive situations, existing or emerging market opportunities, and changes in consumer lifestyles and preferences. As pointed out earlier, HLL faced competitive pressures from low-priced washing powders and introduced low-end brands at various price-points. In response to opportunities in medium-price segment of passenger cars, Maruti introduced suitable models. ITC introduced sports wear keeping in view the lifestyles of younger generation, seeing it as a logical extension of its positioning itself as a lifestyle products company. Bajaj Auto introduced its Pulsar motorcycle, and Apple computers introduced its iPods offering a high-quality portable digital music gadget. For quite some time, iPod was available as a high-end product. The market opportunities emerged and the company introduced medium-priced variants. These companies are operating in highly competitive markets and have two or more product lines. Moreover, there is a degree of convergence of various needs that are being met by products that combine the features of a mobile phone, camera, PDA, on-line communicator and music system.

Student Activity

1. Define a product.
2. Define line pruning.

Summary

A product is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a need or want. A good is a tangible product that can be seen and touched. In contrast, a service represents an intangible product that may involve human or mechanical effort in its delivery. Services are being consumed increasingly both by individual as well as organisational consumers.

Products can be classified as consumer products and organisational products. Consumer products are those that we buy for our personal or family use or consumption. Organisational products are those that are purchased by firms and institutions to produce other goods and services, or to resell and to run their day-to-day operations.

Most companies market more than one product. A product item refers to a particular version of a product that is distinct. A product line is a closely related group of products for essentially similar use, and technical or marketing considerations. Product mix is the total number of products that a company markets. Product mix consistency means how closely related different product lines are in their end use, production requirements, and distribution. 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.

Keywords

Durable goods: Durable goods are tangible products and usually survive extensive use over prolonged periods of time, such as washing machines, footwear, autos, and clothes.

Non-durable goods: Non-durable goods are also tangible goods but usually get consumed in one or a few uses such as soap, wheat flour, candy, or soft drink.

Line Pruning: Line pruning is just the opposite to line stretching and involves a deliberate decision to cut down the number of items in product line(s).

Review Questions

1. What is the difference between tangible products and services? Give two examples of each category.
2. What important attributes would you look for in a medium-priced car?
3. How would you differentiate between a convenience good, shopping good, and speciality good?
4. How would you classify organisational products? Can an organisational product also be a consumer product?
5. On what basis can products be differentiated to decide a brand's position?
6. What is brand positioning? How does it differ from target marketing?
7. How can the use of positioning concept benefit the marketer? Mention some examples.
8. Discuss what you understand by positioning strategy.
9. Discuss some important positioning strategies with examples.
10. What make marketers reposition their brands? Discuss two examples of successful repositioning.

Further Readings

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Unit 9 Branding, Packaging and Labelling

Unit Structure

- Introduction
- Concepts of Branding
- Brand Identity
- Brand Equity
- Brand Image
- Types of Brand
- Brand Name Selection
- Branding Strategies
- Factors Influencing Branding Strategies
- Competitive Situation
- Company Resources
- Brand Building
- Packaging
- Labelling
- Summary
- Keywords
- Review Questions
- Further Readings

Learning Objectives

At the conclusion of this unit, you should be able to:

- Discuss concepts of brand equity, brand personality, brand image, and identity
- Identify different types of brands
- Realise the importance of brand name selection
- Explain different branding strategies
- State the significance of packaging and labelling

Introduction

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 brand, that means, "to burn," and owners of livestock mark their animals to identify them.

Concepts of Branding

The traditional orientation of branding suggests that brand name is a part of the brand consisting of words or letters that form a means to identify and distinguish a firm's offer. A brand market is the symbol or pictorial diagram that helps in the identification of the product. There are generic brand names also like branded names that have become a generically descriptive term for a class of products like Nylon, Aspirin, Kerosene and Zipper. A trademark is a brand mark to which the owner legally claims exclusive access. Trademark protection confers the exclusive right to use brand name with any trademark, logo, slogan or product name aberrations.

A brand provides distinct benefits to consumers. It promises and delivers a high level of assurance to consumers. It is a mental guarantee that the product will deliver the desired value promise. It is a mental patent as it promises certain amount of value to the customers. A brand serves as an assurance to the customer about product performance. A brand helps customers to identify the product on the shelf and helps in making an informed choice. A brands as symbols of status and social significance give psychological satisfaction to the consumers. A brand also serves as a medium of social stratification, as it reflects a person's choice and social class due to specific usage and value orientation. It essentially helps in brand choice.

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 complex symbol and capable of conveying up to six dimensions or meanings:

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.

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.

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.

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.

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.

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 be tough, young males. Users of Nike see their inner reflection in the brand's personality.

Brand Equity

A clear brand identity when reinforced over a period of time in the customer's mind to develop a high level of customer franchisee, leads to creation of brand equity. As explained earlier in the brand identity section, brand equity is a set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a firm and/or to that firm's customers. If the brand's name or symbol will change, some or all of the assets or liabilities will be affected; and they may even lose significance in business. These equity components can be grouped into five categories, namely brand loyalty, brand name awareness, perceived quality, brand association, in addition to the perceived quality and other proprietary brand assets like patents, trademarks, and channel relationships.

To simplify the definition, we can conclude that it is the incremental that the customer has to pay for a brand in place of a commodity. It is the additional premium charged by the marketer that the customer is ready to pay when confronted with a buying situation between a commodity and a brand. It is simply the price premium that a company can charge customers or the impact of the name on customer preference or stock price movement or future earnings or a combination of any of the factors that has given a firm its brand equity.

Brand equity is the added value that the consumer assigns to products and services. It is based over what the consumer thinks, feels and acts with respect to the brand and is often reflected in company's sales performance, market share and profitability. Kevin Keller proposed a consumer based brand equity model, which is defined as the differential effects that brand knowledge has on consumer response to the marketing of that brand. A brand is believed to have positive consumer based brand equity when consumers react favorably to the marketing strategy of the brand and vice versa for negative brand equity. Consumer based brand equity is based over consumer's brand knowledge. Brand knowledge is based on the thoughts, feelings and images that consumers associate with the brand. They are based on consumer awareness, brand associations and brand image that the consumer holds of the brand to generate a positive consumer based brand equity.

Iconic Brands

All these brands fulfilled three important requirements of being an iconic brand:

Create an identity myth: For any brand to attain iconic status, it has to create an identity myth. Every society invariably goes through phases of prosperity and crisis. Brands that resonate and show direction to the masses through the brand stories and brand activities gets etched into the culture. These brands, by creating an identity for themselves, provide identity to the whole society.

Involve multiple storytellers: Dissemination of brand information through the many participants of the society is critical for an iconic brand. The four major authors of these brand stories are: companies, the culture industries, intermediaries and customers. Each of these authors facilitates the brand to blend into the fabric of the society. By associating the brand and its identity with the prevalent events in the society, these authors create an iconic stature for the brands.

Weave powerful brand stories: Great brands always have resonating stories that touch the lives of consumers. These stories could be of the brand's unique history (Shanghai), myth (Jim Thompson), culture (Harley-Davidson), fashion icon (Giorgio Armani), struggle (Li Ning), and underlying philosophy (Singapore Airlines). These brand stories offer consumers a good reason to elevate the brand beyond their mere utilitarian role in the market.

(*Source:* Martin Roll, Official Weblog for Asian Brand Strategy, February 22, 2006).

Five Dimensions of Customer-based Equity

Walfried Lasser. Banwari Mittal, and Arun Sharma identified five dimensions of customer-based brand equity:

1. *Performance:* The aspect of brand equity focuses on the physical and functional attributes of a brand. Customers are concerned about how fault free and durable the brand is, based on their judgement.

2. *Social image:* This focuses on what social image the brand holds in terms of its esteem for customer's social and reference groups.

3. *Value:* This refers to the customer's value perception of the brand. This is the ratio between what are the involved costs and the perceived delivered value.

4. *Trustworthiness:* This means the customer's extent of faith in the brand's performance, quality, and service. This reflects reliability of the brand, that it would always take care of customer's interest and the people behind the brand can be trusted.

5. *Identification:* To what extent customers feel emotionally attached to the brand. Their association with the brand is important because it matches their self-concept and aspirations. This means psychological association with what the brand stands for in the customer's perceptions.

Leveraging brand Equity

It is natural for the companies to constantly search for ways to leverage assets. A brand is an asset. Some brands become very powerful asset for companies providing a significant amount of equity.

A decision to leverage brand equity is, of course, always a good idea but deciding how exactly to do that should not be made without very thoughtful consideration, especially in a categories where the competition is dependent entirely on the power of brands. For example, the sugar-water products are entirely dependent on the strength of their brands so tampering can be deadly.

Building customer loyalty through brand equity

Loyalty is at the heart of equity and a very important brand equity asset. Few customers are fiercely brand loyal to this degree. Based on customer's degree of commitment toward brands, David A. Aaker categorised customers in five groups based on their attitudes toward a brand, from the indifferent or switcher at one extreme and most committed on the other extreme. The other three categories fall in between the extremes:

1. No brand loyalty. Such customers will change brands, particularly for price reasons.
2. Satisfied but change the brand. They are satisfied with the brand but apparently have no reason to remain attached with it.
3. The customer is satisfied and stays with it because changing brand would incur costs.
4. Customer values the brand and considers it as a friend.
5. Customer is devoted to the brand with intense feelings.

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.

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.

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.

Types of Brand

There are several brand options that include manufacturer brand (also called national brand), private brand (also called distributor, reseller, store, or house brand), or a licensed brand.

Manufacturer brands are initiated by manufacturers and identify the producer. This type of brand generally requires the initiator involvement in its distribution, promotion, and pricing decisions. The brand quality is assured and guaranteed, and the aim of promotion mix is to build company and brand image and encourage brand loyalty.

The major feature of private brands is that they are resellers initiated brands. Manufacturers are not identified on the products. Wholesalers and retailers use private brands to develop more efficient promotions to build store image and generate higher gross margins. Shoppers' Stop is a private brand. Wholesalers or retailers have the freedom and advantage of buying specified quality at an agreed upon cost from the manufacturer without disclosing manufacturer identity. In most markets around the world, manufacturer brands dominate. In developed countries such as U.S., supermarkets average more than 19 per cent private brand sales. The trend of private brands is slowly catching on in India. This is likely to speed up, with increasing numbers of large retail stores appearing in major cities of the country. Mukesh Ambani's Reliance Retail is planning to invest ₹ 25,000 crores into its forthcoming retail operations.

Paul S. Richardson, Alan S. Dick, and Arun K. Jain found that formerly, consumers viewed brands in a category in a ladder-like manner. The top rung was occupied by the most preferred brand and the remaining brands were arranged in descending order of preference. There are now indications that consumer perceptions of brand parity are replacing the brand ladder.

Licensed brand is a relatively new trend and involves licensing of trademarks. Entering into a licensing agreement, a company allows approved manufacturers to use its trademark for a mutually agreed fee. The royalties may range anywhere between 2 per cent to 10 per cent or more of wholesale revenues. The company obtaining the license would be responsible for all production and promotional activities, and would bear the costs in case the licensed product fails. The benefits of this arrangement can bring extra revenues, free publicity, new images, and protection of trademark. For example, P&G licensed its Camay brand of soap in India to Godrej for a few years. The disadvantage is that the licensing company loses its control on manufacturing and at times this may hurt the company's name and lead to overstretching the brand.

Some manufacturers prefer to have branded products as well as their generic brands. Generic brands indicate only the product category, such as aluminium foil. Another form of generic brands is that the generic name of the product is mentioned and the manufacturing company's name is written just to conform to legal requirements, such as paracetamol, or tetracycline. They do not include any other identifying marks. Generic brands are usually sold at lower prices than their branded versions. Generic brands are fairly common in the drug industry.

Brand Name Selection

The choice of brand name is fundamentally important because it often captures the key concept or association of a product in a compact and economical manner. Brand names can be an effective way of communication because they become attached to the products in consumers' minds. It is critically important to be very careful in selecting the brand name, as changing this brand element in future is extremely difficult. Brand name selection for a new product is certainly a combination of art and science. Companies have four strategic options in choosing a brand name:

Company Name

Companies that have built a reputation for product quality and commitment to customer satisfaction and have become household names sometimes use this strategy. All products are sold under the company name. This approach is less expensive, as it avoids research to select an appropriate name. It does not require heavy advertising expenditures to create brand name awareness. The name takes advantage of good corporate image. Many Indian and global companies use this approach. For example, Nirma, Escorts, HMT, Philips, GE, Mercedes, LG, Samsung, Sony, Canon, Nikon and others use this approach.

Individual Names

Some firms adopt this policy and each brand has its own individual name. The advantage is that the company does not tie its reputation to the product. In case the product fails, or its quality is low, the company's name or image is believed to be safe. The company can introduce lower quality products under an individual name without diluting the image of its higher quality product. For example, HLL introduced a low-priced detergent (Wheel) without hurting Surf.

The company also uses separate brand names for its range of bathing soaps (Lux, Liril, Pears, Dove, Moti, etc.). Procter & Gamble also uses this approach for its products (Ariel, Tide, Head & Shoulders, Pantene, and Vicks). The company searches for new names for its individual brands and this could mean name research expenses.

Separate Brand Family Names

Some companies producing many different products adopt this approach to select brand names. Such companies use different brand names for a category of products. For example, Denim brand of HLL has several products: Denim Deo, Denim Shaving Cream, After Shave, Denim Soap, and Denim Talc. The company's Orchid brand includes several women's beauty products. HLL's Lakmé brand has several personal care products.

Combination of Company Name and Product Name (also called umbrella or endorsement brand names)

Some companies follow this policy, such as Maruti Esteem, Maruti Zen, Fiat Palio, Ford Ikon, IBM ThinkPad, Acer TravelMate, Apple Powerbook, Hamdard Rooh-afza, etc.

Desirable Qualities of Brand Names

Kim R. Robertson is of the view that brand names selected are simple and easy to pronounce; familiar and meaningful; and are different, distinctive, and unusual. Kevin Lane Keller, Susan Heckler, and Michael J. Houston caution that brand name elements that are highly descriptive of the product category or its attributes and benefits may be potentially quite restrictive. For example, attempts at extending the Burnol brand so far have failed because of consumers very strongly associate Burnol with burns.

Sometimes a unique name becomes intimately connected to a product category and may threaten a company's exclusive rights to that name. For example, consumers now use names Aspirin, Xerox, Luna, Scotch Tape, Surf, and Dalda to describe product category. Xerox means photocopy, Aspirin means acetylsalicylic acid, Luna means any moped, Scotch Tape means adhesive tape, Surf is synonymous with detergent category, and Dalda is any vegetable oil. In other words, the brand names have metamorphosed into generic names that cover entire categories of products.

The following qualities of a brand name are considered desirable:

- The name should be suggestive of some product benefit, such as Fair & Lovely, No Marks, Hajmola, Fair Glow, and Roohafza.
- The name should be suggestive of product or service category, such as Himalaya Ayurvedic Concepts, Kleenex, Tatafone, Businessworld, and First Flight.
- The name should be suggestive of imagery that projects qualities, such as Gillette Mach 3, Nike, Moods, etc.
- The name should be simple and easy to spell, pronounce, recognise, and remember, e.g., short names like Lux, Surf, Tide, and Vim.
- The name should be distinctive, such as Apple, Kodak, Sony, Palio, etc.
- The name should not resemble or suggest negative associations in other languages and countries.

To choose a brand name, companies generate a comprehensive list of possible names. Each name is evaluated for its merits, and ultimately a few most suitable ones are left. These names are tested with target consumer groups to arrive at a final choice.

Companies sometimes hire outside marketing research firms specialising in this field. These specialist firms use techniques such as brainstorming sessions and extensive computer databases, sounds, etc. Name-research process employs a variety of tools and techniques, such as association tests (images that emerge in the mind's eye), learning tests (ease of pronouncing the word), memory tests (is the name remembered well?), and preference tests (the most preferred names). Research also ensures that the chosen brand name has not already been registered.

Building brands is not easy. It usually requires huge expenditures and effective communications. Keeping in view the product category, its target markets, and competitive situations, companies use an array of communication tools that include advertising, public relations/publicity, trade shows, event marketing, sponsorships, celebrity endorsements, factory visits, social cause marketing, etc.

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.

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.

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 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-alones in all of its SBU's, leaving the company to venture into many unrelated fields.

Table 9.1: 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	Antidandruff shampoo with micro ZPTO
Pantene	Shampoo	Healthy & 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

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.

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.

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 a 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.

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.

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.

Factors Influencing Branding Strategies

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

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.

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.

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.

Product Newness

As companies grow, they tend to add new products to expand product mix. The market-place 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 requires 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.

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.

Brand Building

A brand image creates expectations. It defines who you are, how you operate, and how you're different from your competitors. In essence, your brand image is a promise - a promise that must be kept.

If the brand is a promise you make, then the customer experience is the fulfillment of that promise. The customer experience can't be left to chance. It should be actively designed and controlled in a manner that enhances your brand image. It must consistently reinforce the brand promise across every customer touch-point or the value of the brand itself is at risk.

A company can build a strong brand by following these simple steps:

1. *Make believable brand promises:* Your brand promise is irrelevant if your customers do not believe it. Therefore, your promise must be supported by reasons-to-believe. This will automatically add substance to the promise and define specific expectations for the customer.

   For example, an air conditioner manufacturer promises potential customers that its brand is an "intelligent cooling solution" then what makes it an intelligent brand? Why should the customer believe this promise?

2. *Recognize what influences the customers:* Each individual step in a business process contains a number of influences when the customer comes in contact with your brand. Your ultimate goal is to have each influence reinforce and fulfill your marketplace promise.

3. *Determine the most influential influence:* All influences are not created equal. Some will naturally play a larger role in determining your company's overall customer experience. For example, if your product is deodorant, fragrance is typically more important than package design. Both are influences, but each has a different effect on our customers' experiences as a whole.

   To determine the influences driving your customers' overall experience, a company can use a wide array of techniques ranging from quantitative research to institutional knowledge. The methods you use will depend on the complexity of your products, commercial processes, and your existing knowledge base.

4. *Give the customers what they want or create an experience:* Once you have completed the above three steps to building a brand, you should be able to design your optimal customer experience.

5. *Innovate to consistently deliver the experience:* A company should constantly come up with new and improved ideas to consistently deliver the optimal experience to the customers.

Building a brand requires the company to gain name recognition for its product, get the consumer to actually try its brand, and then convince the buyer that the brand is acceptable. Only after those triumphs can the company hopes to secure some degree of preference for its brand.

Packaging

Some texts consider packaging so important that they place it in the marketing mix as a fifth 'P.' Most texts consider packaging as a part of product policy. Packaging includes all activities that focus on 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.

Packaging of a product is important and can make a product more visible, desirable, versatile, safe, or convenient to use. Good packaging has the power to influence customers' attitudes and purchase decisions. Often, customers have one of the strongest associations with a brand based on the looks of its packaging. Package attractiveness can become an important means of brand recognition. Also, the information conveyed or inferred from the package can help build or reinforce valuable brand associations.

Packaging is much more than just putting the product in a container and covering it with a wrapper. Packaging materials serve the purpose of not only protecting the product but also keeps it in functional form, such as milk, juices, and sprays. Packaging helps prevent damage and loss. Packaging also helps to check tampering. A reusable package often makes a product more desirable. In a country like India, reusable packages are often used in sales promotion, such as Bournvita container was a glass jar that could be used for other purposes, or 4kgs Surf was packaged in a plastic bucket. Housewives used the container (bucket) to wash clothes and for other purposes.

Packaging Considerations: A variety of packaging materials, processes, and designs are available. Marketer's primary concern is to consider the costs involved. With increasing incomes, customers show different degrees of willingness to pay more for improved packaging. The question is how much target consumers are willing to pay, and research can determine this.

Present day environmental concerns are also a consideration. Many consumer pressure groups in developed and developing countries show increased environmental concerns. Discarded plastic packaging is a major source of garbage. Many packages are thrown away indiscriminately, such as crumpled cans and broken bottles, which can be seen almost anywhere in Indian cities. The problem of waste is rampant across almost all countries of the world. Experts point out that plastic is non-biodegradable and paper requires valuable inputs from forests. Some companies are shifting to environment friendly packaging and some others are using recycled (and recyclable) material for packaging.

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 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, use instructions, 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 identifies a product and provides pricing and inventory information. An electronic scanner reads this UPC information at retail check counter that is used by retailers and marketers for inventory and price control purposes.

Student Activity

1. Define brand equity.
2. What do you understand by brand image?

Summary

A brand is 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 the competition. 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 and differentiate a product from others.

Brand identity refers to a unique set of brand associations that the brand strategist aspires to create or maintain.

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.

Brands have equity because they have high awareness, many loyal consumers, a high reputation for perceived quality, proprietary assets such as access to distribution channels or to patents, of the kind of brand associations. Brand equity is the marketing and financial value associated with a brand's strength.

Brand loyalty refers to a customer's favourable attitude towards a specific brand. Loyalty is at the heart of equity and a very important brand equity asset.

Companies differ in their approaches to branding. As companies grow, they enlarge their product mix by either stretching existing product lines or adding new product lines, or both. In these situations they either use company name, existing product brand names, new brand names, or some combination of company name and product brand name. The six generic branding strategies include product branding, line branding, range branding, umbrella branding, double branding, and endorsement branding. Each branding strategy has its merits and demerits.

Packaging includes all activities that focus on 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.

Labelling is closely related with packaging and is used in many different informational, legal, and promotional ways. The label can facilitate product identification by presenting the brand and a distinct graphic design.

Keywords

Brand Mark: A brand mark refers to that part of brand which is not made up of words, but can be a symbol or design.

Brand Equity: Brand equity is one of the popular and potentially important concepts in marketing that emerged in the 1980s.

Social image: This focuses on what social image the brand holds in terms of its esteem for customer's social and reference groups.

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.

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.

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.

Review Questions

1. Elaborate on what constitutes a brand. What is the significance of brand for marketers?
2. Do you think the standard definition of brand completely covers all dimensions of what a brand stands for?
3. How does branding benefit consumers?
4. Explain what you understand by the term 'brand equity'.
5. What do you understand by brand loyalty? Do you think in the modern market-place where most products are perceived as being more or less similar, brand loyalty exists?
6. Distinguish between brand identity, brand personality, and brand image.
7. What important factors should be considered while choosing a brand name?
8. What are the advantages and disadvantages of product branding compared to umbrella branding?
9. What is the significance of packaging and labelling in modern day marketing?

Further Readings

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Unit 10 New Product Development and Adoption Process

Unit Structure

- Introduction
- Developing New Products
- Organising for New Product Development
- Commercialisation
- New Product Adoption Process
- Time Factor and Diffusion Process
- Summary
- Keywords
- Review Questions
- Further Readings

Learning Objectives

At the conclusion of this unit, you should be able to:

- Realise how companies deliberately organise to develop new products
- Discuss different steps involved in developing a new product and launching it in the market
- Know how consumers with different types of psychological make up adopt a new product and at what rate
- State important factors that influence consumers in the adoption process
- Discuss the characteristics of innovators, early adopters, early majority, late majority, and those who are the last to adopt a new product

Introduction

The human race has always wanted and looked for better, comfortable, and more satisfying things. Consumers' thirst for better and more efficient products and services seems insatiable. With the passage of time, the list of innovations keeps going on and on. Truly new breakthrough products are comparatively rare. During the last nearly three decades, some product innovations have created huge markets such as fax machines, computers, quartz watches, Internet, cellular phones, wonder drugs, etc. Innovations bring about a change in consumers' consumption patterns.

Developing New Products

Developing new products could be both advantageous and risky for firms. Despite risks, failure to introduce new products is risky, too. Why have computers and cellular phones become so successful? Highly successful new products are always superior to competing products, are fine-tuned to consumer needs and wants, and enable consumers to do unique tasks. According to Robert G. Cooper and Elko J. Kleinschmdt, a unique and superior product becomes successful 98 per cent of the time. Products with moderate advantage have 58 per cent success rate, and products with minimal advantage only 18 per cent.

Connotations of the Term 'New Product'

The term 'new product' has many connotations. So, what should we call a "new" product? Most definitions of new-product have a common feature that new products offer innovative benefits. Everett M. Rogers observes that some researchers have favoured a consumer-oriented approach in defining new products. Consulting firm of Booz, Allen, and Hamilton in their survey found that products introduced by 700 US companies over a period of five years were not equally "new." The study identified six new product categories based on their degree of newness as perceived by both the company and the customers in the target markets.

1. ***'New to the World' Products:*** 10 per cent were true innovations, not just new to the company. Such products create an entirely new market.
2. ***New Product Lines:*** 20 per cent constituted new product category for the company introducing it, but the products were not new to customers in the target market, as one or more competitive brands already existed.
3. ***Additions to Existing Product Lines:*** 26 per cent were actually new items added in the existing product lines. These items may be moderately new to both the company and the customers in its established product-markets. They may help extend the market segments to which the product line appeals.
4. ***Improvements in or Revisions of Existing Products:*** 26 per cent items provide improved performance or enhanced perceived value brought out to replace existing products. These items may present moderately new marketing and production challenges to the company. Unless these items represent technologically new generation of products, customers are likely to perceive them as similar to the products they replace.
5. ***Repositioning:*** 7 per cent products are targeted at new applications and new market segments.
6. ***Cost Reductions:*** 11 per cent products are modifications providing similar performance at low costs.

Organising for New Product Development

Major innovations such as computer, cell phones, and the Internet occur now and again and transform the market place. It seems unlikely that any standard marketing approaches would have been instrumental in developing such innovations. For example, if potential customers had been approached to learn their likely interest in buying such unheard of products, probably they would not have understood the concept and its importance in their lives. Many innovative products are the result of presence of 'product champion' in a company. A champion perseveres and presses the case for a new product to be developed. Without such people, many innovations we have today would probably not have been seen through to the development and finally the launch in market.

For organisations, it is proper to have a formal new product development process in place and more likely to be effective than adopting a haphazard approach to this critical activity.

New product development requires support from top management and budget allocation, definition of business activity, product categories of interest, and specific criteria of ROI.

Table 10. 1: New Product Development Phases

Phases	Marketing Activities
Idea Generation	Searching for new product ideas from internal and external sources.
Idea Screening	Select the most promising ideas and drop those with only limited potential. Study the needs and wants of potential buyers, the environment, and competition.
Concept Testing	Describe or show product concepts and their benefits to potential customers and determine their responses. Identify and drop poor product concepts. Gather useful information from product development and its marketing personnel.
Business Analysis	Assess the product's potential profitability and suitability for the market-place. Examine the company's research, development, and production capabilities. Ascertain the requirements and availability of funds for development and commercialisation. Project ROI.
Product Development	Determine technical and economic feasibility to produce the product. Convert the product idea into a prototype. Develop and test various marketing mix elements.
Test Marketing	Conduct market testing. Determine target customers' Reactions. Measure its sales performance. Identify weaknesses in product or marketing mix.
Commercialisation	Make necessary cash outlay for production facilities. Produce and market the product in the target market and effectively communicate its benefits.

The steps involved in the development of a new product are presented in the Table 10.1.

Idea Generation

The focus in this first stage is on searching for new product ideas. Few ideas generated at this stage are good enough to be commercially successful. New product ideas come from a variety of sources. An important source of new product ideas is customers. Fundamentally, customer needs and wants seem to be the most fertile and logical place to start looking for new product ideas. This is equally important for both personal consumers and industrial customers. Other sources of new product ideas include scientists, resellers, marketing personnel, researchers, sales people, engineers, and other company personnel.

Producers of technical products sometimes study customers making the most advanced use of supplied products and recognise the need for improvements. Toyota employees are said to contribute more than 2 million new ideas annually, and about 85 per cent of these are implemented. By studying competitors' products and services companies can find ideas.

Some other creative methods companies use to gain new product ideas include brainstorming, synectics, attribute listing, forced relationship, and reverse assumption analysis.

Sometimes, new product ideas just 'happen.' Akio Morita's story about the development of Walkman is well-known. He used to observe an employee carrying a heavy stereo record player with headphones. This prompted Morita to conceive the idea of a lightweight personal stereo.

No one was very hopeful about the idea. The doubts expressed included the market potential, and the inability of such a stereo to record, but Morita was very optimistic about the market potential of such a stereo. When the experimental unit was ready, marketing people were not at all enthusiastic and said that it would not sell.

Idea Screening

The aim of screening is to reject the poor ideas as early as possible because the costs of new product development keep rising sharply with each successive development phase. Many companies use a standard format for describing new-product ideas by the review committee and includes descriptions of new-product idea, its target market, anticipated competition, assessment of market potential, price, estimate of development time, costs, and ROI.

Each promising idea is researched to assess its potential. Committee members sort out the ideas into three groups: promising ones, marginal, and rejects. The committee evaluates the ideas against a set of criteria. The criteria seek the answers to questions such as:

- Does the product meet a genuine need?
- Would it nffer customers a superior value?
- Can it be distinctively communicated?
- Does the company have enough resources in terms of know-how and finance?
- Will the new product bring in expected sales volume, sales growth, and ROI?

These criteria differ across different companies.

The extent to which a company responds to new product ideas depends much on its financial resources, availability of production capacity to meet with likely demand, availability of suitably trained personnel, and availability of raw materials and components required for producing the new product.

Time is another major consideration because the development process can take a long time from idea generation to production and market launch. Some developments can take as little as a few months while others can take years of effort to finally launch the product in market. This is particularly true for cases where safety testing is prolonged, such as new drugs. Screening should ensure that the new product would not cannibalise existing company products. The new product should fit within the company's overall marketing strategies.

Concept Testing

Concept testing of a new product idea refers to a more detailed version of the idea. It involves describing the product concept through oral or written description and the benefits to a small number of potential customers, and make an assessment of their responses regarding the product. For a single product idea, a company can test one or more concepts of the same product. It is a low-cost procedure and helps the company to decide whether to commit considerable resources in research and development. Positive consumer response to product concept also helps decide which particular product attributes and benefits are most important from a potential customer's point of view.

Concept testing proves useful in most cases, but in certain cases it may not be appropriate. In case the major benefit of a product is something intangible and subjective, concept testing often fails. It is difficult to communicate the concept of such a product in a way that respondents would be able to visualise in such a product. Similarly, it is difficult to test a new service unless it can actually be demonstrated being performed. For instance, it would have been very difficult to test the concept of a fax machine just because potential users would not have been able to visualise and understand its technology. Because of this difficulty, some concepts with huge potential of success are killed before further consideration. Concept testing is difficult in case of major innovation simply because customers have no experience of such an idea.

Customer preferences for alternative concepts can be measured through conjoint analysis wherein respondents are asked to rank varying levels of product's attributes to determine the most attractive product offer.

Box 10.1: Concept Testing of a New Mosquito Repellent

Product Description
A consumer product company is considering the development and launch of a new mosquito repellent. This product would consist of a liquid dispenser, much like deodorant containers you are familiar with. The mosquito repellent easily

Contd....

comes out from the nozzle and rapidly spreads in vapour when its push-button release is pressed lightly. Only a small amount of repellent is dispensed with each press and is mildly perfumed. The chemical used is completely non-toxic for humans and pets. Only 5 ml. of repellent is enough for a room measuring 14x12 sq. feet and its effect persists for two days after the room is sprayed just once.

Please answer the following questions:

1. How do you feel about using this type of product in your home?
2. What major advantages do you see over existing products that you currently use to get rid of mosquitoes?
3. What attributes of this product do you particularly like?
4. What suggestions do you have for improving this product?
5. If it is available in pressurised 300 ml. containers at an appropriate price, how likely are you to buy his product?

   Very likely   Moderately likely   Unlikely
6. Assuming that a container will last for 15 days in a 3-bedroom house, approximately how much would you pay for this product?

Business Analysis

It is an assessment to determine the new product's potential contribution to the company's sales, costs, and profits and for this reason a financial analysis is necessary. An income and expenditure statement needs to be prepared and requires secondary and primary data from the market concerning consumer surveys. The aim of this financial analysis is that the new product should at least break even over a period of time. Obviously, at this stage any forecasts can be based on crude approximate assumptions about likely sales volume, the selling price, distribution costs, and production costs. This is not only difficult but also speculative part of the process, and this stage is particularly difficult for innovative and new-to-the world products.

The evaluation process focuses on answering a number of questions such as: Does the product fit in with the company's existing product mix? Is the demand likely to be strong and enduring enough to justify its introduction in the market? What kind of change with regard to environment and competition can be anticipated and what is likely to be the impact on product's future sales, costs, and profits? Are the R&D, engineering, and manufacturing capabilities of the company adequate? In case there is need to construct new facilities, how quickly can they be built and what would be the costs involved? Is the finance available or can it be obtained consistent with a favourable ROI?

Accurate sales forecasting at this stage is difficult. Companies use break-even analysis to assess how many units must be sold to customers before any profits start. They also sometimes use payback analysis to determine the time to recover investments. Companies often use sensitivity analysis to assess the impact on overall profitability of changes in underlying assumptions.

Product Development

This stage refers to when the new product concept moves to test stage. The company determines the technical feasibility to produce it at costs low enough to sell it at reasonable price. If the answer is negative, the costs incurred so far are lost and the company may gain perhaps some useful information. This phase involves substantial increase in the investment of resources. The product concept is converted into a prototype/working model to evaluate its acceptability. The prototype development may take anything between a few days to even years in some rare cases. Advanced modern virtual-reality technology greatly helps to speed up the development process.

A critical decision at this stage is how much quality to build into the product. Higher quality often requires better quality materials and expensive processing. This adds to product costs and consequently its selling price. It is necessary to ascertain target customers' views on acceptable price range of the product. In this regard, the quality of existing competing brands should also be considered. Product development is expensive and only few products concepts reach development stage.

The prototype should reveal its tangible and intangible attributes that consumers might associate with it to meet their needs and wants. Marketing research and concept testing reveals product attributes that are important from a consumer's point of view. The product design should be such that it must communicate these characteristics.

Laboratory and field tests are conducted for the product's performance, convenience, safety, and other functional characteristics. Testing consumer responses to intangible elements of a new product is difficult. This is particularly an issue when developing new services. The product should be subjected to rigorous and lengthy enough testing for verifying its functional attributes. The term alpha testing refers to conducting laboratory tests, and beta testing means that a sample of customers use the product prototype and give their feedback. Many computer companies offer customers to download a new or modified software for testing that remains functional for a limited period of time. Apple computer subjects its PowerBook to many rigorous tests and one such test involves heating the computer notebook in ovens to 140 degrees. 200 Gillette employees test company products such as razors, blades, shaving creams, or aftershave under instructions of technicians every day and afterwards fill out a questionnaire.

If the product qualifies as sufficiently successful and considered eligible for test marketing, then marketers make decisions about branding, packaging, labelling, pricing, and promotion during test marketing.

Test Marketing

Test marketing is essentially a limited introduction in some carefully selected geographic area that is viewed as representing the intended market. Test marketing is a sample launching of the entire marketing mix. The aim is to assess how large is the market and determine the reactions of consumers and resellers in an authentic setting. Most companies use test marketing basically to lessen the risk of product failure. Test marketing can furnish valuable information about buyers, dealers, and effectiveness of promotional efforts.

Test marketing is a fairly time-consuming process and has to be conducted for a sufficiently long period to collect reliable information. The period of testing may be anywhere between a few months to one year. Much depends on the company's investment level and risk perceptions as well as time pressures. Designing the programme for test marketing involves making a number of decisions:

- Where and in how many markets should the test marketing be carried out? Markets should be representative of target markets. Marketers generally consider two to six markets in which to conduct test marketing.
- What should be the duration of test marketing? Much would depend on the nature of the product. For example, in case of consumer non-durables, average repurchase period should be considered.
- What to test? Marketers are interested in information that concerns consumer response to promotion, trial rate, usage, satisfaction level, repurchase, and reseller reactions.
- What criteria should be used to determine success or otherwise? The decisions would concern trial rate, repurchase rate, adoption, and frequency of purchase.

Companies use various testing methods. Some of the more popular ones are:

1. *Sales-Wave:* Consumers are offered free samples for trial and they may also be exposed to one or more ads. Subsequently, they are offered the product at a reduced price. The product may be re-offered three to five times. The number of consumers who select the product again, and their satisfaction level, is recorded.

2. *Controlled Test Marketing:* An independent research providing company is hired and it is asked to test the product by placing the product in a geographic area and in the specified number of stores. The research firm decides the product's price, promotion and store displays, etc. Finally, electronic scanner data is collected at the check out point. The research firm also interviews a sample of customers to learn their responses.
3. *Simulated Test Marketing:* A sample of thirty or more customers is interviewed to determine their familiarity and brand preference in a particular product category. This sample is then shown a mixed bundle of commercials or print ads of company's test-product as well as competing brands. Consumers are then given a small amount of money and invited in a store to buy any item. The researcher notes how many of these consumers buy the test-brand and competing brands. This points out the advertisement's relative effectiveness against competing ads of other brands. Subsequently, consumers are interviewed to learn their reasons for buying or not buying the company's product. A free sample of company's product is given to consumers who did not buy the test-product and some weeks later are interviewed on telephone to learn their responses concerning satisfaction and purchase intentions. This is a good method to evaluate the effectiveness of ads and trial rate of the company's product.
4. *Test Market:* The company test-marketing the new product selects a few cities representing target markets, employs all final national launch promotional tools, including advertising and sales promotion, etc., and also employs sales force to motivate resellers to keep the product. It is like a mini national launch, and is quite expensive.

Commercialisation

The decision to commercialise involves the largest costs to a company. Quite often, a new product replaces an old one that may still have a customer base and mistakes can occur. This is what happened when Coca-Cola replaced its existing Coke with a new formulation. There was error in interpreting the results of marketing research and ultimately the company had to reintroduce the earlier version as 'Classic' Coke.

After reviewing the results of test marketing, it is determined if any changes in the marketing mix are needed before its full-scale introduction. Cyndee Miller reports that only 8 per cent of new-product projects reach the commercialisation stage. During this stage, the plans for full-fledged production and marketing must be refined and set, and budgets for the new product must be prepared. The size of manufacturing facility would be a critical decision. Marketing is another area of major consideration. To launch packaged consumer products nationwide, the company needs huge resources to undertake advertising and promotion for at least one year. Timing of market entry of a new product is also important. Microsoft spent more than $200 million on its media advertising campaign when it introduced Windows 95.

Companies generally do not launch new products overnight, but adopt the rollout method. They introduce the product in stages. It is first introduced in a region (it could be a country for global players) and subsequently in adjoining areas, states, or countries. Cities where test marketing has been conducted are sometimes chosen as the initial marketing area as a natural extension of test marketing. The major factor that may favour this approach is if the product fails, the company will suffer smaller losses. Also, if the company does not already have a wide network in place, it would take considerable time to set up a distribution network.

New Product Adoption Process

New product introductions and their adoption, particularly in case of new-to-the-world products often takes a very long time. Customers are sometimes suspicious, even sceptical about adopting new products.

New-to-the-world products bring about changes in consumers' use or consumption patterns. For example, a comparatively recent innovation is Internet shopping, which has altered the way we buy certain types of products. Other innovations may radically change the way we use products or services. For example, microwave ovens have changed the way food is cooked and e-mail, voice mail, and cellular phones have changed the way we communicate.

The diffusion process identifies innovators in the introductory phase of a product's life cycle; there are early adopters during growth period, the early majority and late majority adopt the product in its maturity period and laggards (late adopters) are the last to adopt the product. These life cycle phases are important, because they are linked to different marketing strategies during the product life cycle.

During the introductory phase, the marketer's objectives are related to establishing distribution, building brand awareness among members of the target market and encouraging trial to begin the adoption process. As the product gains some acceptance, the marketer can define its early adopters. The company now tries to strengthen its foothold in the market by shifting from the objective of creating brand awareness to one of broadening product appeals and increasing product availability by increasing its distribution.

As the product matures, competition intensity gradually increases and sales begin to level off. The marketer starts emphasising price appeals, starts sales promotions and may consider modifying the product to gain competitive advantage. Majority of the adopters enter the market at this stage largely because of the influence of early adopters. The majority that has already gone through the process of product adoption does not rely much on mass media any more for information. When the product is viewed to have entered its decline phase, lower prices become more relevant and the marketer considers revitalising the product, or adopts the strategy of harvesting or divesting. It is during the decaying maturity and the decline phase of the product life cycle that laggards enter the market.

Table 10.2: Product Lifecycle Phases of Adopter Groups

PLC stages	Introduction	Growth	Maturity		Decline
Adopter groups	Innovators	Early adopters	Early majority	Late majority	Laggards
Percentages	(2.5%)	(13.5%)	(34.0%)	(34.0%)	(16.0%)

Adoption Decision

The adoption of an innovation requires that an individual or a group of consumers decide buying a new product. The diffusion of adoption starts when early adopters influence their reference group members and other acquaintances. Therefore, it is reasonable to view adoption as the first step in the process of a product's widespread acceptance in the target market.

The adoption of an innovation is likely to be a reasonably involving decision for most of those who are among the first to buy the product and can be represented by a hierarchy-of-effects model. Thus, the adoption process is basically a term used to describe extended decision-making by consumers when a new product, service, or idea is involved. For example, the decision to buy a DVD writer or have laser eye surgery will most likely be a high-involvement decision. Most modified or upgraded new products probably trigger limited decision-making. In case of low-cost, low-risk new products, consumers' involvement level is likely to be low.

The process shows that the consumer becomes aware and recognises the need for the product. In the next step, to acquire knowledge about the product, the consumer gets involved in information search. The third step is brand evaluation. Next is trial of the product before making a purchase decision and finally, the consumer decides whether to adopt the product or not. As a consequence of using the product, the consumer makes post purchase evaluation. In this process of adoption, product trial is more important than in most other decisions because the perceived risks are likely to be much higher with the use of a new product. Certain types of products or services are difficult, or even impossible to try on a sufficient basis such an electric cars or laser eye surgery.

Post purchase evaluation is likely to have important implications because of the expenses involved or the complexity of many products and the rapid changes in technology. For example, if many adopters had discontinued the use of personal computers after their first purchase as a result of unfavourable post purchase evaluation, the market for PCs would be shrinking instead of expanding rapidly. As a result of favourable evaluation, many of the PC adopters have either upgraded their old machines or discarded their original machines and bought third or fourth generation computers.

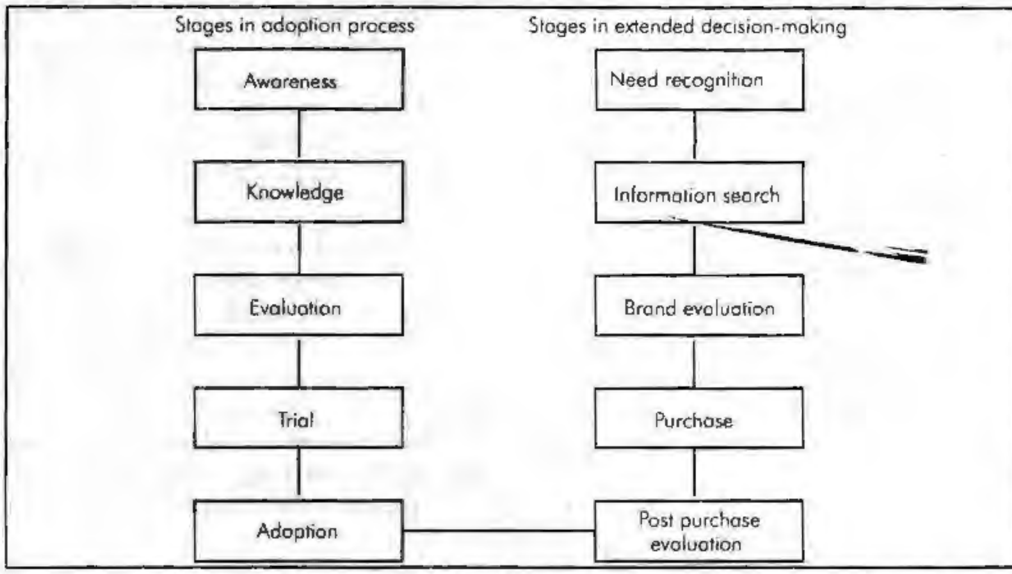

Figure 10.1: Adoption Process and Extended Decision- making

The outcome of consumers' decision process can be adoption or rejection of the product.

Factors Affecting New Product Adoption Rate

The chances of a product's adoption and subsequent diffusion are largely dependent on its nature. The rate at which the diffusion of an innovation takes place is a function of the following 10 factors:

1. ***Type of Target Group:*** The target market for the new product is an important factor in influencing the rate of adoption. Some groups are more inclined to accept change than others. In general, affluent, young and highly educated groups tend to try and accept new products readily.

2. ***Number of People Involved in Decision-Making:*** This refers to whether the decision is made by an individual or a group. If fewer individuals are involved in making the purchase decision, the adoption is likely to spread more rapidly. When two or more family members are involved in making the purchase decision, the adoption rate will be slower than purchases that primarily affect one individual.

3. ***Extent of Marketing Efforts Involved:*** The rate of adoption is very significantly influenced by the extent of marketing efforts undertaken. No matter how wonderful a new product, unless sufficient numbers are informed and convinced of what it can do for them, the adoption process would be adversely affected. Thus, the rate of new product adoption is not completely beyond the control of the marketer.

4. ***Need Fulfilment:*** The more involving and obvious the need that the new product satisfies, the faster the rate of adoption. The rate of adoption of antidandruff shampoos has been fast as they gained rapid trial among those who were uncomfortable with dandruff. Sildenafil Citrate (Viagra), the male impotency drug gained rapid trial and its adoption rate has been very fast. Rogaine, believed to be a cure for certain types of hair loss or baldness, gained rapid trial among those who felt uncomfortable with their hair loss problem.

5. ***Compatibility:*** This refers to the degree to which the new product is consistent with the individual's and group's needs, attitudes, beliefs and past experiences. The more its consistency, the faster its adoption rate. Microwave ovens were introduced about three decades back in India but since it was not compatible with Indian family values, its adoption rate has been rather slow. Internet banking or shopping is not consistent with established habits of most Indian consumers, resulting in very slow adoption rate of this innovation.

6. ***Relative Advantage:*** If consumers perceive a new product as better in meeting their relevant need compared to existing ones, the adoption rate will be more rapid. While considering the relative product advantage, consumers consider both the cost and the performance. To be successful, a new product must have either the performance or the cost advantage over existing alternatives. For example, newer versions of computer processors have performance advantage over earlier ones and hence their adoption rate has been rapid.

7. ***Complexity:*** If a new product is difficult to understand and also difficult to use, its adoption rate would be slower. Product simplicity and ease of use are important factors in speeding up the process of adoption. Computer manufacturers such as IBM and Apple have tried to overcome the initial complexity of using personal computers by communicating with consumers that their computers are user-friendly.

8. ***Observability:*** This refers to the ease with which consumers can observe the positive effects of adopting a new product. The rate of adoption will be more rapid if the positive effects are easily observable. Products such as cellular phones, fashion items, and autos are highly visible.

9. ***Triability:*** It is the degree to which a product can be tried before adoption. This is much less a problem with low-cost or low-risk items such as cold remedies, but cellular phones, fax machines, computers, etc., can be demonstrated in actual use and tried on a limited scale. If consumers can purchase a product in small quantity, then trial is relatively easy and the rate of adoption is rapid.

10. ***Perceived Risk:*** The more risk associated with trying a new product, slower the rate of adoption. The risk in adopting a new product can be financial, physical, performance, or social. For example, when microwave ovens were introduced, consumers expressed worries about physical risk from radiation. Technological improvements and consumer education overcame this perceived risk. Initially, adopters of personal computers perceived economic and performance risks which have been largely overcome by decreasing prices and improved software. In case of fashion items, consumers feel social risk until opinion leaders in consumers' peer group adopt them. The most effective way to reduce perceived risks in adopting a new product is through trial. Free samples are an effective tool in case of consumer non-durables — low cost items such as detergents, toothpaste, etc. Sony offered trial of its high-priced innovation ProMavica electronic photography system. It distributed 150 prototypes to large newspaper and magazine publishers. This allowed publishers to try and experience the product and encouraged its rate of adoption.

Time Factor and Diffusion Process

Time is an important component of new product diffusion and concerns the time of adoption of a new product by consumers considering whether consumers are earlier or later adopters and the rate of diffusion, that is, the speed and extent with which individuals and groups adopt the new product.

Time of Adoption: Everett M Rogers examined more than 500 studies on the rate of new product adoption and concluded that there are five categories of adopters classified by time of adoption:

1. Innovators.
2. Early Adopters.
3. The Early Majority.
4. The Late Majority.
5. Laggards.

Innovators

Innovators constitute, on an average the first 2.5 per cent of all those consumers who adopt the new product and are technology enthusiasts. They seem to have an eagerness bordering almost an obsession to try new products and ideas. They are venturesome risk takers, willing to live with bugs and deficiencies. According to Thomas E. Weber, innovators represented the primary market for the WebTV developed and marketed in 1996. By the end of that year's holiday season, only about 30,000 to 100,000 of the 97 million households with TVs had purchased WebTV. Innovators tend to be younger, better educated, have higher incomes, are cosmopolitan and active outside of their community as compared to non-innovators. They also tend to be less reliant on group norms, use other innovators rather than local peers as a reference group, are more self-confident and make more extensive use of commercial media, sales personnel and professional sources in learning of new products.

Early Adopters

Early adopters tend to be opinion leaders in local reference groups and represent, on an average the next 13. 5 per cent who adopt the new product. They admire a technologically new product not so much for its features as for its ability to create a revolutionary breakthrough in the way things are normally accomplished. Though they are not among the earliest individuals to adopt the product, yet they adopt the product in the early stage of its life cycle. They are successful, well educated and somewhat younger than their peers. They tend to be more reliant on group norms and values than innovators and are also more oriented to the local community rather than having a cosmopolitan look. They are willing to take a calculated risk on an innovation but are concerned with failure. Early adopters also use commercial, professional and interpersonal information sources. Since they tend to be opinion leaders, they are likely to transmit word-of-mouth influence and, due to this reason, they are probably the most important group in determining the success or otherwise of the new product.

Early Majority

The early majority tend to be deliberate and cautious with respect to innovations and represent 34.0 per cent. They look for new products that offer incremental, predictable improvements of an existing technology. They adopt innovations earlier than most of their social group but only after the innovation is viewed as being successful with others. They tend to collect more information and evaluate more brands than is the case with early adopters and, therefore, the process of adoption takes longer. They tend to be price sensitive and like to see competitors enter the market. They are socially active, somewhat older, less well educated and less socially mobile than early adopters and are seldom leaders. They rely heavily on interpersonal sources of information and are an important link in the process of diffusing new ideas because of their position between earlier and later adopters.

Late Majority

The late majority (34.0 per cent) are somewhat sceptical about innovative products. They are conservative, wary of progress, rely on tradition and generally adopt innovations in response to group norms and social pressure, or due to decreased availability of the previous product rather than positive evaluation of the innovation. They tend to be older, with below average income and education and have less social status and mobility than those who adopt earlier. In many developing countries, consumers who are just now learning to use the Internet are late majority consumers. They tend to place high value on bundled products that include everything they need to connect to the Internet.

Laggards

Laggards represent the last 16.0 per cent of adopters. Like innovators, they are the least inclined to rely on the group's norms. Laggards are tradition bound, tend to be dogmatic and make decisions in terms of the past. By the time they adopt an innovation, it is old and has been superseded by something else. They tend to be suspicious of new products and alienated from a technologically progressing society and adopt innovations with reluctance. In the personal computer market, consumers who can afford and have yet to buy a PC are likely to be regarded as laggards.

Student Activity

1. Define test market.
2. Define commercialisation.

Summary

Successful new product development requires a company to establish an effective set up for new product development. Companies organise for new product development on the lines of product managers, new product managers, new product committees, new product departments, or new product development venture teams.

New product development involves seven stages: idea generation involves searching for new product ideas; idea screening refers to selecting the potential ideas, concept testing is presenting product concepts and product benefits to target customers to assess their responses to identify and eliminate poor product concepts, business analysis step assesses the new product's profit potential and compatibility with markets, test marketing involves testing the product in some types of settings to evaluate consumer responses towards the product and the marketing programme, and commercialisation is full-fledged product launch in the market. Use of modern virtual reality technology may be of help to shorten the duration involved in new product development.

The adoption process refers to the decision process through which consumers adopt a new product. Diffusion is the manner in which innovations spread over time to other consumers through communications across a market. Innovators adopt the product in its introductory phase of life cycle; early adopters during growth phase, early and late majority during its maturity period, and laggards are the last to adopt the product. These life cycle phases are important because they are linked to different marketing strategies during the product life cycle.

Keywords

Idea Screening: The aim of screening is to reject the poor ideas as early as possible because the costs of new product development keep rising sharply with each successive development phase.

Concept testing: Concept testing of a new product idea refers to a more detailed version of the idea.

Sales-Wave: Consumers are offered free samples for trial and they may also be exposed to one or more ads.

Controlled Test Marketing: An independent research providing company is hired and it is asked to test the product by placing the product in a geographic area and in the specified number of stores.

Adopters and Non-adopters: Whatever has been discussed so far is based on Everett M Rogers' classification dealing only with adopter categories.

Rate of Diffusion: Rate of diffusion of a new product refers to the cumulative level of adoption of an innovation over time among groups.

Low-context cultures: Low-context cultures are those that rely primarily on verbal and written communication in transmitting meaning.

Review Questions

1. What is the significance of innovations for the society?
2. If developing new products is risky, why do companies bother to spend huge sums of money in this effort?
3. Define a new product. Give example of three products you consider as new.
4. What steps would you recommend for generating new product ideas for a car manufacturer?
5. Evaluate different methods companies use to conduct test marketing.
6. Why do companies conduct test marketing when the product concept has already shown promising potential?
7. Discuss the adoption process of an innovation.
8. What is the role of communications in the product adoption process?
9. What are the personality characteristics of early adopters?
10. Discuss the characteristics of different types of innovators.

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Unit 11 Product Life Cycle

Unit Structure

- Introduction
- Product Life Cycle-Shapes
- Whether to be a Pioneer or Follower?
- Introduction Stage
- Growth Stage
- Maturity Stage
- Decline Stage
- Implications and Limitations of Product Life Cycle Concept
- Summary
- Keywords
- Review Questions
- Further Readings

Learning Objectives

At the conclusion of this unit, you should be able to:

- Identify different stages through which most products pass during its existence
- Realise market behaviour towards the product and accordingly sales volumes increase or fall
- State the different strategic options for each stage of a product's life cycle
- Explain implications of the product life cycle concept

Introduction

There is general agreement that products have life cycle much the same way as living organisms do. This concept of life cycle applies to product category, sub-category, and brands in the sub-category. For example, computer represents a product category; desktop, and laptop represent product sub-category, and Apple PowerBook, and Sony Vaio are brands in the sub-category. A product is introduced among consumers, and if consumers perceive it as meeting their needs and want, it experiences a period of growth. Subsequently, it reaches the stage of maturity and when it loses its appeal, its decline starts and eventually is may be taken off the market (demise). The classical product life cycle curves are depicted as "S" shaped and generally divided in four stages: Introduction, growth, maturity, and decline. Some authors distinguish more than four stages. For instance, Chester W. Wasson views an additional stage of competitive turbulence or shakeout at the end of growth period and just before the start of maturity phase. During this competitive turbulence, the growth rate starts declining and leads to strong price competition. This may force some companies to exit the industry or sell out.

Product Life Cycle-Shapes

Products go through different life cycle patterns. There are several shapes that can be observed in practice. The shapes commonly reported are classical bell shaped curve, growth-slump-maturity pattern, cycle-recycle pattern, scalloped pattern; style, fashion and fad. Growth-slump maturity pattern, exhibits an initial growth for the product, followed by a decline in sales and subsequent stability for fairly long time. Growth-slump-maturity pattern displays a multi-modal shape due to the different promotional mechanisms adopted by the marketers' at different points of time. Style pattern of product life cycle conceptualizes sales in cyclical order where growth-saturation-slump-re-growth-saturation and decline happens over a period of time. The fashion cycles are slow growth, saturation and decline pattern whereas a fad has in instant pick and sharp fall. The latter creates a high level demand in short term but as the customers complete the trial process, they don't go for adoption and fall comes sharper than a style curve.

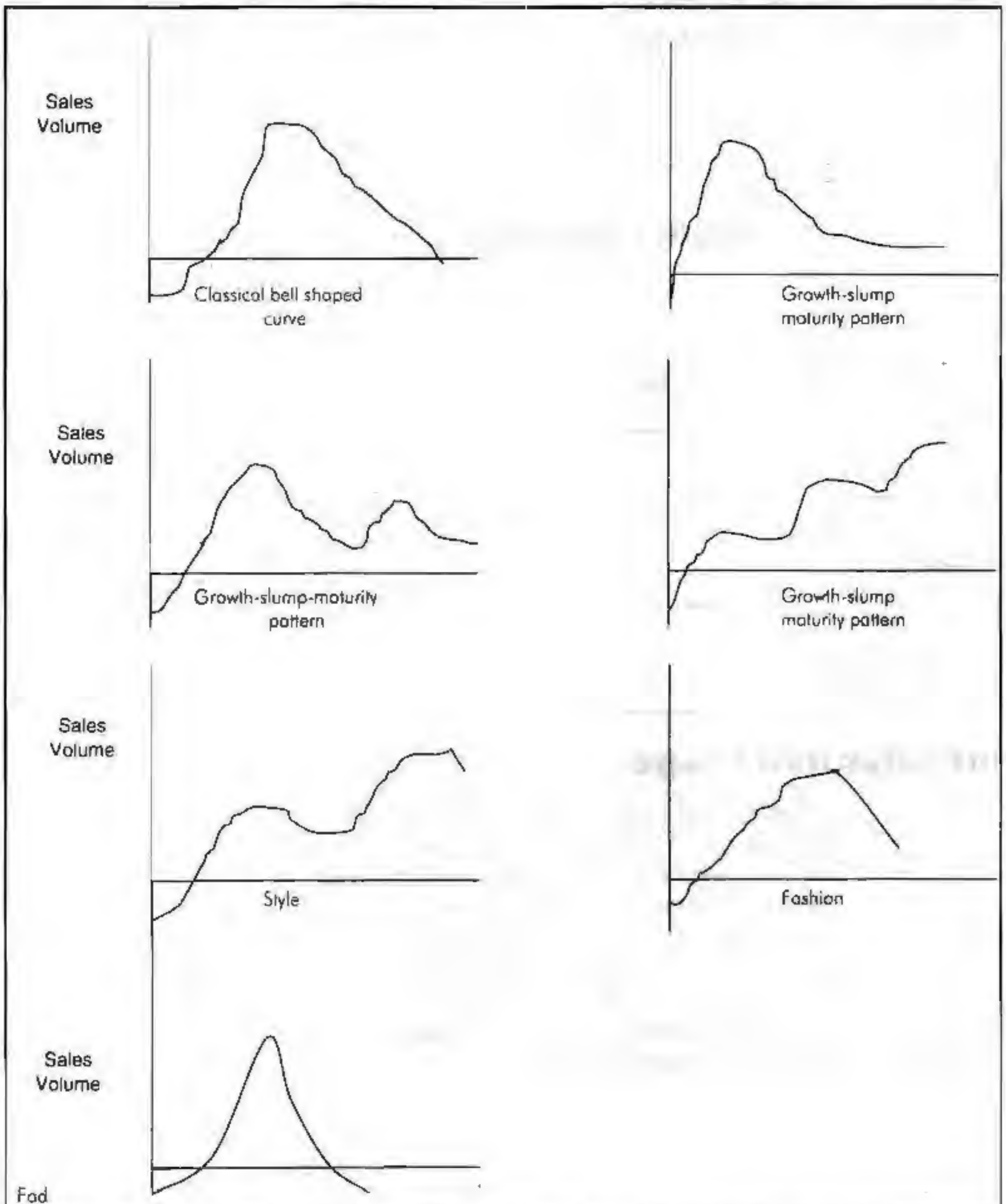

Figure 11.1: Product Life Cycle-shapes

Whether to be a Pioneer or Follower?

The question whether to be a pioneer or a follower often confronts companies. Being a pioneer can be highly rewarding, but entails high risks and expenditures. Entering the market as a follower can also turn out to be advantageous if a company can bring in superior technology, and higher quality.

Many research reports support the view that being a pioneer or "first-mover" offers several key advantages. A study conducted by Gregory S. Carpenter and Kent Nakamoto found that 19 out of 25 firms who were leaders in 1923 stayed as leaders even after 60 years.

There are also examples of successful followers, such as Microsoft who was not a pioneer with products like Word, Excel, and Powerpoint. Lotus 1, 2, 3 was the leading spreadsheet software, WordPerfect and other programmes led the word processing category, and Apple's Macintosh was the first affordable PC introduced and customers bought it with great zeal. However, today Microsoft is the leader because it developed and offered improved products with better performance. Microsoft also had superior financial resources and promoted its products aggressively. Lotus faced financial difficulties and IBM acquired it. Apple made some marketing blunders and had to choose being a niche marker in PCs. Many still view Apple operating system as superior than Microsoft Windows.

Table 11.1: Pioneer and Follower Advantages

Pioneer	Follower
First choice of market segments.	Can bring in superior technology.
Influence on consumer attitudes and choice criteria.	Can take advantage of pioneer's product mistakes.
Pioneer defines the rules of the game.	Ability to take advantage of pioneer's positioning mistakes.
Switching costs higher for early adopters of pioneer's product.	Ability to take advantage of pioneer's marketing mistakes
Gaining distribution advantage.	Can take advantage of pioneer's resources limitations.
Economies of scale and more experience.	
Possibility of pre-empting scarce resources and suppliers.	

Introduction Stage

Research or engineering skill leads to new product development. The product is put on the market at the stage of commercialization as mentioned in the previous chapter on New Product Development. The concept of product life cycle starts from the 'commercialization' stage of new product development. At this stage, product awareness and acceptance among prospective customers are minimal. As the sales are low, there are high promotional costs. This is due to the fact that the company has to spend money for advertising, sales promotion and other forms of promotion. The major obstacle to rapid market penetration at this stage is poor distribution strategy. Many retailers will not support a new product launch and will wait till they hear well about the brand. Many companies prefer regional roll outs in which the new product is introduced market-by-market, region-by-region. This system of new product introduction often brings physical distribution and logistics problems to the forefront.

The consumer acceptance of a new product is also low as very few customers are ready to accept the new product. As explained in the diffusion process, only innovative customers buy the product. The newer the product, the more the marketer needs to spend in terms of financial resources and efforts to create demand for the product. Length of the introductory stage will depend on the complexity involved in the product, its degree of newness, its fit into the existing customer need structure, the presence of competitive products, either as perfect or imperfect substitutes and the nature, magnitude and effectiveness of the introductory marketing expenditure.

It is assumed at this stage that the product does not have a perfect competitor. The competition will be in the form of imperfect substitutes available in the market and by the availability of existing products. In many instances two firms working on a similar technological platform may also launch competing products at the same time. So mapping competition at one point of time may not give much help to the new product marketer as competition may emerge from new products launched at the same time. Alternatively, a company observes the test marketing results of its competitor and may launch the competing products at the same time when the test marketing company is finalizing its launch. When two or more firms launch a product at the same time, then the introductory stage is likely to be shorter.

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 operation 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.

Growth Stage

The product begins to make rapid sales gains because of the cumulative effects of introductory promotion, distribution and word-of-mouth influence. High and sharply rising profits are witnessed at this stage. However, for sustained growth, consumer satisfaction must be ensured at this stage. This stage begins when demand grows rapidly. In the case of repeat buying situation, the innovators move from trial purchase to adoption stage. If the innovators are satisfied with the products, they influence other buyers through word of mouth and referral communication. Deeper penetration in market by intensive distribution strategy and increase in store visibility and usage tend to bring new buyers in the market. The competitors also start their advertising and sales promotion making the total category demand to increase in the market. Growth stage also contributes in increasing profit levels.

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 trade-off 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.

Maturity Stage

Most products after surviving competitive battles, winning customer confidence and successful through growth phase enter their maturity stage. The sales plateau, and this flattening of sales usually lasts for some time because most products in the category have reached their maturity stage, and there is stability in terms of demand, technology, and competition. Sales slow down, competition is intense; price and promotional wars erupt, and profits decline. The demand for the category is at its highest during maturity. Strong market leaders manage to gain high profits and large positive cash flows because they have the advantage of lower-cost and have no need to expand their facilities. In general, if the maturity stage is protracted, a company cannot ignore the possibility of changes in the market-place, the product, the distribution, production processes, and the nature and structure of competition.

Marketing Mix Changes During Maturity Stage

Different brands in the product category tend to be more similar due to technical maturity. Companies use every trick available either to increase users or rate of usage or both, to gain volumes. Some companies try to carve out a niche in a market segment and become a niche specialist and earn high profits. Attempts to modify product gain more importance and only a major breakthrough in R&D or engineering can help in differentiating the product, or reducing product costs can have significant payout. One option is to add value that benefits the consumer to make it easier to use the product. For example, Radio-Internet connectivity for laptop PCs, or voice-activated dialling for cell phone is convenient for consumers. Firms are increasingly using additional services in an attempt to differentiate the offering. Prices and expenditures on promotion during the maturity stage generally remain stable. However, the promotion emphasis shifts from advertising to various tools of sales promotion such as discounts, coupons, premiums, and store promotions etc. The impact of experience on costs and prices narrows down. Severity of competition to gain market share leadership or defend leadership position forces prices down. For consumer goods companies, distribution and shelf space acquire more importance.

Table 11.2: Product Life Cycle Stages, Characteristics and Standard Responses

Characteristics	Introduction	Growth	Maturity	Decline
Market Growth Rate (₹)	Moderate	High	Insignificant	Negative
Technical Change	High	Moderate	Limited	Limited
In Product Design				
Market Segments	Few	Few to many	Few to many	Few
Competitors	Few	Many	Limited	Few
Profitability	Negative	High	High for Market-share leaders	Low
Company's Standard Responses	Stimulate primary demand	Gain market share	Gain market share	Harvest
Product	Improve quality	Continue quality improvements	Concentrate on features	No change
Product Line	Narrow	Broad	Hold line length	Reduce line length
Price	Skimming or Penetration	Reduce	Hold or reduce	Reduce
Promotion	High	High	High or reduce	Reduce
Distribution	Selective	Intensive	Intensive	Selective

Decline Stage

Decline stage sets in when customer preferences change due to the availability of technologically superior products and consumers' shift in values, beliefs, and tastes to products offering more value. The number of competitors dwindles and generally few product versions are available. Those who stay, may cut their promotional budgets and further reduce their prices. The onset of decline stage may be gradual or fast. There may still be a small residual segment that remain loyal to the product.

Sales take a nosedive, costs increase, and profits are almost non-existent. All these factors create overcapacity. If the industry has low-exit barriers, many companies leave the market. This may increase the sales volume of remaining companies to the extent that their exit may be delayed, and for a short time strong contenders may even prosper.

Marketing Mix Changes During Decline Stage: In this stage if the decline is slow and exit barriers are low, prices tend to remain stable because there are still some enduring profitable segments, customers are fragmented and weak in bargaining power, and there are only few single-product competitors. In case the exit barriers are high and decline is fast and erratic, price-cuts are stiff, there are no enduring segments, only a few large single-product competitors are present, and customers exercise high bargaining power. Consumer goods companies try to persuade distributors to continue keeping the product. Companies consider the options of harvesting or divesting the product.

Implications and Limitations of Product Life Cycle Concept

Product life cycle concept shows a framework to spot the occurrence of opportunities and threats in a product market and the industry. This can help firms to reassess their objectives, strategies, and different elements of marketing programme.

A new product launch requires investment of considerable resource, and most companies have to contend with substantial short-term losses. During the growth stage, sales rise rapidly and competition increases, and large investments are required. The company that captures largest share of the market should have lowest per unit cost because of economies of scale and experience. If the market-share leader reduces the price, it discourages aspiring new entrants and low-share firms. Such low-share firms as well as new entrants have not only to invest to take advantage of market growth but also to increase market share. The "first starter" company is likely to lose some market share during this stage but its sales keep on increasing.

During the maturity phase, companies with larger market share enjoy the rewards of their earlier investments. Product price is sufficient to keep even high-cost companies in business because they do not need investments, as was the case during growth stage. Most competitors are content with the present position and do not trying to increase their market share. Market leader keeps investing to improve product and attain more efficiency in production, marketing, and physical distribution.

The major weakness of product life cycle concept is that it is prescriptive in nature and focuses on strategies based on assumptions about different life cycle stages. Besides, it is difficult to tell what stage the product is in. A product may seem to have reached the maturity stage but it might be a temporary phase before it takes another upsurge. It ignores the fact that market forces drive the PLC reflecting consumer preferences, technology, and competition. Mary Lumpkin and George Day have strong views that greater emphasis on competitive issues and understanding the dynamics of competitive behaviour can help better understand how product-market structures evolve.

Student Activity

1. Define PLC.
2. Define growth stage of life cycle.

Summary

The concept of product life cycle is concerned with the sales history of a product. It portrays the changes in sales and profits over time. Most products generally follow the classical "S" shaped curve when their sales are plotted against time. It is necessary to assess the life cycle of a product category and sub-category while examining the life cycle. Profits maximise before the sales are highest because the intensity of competition increases at the end of growth period and before the start of maturity stage.

Each PLC stage requires different strategic elements. During introduction the sales growth is slow and profits are almost always non-existent because company spends large sums of money on product improvement, promotion, arranging distribution, and enlarging production facilities. The successful product during growth stage shows rapid increase in sales and increasing profits. The competition intensifies, and companies try to capture the largest market share. During the maturity phase sales growth slows down and profits may stabilize or decrease. Weak companies may start leaving the market, and market leader still spends money to remain a leader. The last stage is decline, and the product sales and profits take a nosedive. Companies generally think of harvesting or divesting.

Keywords

Introduction stage: After successful test marketing of a new product, the company introduces the product in the market with full-scale marketing programme.

Skimming Pricing: For this strategic decision to be effective the product awareness is viewed as low, those who are aware or become aware are willing to pay a high price to own the product.

Penetration Pricing: This strategy allows the company to strive for fast market development and the focus is on long-term objectives of market share and profit maximisation.

Maturity Stage: Most products after surviving competitive battles, winning customer confidence and successful through growth phase enter their maturity stage.

Decline stage: Decline stage sets in when customer preferences change due to the availability of technologically superior products and consumers' shift in values, beliefs, and tastes to products offering more value.

Review Questions

1. Describe different stages of product life cycle. Do all product follow this pattern?
2. What is the importance of product life cycle for companies?
3. Suggest marketing strategies for a consumer durable product during its growth, and maturity stages.
4. Identify the stage of life cycle of computer notebooks in India. Give your reasons.
5. What are the advantages of being a pioneer company and a follower company in a product category?
6. How might a company's promotion mix differ during different stages of product life cycle?
7. For what types of products companies might stress life style and fashion in their marketing programme?
8. Identify three products which you think are in their decline stage of life cycle. Why do you think companies are not discontinuing them?
9. Identify one brand that has entered its decline stage. Do you think it is permanent? Can there be some remedy to spark life in it?

10. Name two products and two services that you think are in their introductory stage. What are their chances of success to reach growth stage? Give your reasons.

Further Readings

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Unit 12 Developing Pricing Strategies and Pricing Methods

Unit Structure

- Introduction
- Pricing Concept
- Pricing Objectives
- Factors Affecting Pricing Decisions
- Price Setting Procedure
- Summary
- Keywords
- Review Questions
- Further Readings

Learning Objectives

At the conclusion of this unit, you should be able to:

- State meaning of price in general terms
- Explain the importance of pricing objectives and factors that affect pricing decisions
- Know the kind of information businesses need before setting prices
- Discuss different pricing strategies and price setting methods
- Explain the selection of suitable pricing approaches

Introduction

Price setting is a very critical area in marketing mix decisions of a company. The meaning given to price sometimes creates pricing difficulties. It is the only element that generates revenues for the company, and all others involve only costs. The aim of marketing is to facilitate satisfying exchanges between the marketer and consumers at a profit.

Price represents the value that is exchanged in a marketing transaction. A marketer usually sells a specific combination of need-satisfying product or service, and additional services like warranty or guarantee. Donald Lichtenstein, Nancy M. Ridgeway, and Richard G. Niemeyer say that in most marketing transactions price is very evident, and buyers and sellers are aware of the value that each must part with in order to complete the exchange. However, price may not always be in monetary terms. Barter is the oldest form of exchange and still used occasionally for a variety of goods between countries. From the earliest times when people learnt to engage in barter to affect exchanges, settlements were based on bargaining. Bargaining is still used in markets in majority of the countries. Certain websites, such as Priceline.com and eBay.com basically use the idea of bargaining between buyer and seller for a variety of products and services.

Pricing Concept

Price is everywhere all around people. For a variety of marketing situations price is expressed in different terms. For example, insurance companies charge a premium, colleges charge a tuition, a lawyer or physician charges a fee, taxis charge a fare, banks charge interest for a loan, taxes are paid for government services, a toll is charged for some bridges etc.

Pricing should never be seen as an isolated component of a company's marketing decision-making. Companies spend large amounts of money on product development, promotion, and distribution and face risks. Price is often the only marketing mix element that can be changed quickly to respond to changes in demand or competitive moves. Developing new products or modification of existing products, any changes in promotional programme, or distribution system involves much time and efforts. As mentioned above, price is the only element directly related to total revenue generation. A miscalculation of selling prices in high turnover and low profit margin in businesses can have a large impact on a company's profits. The following equation is significantly important for the entire company:

$$\text{Profits} = (\text{Prices} \times \text{Quantities Sold}) - \text{Total Costs}$$

Thus, prices have impact on a company's profits and are important for its long-term survival. Price also has a psycholngical impact on customers and can reflect product quality and user status. This is especially true for ego intensive products. A company can highlight the product quality and user status by keeping the price high.

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 on which to base expectations of how much consumers are prepared to pay for the product.

Price Competition

There is tremendous price competition in free market economies all around the world. A company can use price to compete by changing its prices or by reacting to price changes by competitors. This influences decisions concerning other marketing mix variables. Typically, price-based competition occurs when consumers cannot readily differentiate between competitive offerings. In this situation companies use price as a tool to differentiate its products from competitors' products to beat or match prices set by competitors. To adopt this competitive approach, a company should be low-cost producer. In case all competitors charge the same price, then the company producing at the lowest-cost would be most profitable. Companies adopting price-based competition tend to market standardised products and are generally adept at frequently adjusting prices or quite willing to do so.

Non-price Competition

Non-price competition focuses on other than price factors of a product such as distinctive product features, quality, service, packaging, and promotion to make it meaningfully differentiated from competing brands. The company attempts to add more value to its brand to push sales rather than changing its price. It is important that consumers must be able to perceive these distinctions and view them as important. When we go to buy an otherwise ordinary product toothbrush, we find significant differences in prices ranging between ₹ 5 to ₹ 38. Major companies differentiate their brands on the basis of bristle-head flexibility and tiny shock absorbers to benefit teeth and gums. This approach is more appropriate when customers primarily do not buy a product only for price reasons such as those products, the customers consider a commodity. When the customers prefer a brand because of its features, quality, or service, they are less likely to shift to competing brands and sales are less dependent on price. Despite this, a company cannot completely ignore prices of competitive products. Price is an important marketing mix element even when market environment and product nature favours non-price competition.

Pricing Objectives

Pricing objectives focus on what a company wants to achieve through establishing prices. These objectives should be clear, concise, and understood by all involved in pricing decisions.

Survival

This is the broadest and most fundamental pricing objective of any company because staying in business is important under difficult conditions such as overcapacity, intense cut-throat competition, and changing consumer's wants and preferences. Most firms will tolerate difficulties but only as long as prices cover variable costs and even a small part of fixed costs, they can stay in business and devise methods of adding value.

Profit

Many companies set profit maximisation as their pricing objective. Profit maximisation is likely to be more beneficial over the long-run. The firm, however, may have to accept modest profits or sometimes even losses over the short-term. The major problem with maximisation objective is that it is difficult to measure whether profit maximisation has been accomplished. It is almost impossible to establish what could be the maximum possible profit. Because of this difficulty, maximisation objective is rarely set and companies settle down to a profit figure or some percentage change over previous period that its decision- makers view as optimum profit.

Return on Investment (ROI)

ROI is also a profit objective and aims at achieving some specified rate of return on company's investment. Large companies such as Tata or Reliance are in a better position to set pricing objectives in terms of ROI. They may decide to establish pricing objectives usually independent of competition than do smaller companies. Return on investment pricing objectives are set by trial and error because all relevant cost and revenue data are not available to project the ROI at the time of price setting. ROI pricing objectives do not take into account competitive prices and consumers' perceptions of price.

Table 12.1: Pricing Objectives and Typical Company Actions

Objectives	Typical Actions
Survival	Price adjustment to enable company to increase sales volume to meet company expenses.
Profit	Determine price and cost levels that permit company to realise maximum profits.
Return on Investment	Determine price levels that allow company to yield targeted Return on Investment.
Market Share	Adjust prices to maintain or increase sales volume relative to competitors.
Product Quality	Company sets prices to recover R&D expenditures and high product quality. Establish high-quality image.

Market Share

A large number of companies establish their pricing objectives in terms of market share they want to capture of the total industry sales. The objectives can be to maintain existing market share or increase in percentage terms. Companies want to maximise market share believing that a higher sales volume will consequently bring down unit cost and lead to higher profits in the long-run. The prices are set at the lowest possible level to generate higher sales and larger market share. As the unit costs dip, prices are further reduced. Intel follows a different approach. When it develops a faster better processor, it keeps the prices high aiming to skim the market. Subsequently, with decreasing unit costs it keeps lowering its prices at intervals to capture the largest market share. Both market share and product quality influence a firm's profitability. Because of this reason, companies often state their pricing objectives primarily in terms of market share. Maintaining or increasing market share may not necessarily be dependent on growth in industry sales.

Product Quality

A company might have the objective to be a product quality leader in the industry. Consumers directly relate price to quality, particularly in case of products that are ego intensive of technology based. Such companies consistently strive and maintain high quality and accordingly set higher prices to cover quality and high cost of research and development. Caterpillar, Nikon, and Canon products set prices high to reflect quality.

Factors Affecting Pricing Decisions

A number of different internal and external factors affect pricing decisions and this may pose some complexity. In general, there is uncertainty about how consumers, competitors, resellers etc. would react to prices. Price considerations are important in market planning, analysis, marketing mix variables, demand forecasting, competitive structure, costs, and government actions. To illustrate the point, let us just look at one factor, the competitive market structure and what kind of affect this single factor can have on pricing decisions. However, it is necessary to appreciate that all internal and external factors interact to influence pricing decisions.

Competitive Structure

The market conditions vary considerably and market structure affects not only the pricing decisions within a company but also the kind of likely response from other players in the same industry. Much depends on the number of buyers and sellers operating in a market and the extent of entry and exit barriers. These factors affect a company's level of flexibility in setting prices.

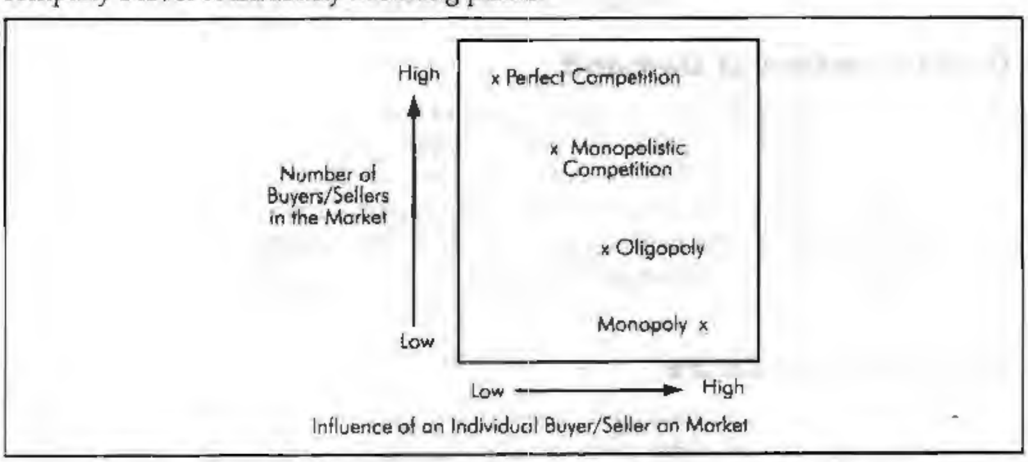

Figure 12.1: Number of Buyers/Sellers and their Influence on Market

A non-regulated monopoly can set prices at any level it determines to be appropriate. However, in case of regulated monopoly there is less pricing flexibility and the company can set prices that generate a reasonable profit. In case of oligopoly, there are few sellers and market entry barriers are high, such as auto industry, computer processor industry, mainframe-computer, and steel industry etc. If an industry member company raises its price, it hopes others will do the same. A similar response is likely to result when a company reduces its price in an attempt to increase its market share, other companies too follow suit and the initiator company gains no appreciable advantage. Monopolistic competition market structure means numerous sellers with differentiated offerings in terms of tangible and intangible attributes, and brand image. This allows a company to set different price than its competitors. In most successful cases, the nature of competition is likely to be based on non-price factors. Under perfect competition there are very large number of sellers and buyers perceiving all products in a category as the same. All sellers set their prices at going market price as buyers are unwilling to pay more than the going market price. Sellers have no flexibility in price setting.

Price Setting Procedure

The steps involved in price setting include:

(1) Development of Pricing Objectives

(2) Determination of Demand

(3) Estimation of Costs

(4) Examining Competitors' Costs, Prices, and Offers

(5) Selecting a Pricing Strategy

(6) Selection of Pricing Method

(7) Final Price Decision.

Development of Pricing Objectives

In the beginning of this lesson various pricing objectives have been looked at. 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.

Determination of Demand

Where cost factors are internal in nature, demand based factors are external factors and emerge out of marketing factors. 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.

Estimation of Costs

Over the long-run, prices must exceed average unit costs to earn a profit. Cost set the lower limits of price. The reality of free market economy is such that customers now pass up certain brand names in case they pay less without sacrificing quality. The purpose of price setting for a company is to set a price to cover costs involved in a product's production, selling, and distribution and some desired level of profit for its efforts and risks. A product's costs set the lowest point below which a company would not set price and demand sets a ceiling on the price.

1. ***Fixed costs*** do not vary with changes in the number of units produced or sales revenues. The cost of hiring a production facility does not change if a company

switches from one shift to two shifts in 24 hours, or because the company sells its total increased produced quantity. Average fixed cost is calculated by dividing the fixed costs by the total number of units produced.

2. *Variable costs*, as the name suggests, vary directly with the level of product quantities produced or sold. Such as, the extra costs that occur because of wages for a second shift, the costs of more raw materials, and electricity etc. to produce more quantities represent variable costs. Variable costs are usually constant per unit. The average variable cost per unit produced is calculated by dividing the total variable costs by the number of units produced. The average variable cost is typically relatively high at the start but gradually declines as a company achieves efficiencies in production and purchasing. The average variable cost again rises at some point in time as company hires more workers and purchases more materials to produce more units.

   Total cost is the sum of total fixed cost and total variable cost. Average total cost is the sum of average fixed cost and average variable cost. The average total cost can be determined by dividing the total cost by the number of units produced.

3. *Marginal cost* refers to the additional cost that a company incurs for producing one additional unit of a product. As the number of product units produced increases, the average fixed cost falls. The average variable cost and average total cost fall till it reaches a specific point with increased production and then increases. As long as the marginal cost remains less than the average total cost, the average total cost decreases. A rise in marginal cost above average total cost also raises the average total cost. A company management must examine average total cost, marginal cost, and other costs before setting the price of a product.

Examining Competitors Costs, Prices and Offers

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 a 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 whether to keep the price higher, or lower than the competitor, or the same.

Selecting a Pricing Strategy

A pricing strategy is a course of action framed to affect and guide price determination decisions. These strategies help realising pricing objectives and answer different aspects of how will price be used as a variable in the marketing mix, such as new product introductions, competitive situations, government pricing regulations, economic conditions, or implementation of pricing objectives. 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 companies adopt for accomplishing pricing objectives. Some of the important ones and often used are discussed here.

1. *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 also considers how quick will be the entry of competition in the market, what would be the strength of entry campaign, and what impact this will have on 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 refers to charging the highest possible price that a sufficient number of most desirous customers for the product will pay. This approach offers the most flexibility to a pioneer in the product's introduction stage because the demand tends to be inelastic during most of this period due to the absence of competitors. Skimming approach generates much needed cash flows to offset high cost of product development. Most companies, who introduce successful pioneering products, usually adopt price-skimming approach.

   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 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.

2. *Psychological Pricing:* Psychological pricing approach is suitable when consumer purchases are based more on feelings or emotional factors rather than rational, such as love, affection, prestige, and self-image etc. 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, and ready-to-wear garments etc. John C. Groth and Stephen W, McDaniel found that marketers use prestige pricing and consumers associate a higher price with higher quality. Acer and Sony have adopted this type of pricing for their range of Ferrari and Vaio Lifestyle notebook PCs. Apple adopts this method of pricing for its high-end PowerBook laptop computers. This pricing method requires creation of strong brand image through promotion programmes that reinforce the brand's quality and image of total exclusiveness.

3. *Odd-Even Pricing:* Marketers sometimes set their product prices that end with certain numbers. The assumption is that this type of pricing helps sell more of a product. It is supposed that if the price is ₹ 99.95, consumers view it not as ₹ 100 and certain types of consumers 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. Also, supposedly even prices favour exclusive or upscale product image and consumers view the product as a premium quality brand.

4. *Promotional Pricing:* Companies can choose a variety of pricing techniques to motivate consumers to buy early. 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 in a hurry: To illustrate, just three techniques are briefly discussed.

5. *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 increase sales volume and profits. This compensates for the lower margins on loss leader brands. Firms whose brands are chosen as loss leader oppose this approach as the image of their brands gets diluted and consumers resist paying list price to retailers selling the same brands.

6. *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 often used by retailers. Occasionally we come across advertisements that show ₹ 495 crossed (X) and a fresh price written as ₹ 250.

7. *Special Event Pricing:* This involves coordinating price cuts with advertising for seasonal or special situations to attract consumers by offering special reduced prices. 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.

Selection of a Pricing Method

After selection of the pricing strategy or strategies to accomplish the pricing objectives, a company decides about a pricing method. A pricing method is a systematic procedure for setting the prices on a regular basis. The pricing method structures the calculation of actual price of a product based on considerations of demand, costs, and competition.

1. *Cost-based Pricing:* Cost-based pricing methods are fairly common. Price is determined by adding either rupee amount or a percentage to the product's cost to achieve the desired profit margin. Cost-based pricing methods do not take into consideration factors such as supply and demand, or competitors' prices. They are not necessarily related to pricing policies or objectives.

2. *Markup Pricing:* In markup pricing a certain predetermined percentage of product's cost, called markup, is added to the cost of the product to determine the price.

   Let us suppose a watch manufacturer has the following costs and sales forecast:

   Fixed Costs = ₹ 4000,000

   Average Variable Cost Per Unit = ₹ 300

   Forecasted sales = 40,000 units.

   The watch manufacturer's unit cost is given by:

$$\text{Unit Cost} = \text{Average Variable Cost} + \frac{\text{Fixed Cost}}{\text{Unit Sales}} = 300 + \frac{4000{,}000}{40{,}000} = \text{Rs. } 400$$

   If the watch manufacturer aims to earn 20 per cent markup on sales, the markup price is given by:

$$\text{MarkupPrice} = \frac{\text{Unit Cost}}{(1 - \text{Desired Rate of Return})} = \frac{\text{Rs. } 400}{(1 - 0.2)} = \text{Rs. } 500$$

   The watch manufacturer would sell its watches to resellers at ₹ 500 per unit and earn a profit of ₹ 100 on each unit sold. If the resellers want a markup of 20 per cent on their selling price, they would sell for ₹ 625 per unit. Prescription drugs are generally sold at very high markup prices. Manufacturers also use markup prices on speciality items, and seasonal products.

3. ***Target Return Pricing (Cost-Plus):*** Some companies use target-return pricing method and find out the price that would ensure a certain fair rate of return on investment (ROI).

   Supposing the watch manufacturer has invested ₹ 8 million in business and wants a 20 per cent return on investment.

   Then the target-return price can be calculated by:

   $$\text{Target Return Price} = \text{Unit Cost} + \frac{\text{ROI} \times \text{Capital Invested}}{\text{Forecasted Unit Sales}}$$

   $$= \text{Rs. } 400 + \frac{0.2 \times \text{Rs. } 80{,}000{,}000}{20{,}000} = \text{Rs. } 800 \text{ Price Per Unit}$$

   The watch manufacturer will get 20 per cent ROI if the company sells forecasted units. With the help of breakeven analysis, the company can examine different prices and their likely affect on sales volumes and profits. This method ignores considering price elasticity as well as competitors' reactions to prices.

4. ***Competition-based Pricing:*** This approach is also called going rate pricing. Competition-based pricing pushes the costs and revenues as secondary considerations and the main focus is on what are the competitors' prices. This pricing acquires more importance when different competing brands are almost homogeneous and price is the major variable in marketing strategy, such as cement or steel.

   Depending on the level of product differentiation a company can achieve, the company can keep the price higher, lower, or the same as the nearest competitors. This approach may make it necessary to adjust prices frequently. However, this approach can help keep prices stable in the industry.

5. ***Demand-based Pricing:*** Companies using this method mainly consider the level of demand. The price is high when the product demand is strong and low price when the demand is weak. This approach is fairly common with hotels, telephone service companies, and museums etc. The marketer must be in a position to accurately estimate the product amount consumers will demand at different price levels. Demand based pricing can help a company to achieve more profits if consumers perceive product's value sufficiently above its cost. Demand based pricing can be favourable when the company is able to accurately estimate demand at different prices, and it is often quite difficult to forecast the demand accurately at different prices.

6. ***Perceived-value Pricing:*** Many companies perceived-value pricing. In this approach the price is based on customer's perceived value of a product or service. The company must deliver the promised value proposition it communicates to its target customers. And of course, it is important that customers must perceive this value. Marketers carefully use different elements of promotion mix to effectively communicate and enhance customers' perception of product or service's perceived value.

7. ***Product Range Pricing:*** Many companies sell a range or line of products and price of each individual item should consider the prices of other products in the range.

   (a) *Optional Additional Items:* These additional items or features a customer may or may not choose to add to the main product purchased. The basic stripped-down product carries a low price, and the margin on additional components is more. For example, some computer and auto companies keep a lower price for the basic model and for additional components such as LCD monitor, larger RAM, power windows, or power steering etc. charge additionally.

(b) *Captive Product Pricing:* Some companies produce products that need the use of ancillary products such as razors and manufacturers of Inkjet or Laser printers. Gillette manufactures different types of razors and for each type the company has different blades that fit a particular type of razor. The razor is priced low but the margins are high on blades. Inkjet or Laser printer manufacturers sell their printers at a low initial price and price their ink or toner cartridges at a price to earn higher margins.

8. *Two-part Pricing:* This pricing method is fairly common with service providing companies. They charge a fixed price for providing the basic service plus a variable usage rate. For example telephone service providers charge a monthly fixed price plus variable per call charges for calls beyond a certain number. Internet broadband service providers charge a fixed amount for cable model installation and variable charges for number of usage hours. The pricing decision for such firms involves problems about deciding how much to charge for the basic service and what rates should they keep for variable usage. The fixed price should be at a level that would attract sufficient number of customers and profits can be earned through varying usage charges.

9. *Bid Pricing:* This type of pricing involves submitting either a sealed or open bid price from the marketer for buyer's consideration. The buyer notifies potential suppliers to submit their bids by a fixed date. The buyer evaluates these quotations in terms of quoted prices, product specifications, and the ability of suppliers to deliver specified products according to the buyer's schedule when and where needed. Usually the lowest bidder is awarded the contract. Generally, central, state, or local government departments, and construction companies use this method.

10. *Discount Policies:* Discounts refer to reductions from list price that a seller gives to buyers. These buyers either give up some marketing function or provide the function themselves. Discounts can be useful in developing marketing strategy. Marketers use various types of discounts. Some of them include the following:

    Sellers offer quantity discounts to encourage customers to buy more quantities. The seller gets one or more of the advantages such as getting more of customer's business, shifting some of the storing function to buyers or reducing selling and shipping costs. Cumulative quantity discounts apply to total purchases over a given period of time – such as one year – and the discount increases with the increase in purchase quantity. Cumulative discount encourages customers to repeat purchase and reduces the customer's cost for additional purchases. This helps build customer relationship and loyalty. A cumulative quantity discount is generally attractive to business buyers who don't want to increase their inventory costs. Individual orders are smaller but the total quantity purchased during the given period goes up. Non-cumulative discount is applicable to individual orders. This type of discount encourages buyers to buy larger quantities in one go and the buyer is not obliged to repeat purchase from the same seller. Such a discount is usually a price cut, but sometimes it can be in the form of free goods. Seasonal discount encourages customers to purchase earlier than present demand requires. This can help fluctuating sales to stabilise. This type of discounts helps manufacturers to shift storing function further along the channel. Cash discount is a reduction in price and aims to encourage business buyers pay the bills quickly. A trade or functional discount refers to price reduction given to resellers for the job they are going to perform. Trade discount is offered by manufacturers to wholesalers and/or retailers, and by wholesalers to retailers and is deducted from the suggested retail price to cover their cost for retailing function and their profit margin.

11. *Allowance Policies:* Allowances are like discounts and offered to consumers or channel members either to do something or accept less of something.

Advertising allowance is given to resellers to encourage them to advertise producer's products in the local market. Stocking allowance (slotting allowance) is offered to resellers to get the shelf space. A producer sometimes offers push money (SPIFFS) to sales people of a wholesaler or retailer for aggressively selling the company's particular products. A trade-in (exchange) allowance is given when customers bring in used durable products and buy the company's similar new products. This is an easy way to reduce the effective list price.

12. ***Price Discrimination:*** Many companies sell the same product or service to different customer groups at different prices. Price discrimination enables some customers or segments to pay less. This brings in more overall contribution to company than if one price is charged to all. For example, Indian Railways offers reduced railways fares to senior citizens. Some airlines offer reduced fares to more frequent users of their service, or passengers in luxury and economy class pay different fares. Some companies charge reduced prices for larger quantities purchased, or many branded computer sellers offer students and teachers their products at reduced prices. Coca-Cola supplies its coke to McDonald's at reduced prices. To practice price discrimination for short- term, sales promotion techniques, such as coupons, or short-term discounts etc. are also used.

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.

Student Activity

1. Define a pricing strategy.
2. Define competition based pricing.

Summary

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 only costs. The aim of marketing is to facilitate satisfying exchanges between the marketer and consumers at a profit.

Pricing should never be seen as an isolated component of a company's marketing decision-making. Companies spend large amounts of money on product development, promotion, and distribution and face risks. Price is often the only marketing mix element that can be changed quickly to respond to changes in demand or competitive moves. Developing new products or modification of existing products, any changes in promotional programme, or distribution system involves much time and efforts.

A pricing strategy is a course of action framed to affect and guide price determination decisions. These strategies help realise pricing objectives and answer different aspects regarding to how will price be used as a variable in the marketing mix, such as new product introductions, competitive situations, government pricing regulations, economic conditions, or implementation of pricing objectives. 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 two approaches for setting price of a new breakthrough product: price skimming and penetration pricing. Price skimming means the company charges a price that customers who are in dire need of the product, will pay. Penetration price is a lower price charged to penetrate the market and capture a large sales volume quickly. Psychological pricing aims to encourage purchases that are based on emotional rather than rational responses. Promotional pricing approach means that it is coordinated with promotional efforts.

A pricing method is a mechanical procedure for setting prices for specific products on a regular basis. The methods include cost-based pricing, demand-based pricing, and competition-oriented pricing. In case of cost-based pricing, accompany determines price by adding a monetary value or percentage to the cost of the product. This cost-based approach includes two common pricing methods – cost-plus and mark-up pricing. Demand-based pricing relates to the level of demand for the product. When the product demand is strong, the price is high, and the price is kept low when the demand is weak. In case of competitor-based pricing, costs and revenues become secondary to competitor's prices.

No matter how carefully a product's price has been set, there would be occasions in a product's life cycle to change the existing price for a variety of reasons such as need for additional business, product improvement, sales slow down, loss of market share, competitive pressures, economic conditions, and change in government policies etc. Before raising or decreasing the price of a brand, the company must consider possible reactions of customers, competitors and others.

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.

Keywords

Demand determination: Demand determination of a product is the responsibility of marketing manager, aided by marketing research personnel and forecasters.

Fixed costs: Fixed costs do not vary with changes in the number of units produced or sales revenues.

Variable costs: Variable costs, as the name suggests, vary directly with the level of product quantities produced or sold.

New Product Pricing: The base price of a new product is easily adjusted in the absence of price control by government.

Psychological Pricing: Psychological pricing approach is suitable when consumer purchases are based more on feelings or emotional factors rather than rational, such as love, affection, prestige, and self-image etc.

Cost-based Pricing: Cost-based pricing methods are fairly common. Price is determined by adding either rupee amount or a percentage to the product's cost to achieve the desired profit margin.

Review Questions

1. There is usually inverse relationship between the price of a product and the quantities sold. Explain the reasons for this kind of relationship.
2. Does product quantity demanded always decrease when the price is raised? Illustrate your answer with examples.
3. Discuss price elasticity of demand for commodities, shopping products, and status products.
4. What important factors should a marketer consider before setting a product's price?
5. Using examples, discuss the advantages and disadvantages of cost-plus pricing.
6. What is breakeven analysis? Why is it important?
7. What is price skimming? Under what conditions price skimming and price penetration is advisable?

8. Discuss psychological pricing strategy. Illustrate with examples the application of psychological pricing strategy.
9. Compare cost based and demand based pricing methods with examples.
10. What is promotional pricing? What are its advantages and disadvantages?

Further Readings

Chester R. Wasson, *"Dynamic Competitive Strategy and Product Life Cycles"*, 1978.

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Unit 13 Managing Marketing Channel and Physical Distribution

Unit Structure

- Introduction
- Marketing Channels
- Factors Affecting Selection of Marketing Channel System
- Intensity of Distribution
- Channel Terms and Conditions
- Vertical, Horizontal and Multichannel Marketing Systems
- Channel Conflicts and Cooperation
- Physical Distribution
- Transportation
- Sales Promotion
- Sales Promotion Planning Guidelines
- Summary
- Keywords
- Review Questions
- Further Readings

Learning Objectives

At the conclusion of this unit, you should be able to:

- Identify important channel functions and common types of channels for consumer and industrial products
- Know the intensity of desired market coverage affects channel arrangement
- Discuss channel-related terms and conditions
- Describe vertical and horizontal marketing system
- State the causes of channel conflict and its management
- Explain physical distribution, inventory, management, warehousing, and transportation arrangements
- Discuss the sales promotion mix

Introduction

Producing and offering a good product or service to customers at a reasonable price is not the whole story. The third 'P' of traditional marketing mix represents place. Place decisions concern marketing channel or distribution channel arrangements. It is crucial to ensure availability of goods and services to customers when they want, at places they want, and in the right quantities. 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 who perform a number of very useful functions. These intermediaries or channel members include firms and individuals, such as wholesalers, retailers etc. that facilitate the distribution of goods or services to ultimate customer. Wholesalers buy larger quantities of products and resell to retailers, and industrial customers. In turn, retailers buy from wholesalers and sell to consumers for personal or home use. Each channel member performs a set of different functions within the overall channel structure. Channel members cooperate with each other and earn profits and success.

Marketing Channels

"A marketing channel is a system of relationships existing among businesses that participate in the process of buying and selling products and services."

– Bowersox and Cooper

Marketing channel decisions are critical and influence all other marketing mix decisions. These decisions are usually long-term and determine product's market presence and ensure customer's accessibility to the product. The same product may require different approaches to set up channel arrangements if different customer segments view it differently. For example, a computer is a consumer product as well as an organisational product and may require separate approaches to establish channels for different segments. Marketing channel decisions are often harder to change than price, promotion, and product decisions.

Channel Functions

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.

Levels of 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 Channels

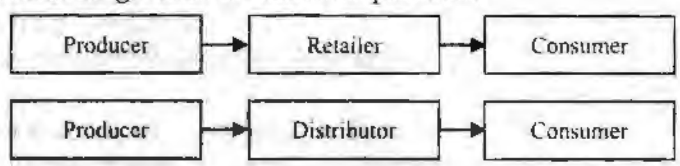
This type of channel has no intermediaries. In this distribution system, the goods go from the producer direct to the consumer. Companies use their own sales force to reach consumers. They do all the channel functions. A successful direct marketing company is Eureka Forbes, which markets vacuum cleaners in Indian market.

0 Level Channel

Indirect Marketing Channel

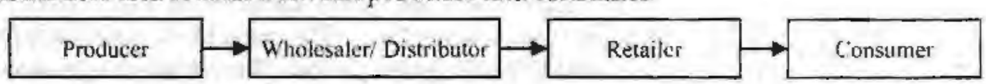
These are typical channels in which a third party is involved in the distribution of products and services of a firm. Depending on the distribution intensity, the indirect marketing channels can be classified into following categories.

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.



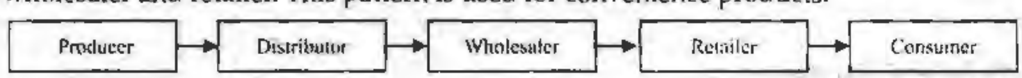
1 Level Channel

Two-Level Channel: This type of channel has two intermediaries, namely, wholesaler/ distributor and retailer between producer and consumer.



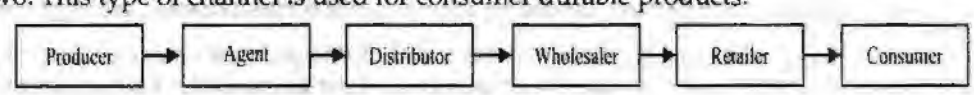
2 Level Channel

Three-Level Channel: This type of channel has three intermediaries namely distributor, wholesaler and retailer. This pattern is used for convenience products.



3 Level Channel

Four-Level Channel: 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.



4 Level Channel

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 symbolizes forward movement whereas a backward channel covers centers like redemption center, community groups, trash collection specialists, recycling centers and central processing warehouses.

Channel Objectives

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-standardized and customized 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.

Factors Affecting Selection of Marketing Channel System

In developing distribution strategy, any producer should be able enough and flexible in responding to the changing market conditions. A company has to take into account a number of factors that influence channel design decisions. This includes product, company, customer, competition factors, PLC stages, objectives, and desired market coverage intensity and control etc.

Intensity of Distribution

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.

1. *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. For example, HUL, P&G, ITC, Dabur, Coca Cola, Pepsi etc.

2. *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. For example, Citizen Watches, Toyota Motors etc.

3. *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). For example, Mont Blanc Boutiques, Rolls Royce Showrooms etc.

Channel Terms and Conditions

The producer stipulates terms and condition and responsibilities of channel partners to develop better mutual understanding and usually include price policy and trade margins, payment terms, and territorial demarcation, guarantee and returns policy, and mutual responsibilities etc.

Price policy and trade margins should be fair and require manufactures to establish a price list, trade margins and allowances. Intermediaries' margins should be sufficient enough so they can earn a reasonable margin for their efforts and high return on investment. Simplicity and clarity helps in avoiding strained relations between the produce and intermediaries.

Payment terms include any discounts on quantity and early payments. This may also include guarantees producer offers against defective goods or breakages during transit, or price declines, and producer policy on taking back date expired products.

Territorial demarcation establishes territorial boundaries and rights of company appointed distributors or dealers. This avoids conflicts and strained relations between dealers operating in different territories, and also between the producer and the dealers. Mutual responsibilities and services should be clearly laid down in case of exclusive dealerships or where the producer has franchise arrangement. The producer should also clearly state what kind of promotional support, standards, services, records the dealers or franchisees must maintain, and what the dealers and franchisees should expect from the producer in terms of training and other mutually beneficial activities.

Evaluation of Channel Alternatives

In making a decision about channel alternatives, producers' evaluation criteria is generally based on some combination of the following factors:

1. Product characteristics.
2. Buyer behaviour and location.
3. Severity of competition.
4. Cost effectiveness and channel efficiency.
5. Degree of desired control on intermediaries.
6. Adaptability to dynamic market conditions.

Channel Selection and Training

After determining the most appropriate channel alternative, the producer selects the most qualified parties and arranges for their training. In case of exclusive dealerships and franchisees where personal contact with customers and service delivery are important, company appointed dealers play an important role. They practically become the company for the customers and any negative impressions may severely damage company image and reputation. Companies vary in their ability to attract top rung dealers. For a respected name like Tata, it was not difficult to attract qualified intermediaries to handle Titan showrooms. Others try but may not attract the better ones. No matter what, the company should at least be able to identify some criteria that distinguishes better agents/dealers, such as duration in business, financial strength, lines handled, number and quality of sales or technical personnel, growth and profit record, and service reputation etc.

Producer must carefully outline training programmes for dealers. They have to be competent to provide excellent service to customers. The purpose of imparting training is to sharpen dealers' product knowledge and selling skills to better serve and satisfy customers. Apple arranges training programmes for its dealers and authorised service providers. Some companies, such as Hyundai conducted training programme for its dealers at parent company's headquarters in Korea before launching its Accent in India. Microsoft arranges structured training for third-party service engineers and they complete a set of courses and then appear in a test. Those who clear the exam are awarded a certification recognising them as Microsoft Certified Professionals. To provide excellent service to customers, all manufacturers of complex technical machinery and consumer durable appliances train their dealers' personnel.

Motivating Intermediaries

Motivating channel intermediaries is a challenging task for producers, but essential to obtain best possible performance from them. Getting cooperation from intermediaries is the main challenge for producers. As in other situations, developing motivational programmes for intermediaries begins with first, understanding their needs and wants. Bert Rosenbloom writes in his book that intermediaries base good relationship on cooperation and partnership.

Motivation programmes for channel intermediaries focus mainly on financial and non-financial rewards. Financial rewards usually include higher margins, extended credit facilities, bonuses and allowances, special deals, and sharing intermediaries' promotional expenses. Intermediaries sometimes pass on part of their better margins to customers as inducements.

Non-financial rewards include training programmes at company expenses in India and abroad for intermediaries in areas such as technical skills and service. Company also arranges training in India in areas of selling and territory management, human resource, and to acquaint them about company's future outlook, plans and policies. Other non-financial rewards include sales and display contests, recognition for outstanding performance, company paid holidays in India and abroad, spending money on arranging lavish distributors/dealers' meet at exotic places. To name a few manufacturers who conduct training programmes are Reliance, ITC, Bajaj Electricals, Parle Exports, Videocon, Godrej-GE, Phillips, and others.

Performance Evaluation of Intermediaries

Producers must periodically evaluate performance of dealers against laid down and agreed upon parameters. The evaluation criteria differ across industries and from one company to another in the same industry. Companies may use a set of criteria that may include some combination of factors with differing weight given to each element in order of its importance, such as achievement of sales targets, average inventory maintained, performing promotional activities, customer service, and attending training programmes etc.

In certain cases it may not be easy to terminate the contract with dealers due to legal implications. In certain industries, trader groups form trade associations and without the approval of their apex body that looks into such matters, a company cannot terminate dealership.

The purpose of evaluating intermediaries' performance is to plan ways to improve performance of individual parties. In certain cases, a company might decide to terminate a dealer. Periodically the producer should also evaluate the effectiveness and suitability of the selected channel system with major changes in the marketing environment.

Channel Modification

Evaluation of channel system in place may sometimes make it necessary for the firm to modify it as a result of changes in buyer behaviour, market conditions, availability of new and more effective and suitable alternatives, and later PLC stages. For example, when Wipro introduced its PCs for home users the first time in 1997, its authorised dealers used sales people to call on prospects and sell its computers. When Apple launched its computers in India, the company appointed authorised dealers with service facilities. Subsequently, with negligible or no demand in many areas, dealers were not interested to carry on and the company did away with dealers in these areas. Authorised dealerships were maintained in metros and few other large cities. To focus on its targeted tech-savvy customers with in-store product demonstration, full range of products, software, accessories, and staffed by Apple trained specialist, Apple opened its own Apple Store in Bangalore. Later, with increasing acceptance and popularity of its iPod and launch of low-priced Macs, the company opened its own Apple stores in some other important locations. Tobi Elkin reported that roughly 25 per cent Apple's sales comes through www.apple.com, its own retail shops are a natural choice.

A particular marketing channel is unlikely to remain appropriate throughout the entire life cycle of a product. As mentioned earlier, different adopter groups acquire products during different product life cycle stages. For instance, innovators and early adopters of cell phones were from the business and moneyed class and cell phones were available at few places. Now three-wheeler auto driver and even locality vegetable shops use cell phones and retail stores dealing in electronic goods sell these phones and prepaid service cards.

	Value Addition by Channel	
	High	Low
	Introduction	**Decline**
Low	Personal Computer	Personal Computer
	Lobbyist store	Mail order
	Designer Apparel	Designer Apparel
	Boutiques	Discount stores
Market Growth Rate	**Growth**	**Maturity**
	Personal Computer	Personal Computer
High	Speciality stores	Mass merchandisers
	Designer Apparel	Designer Apparel
	Better departmental stores	Mass merchandisers

Figure 13.1: Milind M. Lele Matrix

Milind M. Lele proposed a matrix (Figure 13.1) by studying changes in the case of PCs and designer apparel channels at different stages in the product life cycle and suggested how a company should consider market growth and value addition by the channel. During introductory period of innovative products and designer apparel, specialist channels attract innovators and early adopters. Early and rapid growth period shows growing interest and higher-volume speciality stores and up-market departmental stores providing services are appropriate. Growth slows down during maturity stage and companies place their product into lower-cost mass merchandisers. Finally, in the decline stage least-cost channels such as mail order resellers and discount stores sell the product.

Over a period of time existing channel loses its relevance and the gap between existing and ideal system widens. In case of low-entry barrier industries with high intensity of competition, channel arrangement changes over a period of time. These changes could be addition or dropping of some individual resellers, particular market channels, or developing an entirely new channel structure.

Vertical, Horizontal and Multichannel Marketing Systems

With the passage of time and changes in business environment and strategies, marketing channel systems evolve and new wholesaling and retailing institutions appear. The traditional marketing channels we discussed include members who are independent entities and no party has complete control over others in the channel system. Each seeks to maximise its own profit goals without much concern for others in the same system. Some recent changes in channel systems that have emerged include vertical marketing systems (VMS), horizontal marketing systems, and multichannel marketing systems (also called hybrid channels).

Vertical Marketing System (VMS)

Vertical marketing system refers to an arrangement in which the whole channel focuses on the same target market at the end of the channel. This includes producer, distributors, wholesalers, and retailers acting in an integrated manner. Any channel member, a manufacturer, distributor, wholesaler, or retailer can become a channel captain who helps direct the activities of the entire channel and tries to eliminate or resolve conflict. The channel captain assumes the leadership role because the captain is either the owner, a franchisee, or wields so much power that all others cooperate. This single channel captain concept seems quite logical since VMS offers economies of scale due to its size, bargaining power, and eliminates duplication of services. Such a system also makes sense because if in the end, the customer does not buy the product, the entire channel suffers. Channel captain arranges for the necessary functions to be performed in the most effective manner. There are three types of VMS - corporate, administered, and contractual.

1. ***Corporate VMS*** refers to the producer's ownership of the entire channel, right from manufacturing to wholesaling, and retailing. One may say the company is going direct. In India Vimal Fabrics, Titan watches, and Bata etc. are some examples. Manufacturer can accomplish this through vertical integration (acquiring firms at different levels of channel activity). This offers greater buying power, stable sources of supplies, better control of distribution and quality, and lower executive overheads. Many experts feel that it is difficult to be good at performing such diverse functions and it is better to stick to what they know and do best. It is better to concentrate on ways to gain increased cooperation from channel members for effective and efficient distribution rather than entering into so many functions.

2. ***Administered VMS*** is achieved when some members because of their position, size and power in the industry are in a commanding position to secure cooperation and support from resellers at different levels. Members informally agree to cooperate with each other on matters like routine ordering, sharing inventory and sales information over networks, standardise accounting, and integrate their promotional activities. The agreement is informal and the members retain some of the flexibility of traditional distribution system. Companies with strong brands command substantial market power and are able to get cooperation from resellers at different levels of distribution. Several examples can be cited such as Hindustan Lever Ltd., Procter & Gamble, Maruti Udyog, ITC, IBM, Sony, Apple, and TELCO etc.

3. ***Contractual VMS*** consists of independent businesses at different levels in the channel including production and distribution, and is most popular. Members

agree to cooperate with each other by entering into contract that spells each member's' rights and obligations and gain economies of size and sales impact. Contractual VMS can be franchiser, wholesaler, or retailer sponsored, such as Coke and Pepsi have bottlers with distribution set up, some educational institutions appoint franchisees, Body Shop, Shahnaz Herbal, some retail chains, and others.

Horizontal Marketing Systems

Horizontal marketing system occurs when two or more related or unrelated companies working at the same level come together to exploit marketing opportunities. By coming together they have the option to combine their capital, production capabilities, marketing strengths to gain substantial advantage than by each company working alone. This kind of joining forces is viewed as symbiotic relationship and can be between non-competitors as well as competitors. This arrangement can be on a temporary or permanent basis. Some competing credit card businesses, competing banks, retail petrol businesses, and consumer goods companies have joined hands. Auto manufacturers have joined hands with finance institutions to finance customers. Coca Cola and Nestle joined hands to pool Coke's marketing and distribution strengths in global markets and Nestle's strong brands, Nescafe and Nestea to market ready-to-drink coffee and tea worldwide, TVS-Whirlpool and Onida joined hands to market washing machines, Whirlpool manufactured the machines and Onida promoted and distributed them. Horizontal marketing system particularly offers efficiencies and economies of scale in promotion, marketing research, and bringing together specialists.

Multichannel Marketing System

Some companies use several marketing channels simultaneously to reach diverse target markets. This system is also called hybrid channels or multichannel. Each channel involves different group of intermediaries. Hybrid or multichannel marketing arrangement is also called by another name, dual distribution, when a company uses two or more channels to distribute same products to the same target market. Hybrid channels may involve selling direct to large sized customers, use telemarketing to reach medium sized customers, direct mail selling to small customers, retailers sell to personal consumers, and company also uses on-line selling. The on-line bookstore operating from Delhi, www.firstandsecond.com sells on-line to the same target market and also has retail shop in Delhi. LG sells its goods through retailers, company shop, and on-line. Coca Cola supplies direct to McDonald's, and the fast food chain sells no other soft drinks but Coca Cola. Think of other places where you can buy Coca Cola or Pepsi? Kelly Shermach is of the opinion that hybrid or multichannel distribution can maximise market exposure. Multichannel distribution can sometimes cause dissatisfaction among wholesalers and small retailers in the face of competition from large stores who buy directly from producers.

Channel Conflicts and Cooperation

According to Louis W. Stern and J. L. Heskett, "Channel conflict s 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 dissensus, and differing perceptions of reality."

To manage conflict, it is first of all necessary to understand the type, cause, and intensity of the conflict.

Types of Conflict

In any distribution channel arrangement there can possibly 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 stockist starts price-cutting and others at the same level start complaining, or when stockists start sending goods to other stockists' designated territories in adjoining or other territories.
3. Multichannel 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 on-line. The conflict may arise if the company store or on-line prices are lower than what dealers charge for the same products.

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.

1. 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 and both sides start accusing each other. In some extreme cases, demands for more margins have led to entire channel boycotting a company's products.
2. 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.
3. 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 in Indian middle class 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.

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.

Managing the Channel Conflict

Most companies, particularly FMCG companies have large dealer networks right up to far-flung rural areas. In certain other industries, many companies use multiple channels and conflicts develop occasionally. 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. Authorities have suggested 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 them 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 turnout to be a platform for dealers to unite and pressurise 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 include 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 agency to resolve dispute, or finally conflicting sides may approach the court of law for deciding the matter.

Physical Distribution

The term physical distribution is more appropriate to outgoing (outbound logistics) or forward movement of products, services, and information from a firm's manufacturing facility to customers, and involves defined network of transportation links, warehousing and storage, and finally delivery at the destination in a cost effective manner and within the desired time. Some texts use terms supply chain management, and logistics management which are much broader concepts than physical distribution. As discussed earlier, supply chain management starts from the supplier of raw materials, then conversion at factory into finished products, storage at warehouses, and finally, supply to distribution channels to meet the demand of end-user for a finished product 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 and supply chain management starts before physical distribution. According to Stern, El-Ansari, 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 with a company's marketing mix

– within individual companies and along a channel of distribution. 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.

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 cheer them. It is not unusual in India, particularly for service providers failing to meet customer service delivery expectations.

Physical distribution systems must meet the factory needs towards supply chain and the customers. First of all it is necessary to 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 sale and getting repeat orders. For example, an auto manufacturer with a low inventory of replacement parts requires fast, dependable supply from 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 may be a minor consideration compared to the importance of service, dependability, and timeliness.

Minimising Total Distribution Costs

Companies strive to minimise their distribution costs associated with order processing, inventory management, materials handling, warehousing, and transportation. However, decreasing costs in one area often increases them in another. The company has to develop an economical system without compromising the minimum guaranteed service delivery level and to achieve this trade-offs between service level and costs becomes unavoidable. Taking a systems approach to distribution, the focus from lowering costs of individual activities shifts to minimising overall distribution costs. Adoption of 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. This requires trade-offs costs because higher costs in one area of distribution system may be necessary to obtain lower costs in another. In many cases accounting procedures, asking customers to rank their preference and employing statistical procedures, and computer simulations are used to determine total costs.

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 to reduce costs 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.

Order Processing

The receipt of order and transmission of sales order information is an important function of physical distribution. In developed and developing countries, computerised order processing furnishes a database for all channel members to increase their productive efficiency. Efficient order processing contributes to customer satisfaction, reduces costs and time-cycle, and increase profits.

Order entry starts when customers or sales people place purchase order by telephone, computer, or mail. Electronic ordering system reduces procurement costs. After receiving order, it is passed on electronically or by whatever system is in place to warehouse to verify product availability, to credit department for checking prices, terms, and customer's credit rating. After credit department's approval, warehouse personnel assemble the order. If the product is out of stock, production order is sent to manufacturing or the customer is offered a substitute.

After assembling the order and packing for shipment, the warehouse arranges delivery though an appropriate carrier. The customer is sent an invoice, inventory records are updated, and order is delivered.

Managing Inventory

Inventory managing involves building and maintaining enough product assortments to meet the customer demand. Investment in inventory forms a significant part of company asset and affects physical distribution costs in a major way. Very little inventory can create shortages of products or out-of-stock situation. This is detrimental to company and can lead to brand switching, lower sales, and the most serious consequence of losing customers. When too much inventory of products is carried, particularly of slow moving products, costs and risks of product obsolescence, damage, or pilferage increase. To strike a balance, companies focus on determining when and how much to order.

To find out when to order, the marketer must know the order lead time, the usage rate, and the safety stocks required. Order lead-time refers to average time lapse between placing the order and receiving supplies. The usage rate represents the rate at which the inventory of product gets sold during a specified time period. Buffer stock is the extra inventory that is maintained to guard against out-of-stock situation from increased demand or to cover longer lead-time than expected. Following formula can be used to calculate when to reorder:

$$\text{Reorder Point} = (\text{Order Lead Time} \times \text{Usage Rate}) + \text{Buffer Stock}$$

To illustrate, let us assume that order lead-time is 15 days, usage rate is 2 units per day, and buffer stock is 10 units. The point to place the order is when there are 40 units in stock.

In certain cases, marketers employ a fixed order-interval approach and stocks are ordered at predetermined intervals when rate of usage is fairly constant and cost per unit is small.

To determine how much to order, it s necessary to examine inventory carrying costs and order processing costs. Considering both sets of costs determines Economic Order Quantity (EOQ), which is the order size that has the lowest total of both inventory carrying and order processing costs. However, the aim of minimising total inventory costs must be weighed against meeting or exceeding customer service level objectives.

Some organisations use Just-in-Time (JIT) approach in countries where this is possible. This system means that products arrive as and when they are needed for use in production process or for resale. This allows companies to maintain very low inventory levels and purchases at that time are also in smaller quantities. JIT system reduces physical distribution costs, especially inventory and handling related costs.

Handling Materials

Physical handling of products is necessary for efficient warehouse functions, transportation from the point of manufacture to final points of consumption. The nature of product often influences how a product should be moved and stored. For example, perishable goods, liquids, and gases have unique characteristics that determine their movement and handling.

Techniques and procedures used for material handling can increase warehouse capacity reduce the number of times a product is handled, improve customer service, and their satisfaction. Various activities such as packaging, loading, movement, labelling systems must be coordinated to reduce costs and increase customer value and satisfaction. Correct internal packaging of materials is important to prevent any damage during handling and transportation. Companies use different methods of loading such as unit loading or containerisation. Unit loading is grouping one or more boxes on a pallet and use forklifts, trucks, or conveyer system. Container helps consolidate many items within the large inside space of one huge box, which is sealed at its originating point and opened after arriving at its destination.

Warehousing

Warehousing is an important physical distribution function and refers to the design and operation of facilities for storing and moving goods. Producers have to make arrangements to store products until they are sold because production and consumption cycles differ. Warehousing functions offer time utility and help companies to adjust for dissimilar production and consumption rates. Of necessity, mass produced products create a much greater stock of products than can be sold in the market immediately and companies store excess stocks till the time, customers are ready to buy. Warehousing is also necessary for seasonal products such as woollens and others.

Warehousing function is not just limited to storing of items. Wagonloads and truckloads of products are received at warehouses where, they are broken down into smaller quantities for customers, or smaller lots received are sometimes consolidated into bulk loads for shipping economically. Some basic physical distribution functions of warehouses are given below:

1. Receiving goods and assuming responsibility.
2. Recording quantity of each item and marking with codes, tags, or physical property etc.
3. Sorting goods to store in an appropriate area.
4. Dispatching goods for storage.
5. Holding products in properly protected condition until needed.
6. Recalling and picking products ordered by customers from storage.
7. Collecting for a single shipment, checking for completeness or explaining omissions.
8. Dispatching suitably packaged shipment to the right transport vehicle along with necessary documents.

The *choice of warehouses* can range between company's own dedicated warehouses or share space with others in third party owned warehouses. A company can also decide to have some kind of combination of both. By making the right choices, a company may minimise physical distribution costs. The firm decides the number, location, and which type of warehouse is most suitable.

Company Owned Warehouses

Companies operate these for sorting and shipping its products. These are usually leased or sometimes purchased when a company has justification to have its own warehouse in a geographic market area based on substantial and stable demand to make long-term commitment to fixed facilities. When products require special handling and storage features and control of warehouse design and operation, a company may have its own warehouse.

Cindy Muroff reported that to reduce inventory costs, companies are striving to move products as quickly and directly as possible from producer to customers.

Third Party Warehouses

Some companies construct warehouses and offer on rent, or offer rented space to producers, such as cold storage for vegetables and fruits etc. to farmers and wholesalers in such businesses. Sometimes third party warehouses also provide distribution services such as receiving and unloading products or reshipping.

Outsourcing Physical Distribution

Recent non-conventional approach to physical distribution is outsourcing total physical distribution. Marketers make arrangements with outside physical distribution service providers and allow them to operate independently, more like an extension of the company's physical distribution arm. They may handle only physical distribution or may also function as a distribution channel. Outsourcing may help to achieve more efficiency, better service standards, and cost effectiveness compared to company's own handling of all physical distribution functions. Air express companies provide such services and should not be confused with couriers or freight forwards. Just one agency handles all responsibility to move freight faster and provide convenience of door-to-door transportation. Some of them even offer additional warehousing facility and function as a complete system. In India, AFL, Elbee, and Blue Dart are some examples of companies providing air express services.

Transportation

Companies are concerned with transportation decisions because choices affect product pricing, delivery time, and condition of goods when they arrive at destination. Transportation is the most expansive of physical distribution function and offers the time and place utility value to the product. Product availability and on-time deliveries depend on transportation choice and have direct impact on customer service and ultimately satisfaction.

There are five main transportation modes for moving goods that include railways, roadways, waterways, airways, and pipelines. Each of these offers certain advantages. Some companies prefer to use a combination of these modes, depending on product nature, delivery schedule, and geographic locations.

Railways

Railways carry heavy, bulky goods, that need shipping to long distances over land, such as mineral ores, lumber, sand, farm products, heavy and bulky machinery, chemicals, petroleum, and autos etc. Railways are particularly efficient for transporting full wagonloads at lower rates and require less handling.

Table 13.1: Typical Means of Transporting various Products

Railways	Roadways	Waterways	Airways	Pipelines
Coal	Paper goods	Petroleum	Overnight mail	Oil
Lumber	Clothing	Iron ore	Flowers	Natural gas
Chemicals	Computers	Chemicals	Emergency	Chemicals
Autos	Livestock	Grain	parts	Processed
Steel	Cement	Bauxite	Instruments	coal
Grain	Scooters		Perishable food	Water

Roadways

Trucks are providing a tough competition to railways. Roadways offer most flexible schedules of all major modes of transportation. Trucks can go almost anywhere, including rural market areas where just kachcha roads are available. To reach Indian rural markets in some areas where trucks cannot be used, tractors with trolleys and bullock carts are used to haul goods for short distances. Trucks are generally used to transport small shipments of high-value goods. Trucks are unique in a way that they can move goods directly from factory or warehouse to customer. Trucks transport goods much faster than railways, they are relatively more expensive and somewhat vulnerable to bad weather conditions and accidents. Common goods carriers are often criticised for loss and damage to freight and for delays.

Waterways

For heavy, low value, non-perishable goods such as ore, and petroleum etc., waterways is the cheapest mode of transportation. Water carriers offer large capacity. Ocean going vessels can move thousands of containers, powered barges travel along inter-coastal routes and inland rivers to haul more than a railway wagonload. Waterways are slow, less dependable than other transportation means, and limited in the number of locations served. In colder regions, it may come to a standstill during freezing weather. Droughts and floods can create problems for inland waterway transportation of goods. Waterways are often used in conjunction with railways and roadways.

Airways

This is the fastest of all modes of transportation, most expensive, and relatively quite dependable. Perishable, low-bulk, high value products, such as overnight packages, emergency parts and supplies are frequently shipped by air. New jet cargo planes can carry goods weighing few thousand kg. FedEx, DHL, United Parcel Service, TNT, Overnight Express, Elbee Airlines etc. are some well-known names of air cargo service providers. Some airlines carry a combination of passengers, mail, and freight. Some kind or road carrier is used to pickup goods at the airport. The high cost is a major limitation of airways as goods carrier.

Pipelines

Pipelines are the most automated means of transportation and usually carry petroleum, natural gas, and chemicals. A company or group of companies generally own the pipeline for transporting the product. Pipelines offer uninterrupted movement at a relatively low-cost. They are dependable, fuel-efficient, and involve less losses and damages. The use of pipelines is limited. They are extremely slow means of transportation and serve very limited number of locations.

Sales Promotion

Sales promotion utilises a variety of incentive tools for a predetermined, limited period of time in order to stimulate trial, increase consumer or trade demand, and motivate and reward sales force, such as samples, coupons, discounts, premiums, refunds and rebates, contest and sweepstakes, trade deals, and sales contests for sales people etc. In most cases, the objectives are generally short-term sales related rather than long-term brand building.

Reasons for Sales Promotion Growth

The role of sales promotion has increased dramatically within the last 15 years. Consumer goods firms and many services are high users of sales promotions. No definite figures are available, however, it is estimated that 60 – 70 per cent of the total advertising and sales promotion budget goes to sales promotion. Increased sophistication and more strategic role and focus have elevated its importance in promotion mix of many companies.

1. *Intense Competition:* Intensifying competition in almost all consumer product categories has led to greater use of sales promotions because consumer respond favourably to the promotional incentives. An obvious reason for favourable consumer response is that they save money. Buying a brand on sale or display simplifies decision-making process.

2. *Brand Proliferation:* Products are becoming more and more standardised. Every year, numerous new brands are introduced and most do not seem to have any significant point of meaningful or persuasive differentiation to become the basis of sustained advertising. Thus, companies find no option but to depend heavily on sales promotion to induce product trial of these brands with the fond hope that initial trial may lead to repeat purchases at full price.

3. *Declining Brand Loyalty:* Consumers today are getting better educated, are more selective, and have become less loyal to brands than in the past. They purchase products based on price, value, and convenience. Even otherwise, loyal consumers switch back and forth among a set of brands they perceive as almost equal.

4. *Growing Power of Resellers:* The shelf space available with resellers is limited. They demand extra incentive to let the product enter their store and occupy some space. Companies who desire prominent shelf space have to offer some incentive to retailers. Obviously, when consumers enter a store, products prominently displayed attract their attention and consumers often make many unplanned purchases.

5. *Advertising has Become Less Effective:* Consumer markets are becoming more fragmented and traditional mass media advertising is less effective. The costs of mass media have escalated considerably. A 10-second spot on prime time TV might cost more than ₹ 100,000. Audience are bored with advertising clutter and avoid looking at ads. Some people even consider advertising as an intrusion in their privacy. Sales promotion increases the attention-getting power of ads.

Sales Promotion Tools

Sales promotions are announced both, by manufacturers and retailers. Manufacturer announced promotions might be directed at consumers, resellers, or both. Manufacturers may also announce sales promotion for its sales force. Sales promotions may also originate from retailers aimed at consumers. The retailer-originated promotions' main objective is to increase store traffic rather than sell any specific brand. Manufacturer announced consumer promotions constitute "pull" strategy and retailer promotions are based on "push" strategy. Sales promotions are more effective when combined with advertising and "pull-push" strategies are used at the same time.

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 specialized 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 standardized 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 per cent 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 product, 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.

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 program 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 per cent 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 trade 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 organized 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.

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 organize sales force promotion programs 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.

Promotions that Blur the Line

Some promotions such as speciality advertising, event marketing and sponsorship are activities that blur the line between advertising, sales promotion, and public relations.

Speciality Advertising

Promotional Products Association International has now given a new definition to this term:

"A medium of advertising, sales promotion, and motivational communication employing imprinted, useful, or decorative products called advertising specialities, a subject of promotional products.

Unlike premiums, with which they are sometimes confused (called advertising specialities), these articles are always distributed free – recipients don't have to earn the speciality by making a purchase or contribution."

Speciality advertising is often viewed both a means of advertising and sales promotion. According to Promotional Products Association International, the increased use of speciality advertising makes it the fastest growing of promotional methods. These items normally have a promotional message printed on them.

It is used to reinforce the name of an existing company, product, service, or brand. Speciality advertising is used in creating awareness, as reminders, to thank customers for patronage, introduce new products, and often support other forms of product promotions. Advertising speciality items include ballpoint pens, pen stands, calendars, key rings, matchboxes, T-shirts, caps, coffee mugs, glasses, bags, and numerous other items with advertiser's name or brand name printed on them.

Event Marketing and Sponsorship

It has become quite a popular promotional approach and is often considered as part of sales promotions, especially if a product is sold through the event. However, the objectives and decisions concerning such events are often the responsibility of public relations manager. Event marketing refers to promotion where a marketeer or brand is linked to an event or an activity based on a theme and aimed at creating some experiences by associating a brand personality with a certain lifestyle. Companies often associate their product with a sporting event, festival, music concert, or fair. Marketers sometimes create their own events to celebrate milestones, such as 50th anniversary, or new product-introduction event where they organise some contest and winners get a pack of new product. An event sponsor develops sponsorship relations with an event and extends financial support to obtain in return the rights to display brand name, company logo, or advertising message and to be identified as a financial supporter of the event.

Sales Promotion Planning Guidelines

Planning process starts with situation analysis. To start with, the promotion planners must first consider the corporate policy with regard to sales promotion. Joseph S. Mair has recorded one such policy statement in Handbook of Sales Promotion, ed. Stanley M. Ulanoff. The policy says:

1. "Sales promotion is an integral part of the marketing mix."
2. "Sales promotion should be used as an offensive weapon in the brand's marketing arsenal, not merely as a defensive reaction when a problem arises."
3. "Sales promotion should extend and reinforce the brand's advertising and positioning, whenever possible."
4. "Sales promotion should be developed as campaigns, not as single, unrelated events."
5. "Good sales promotions are built upon sound strategic planning."

The first step in promotion planning is situation analysis. This would include product or brand performance analysis, competitive situation including the promotion activities of major competitors, distribution situation, and consumer behaviour with respect to sales promotions. Political/legal aspects concerning sales promotion are also considered. Based on marketing objectives and strategies, the promotion objectives would be developed. It is critically important to set unambiguous and measurable objectives and these should be developed in coordination with advertising and other promotion mix elements. The next step would be the allocation of budget to sales promotion out of the combined total budget for advertising and sales promotion.

Sales Promotion Objectives

Some of the important objectives of sales promotion include:

1. Increase sales volume
2. Attract new customers
3. Launch new product and increase trial
4. Encourage repeat purchase
5. Clearance of excessive inventories
6. Motivate dealers to stock and sell more
7. To gain advantageous shelf-space
8. To increase store traffic
9. To block competitors' moves
10. Motivate sales force

Important Considerations in Sales Promotion Decisions

Once the objectives are set, there are some important decision areas that must be considered critically:

1. ***Type of Promotion to Use:*** There are three types of promotions that can be used, singly, or in combination:

   (a) Consumer promotion

   (b) Trade promotion, and

   (c) Sales force promotion

   There are two major approaches for consumer and trade promotions:

   (a) Same for less, and

(b) More for the same

2. ***Immediate Value Offer vs Delayed Value Offer:*** Sales promotions can offer immediate value to consumers or the re-sellers, such as a discount, extra goods, or a premium. The delayed value promotions reward the consumer or re-seller sometime after the purchase of the product or service, such as rebates, contests and sweepstakes, frequent flier offer, or after making multiple purchases. Immediate value offers produce a stronger impact, stimulate customers for unplanned purchases, and encourage brand switching at the point-of-purchase. For example, there is significant brand switching in toiletries, laundry products, soft drinks, and cooking oils, etc.

3. ***Price-Cut vs Extra Value Offer:*** The manufacturer or the retailer may offer "same for less" in the form of a price discount on the promoted product. Or, there could be an offer of extra value, which would be "more for the same". For example, a special bonus-pack that contains more quantity of the same product without any increase in the price, or a premium offered free with the purchased product. This extra value offered is independent of the promoted product and has more value to the customer than the cost to the marketer. Such premiums can be quite helpful in building the long-term brand strength of certain brands. Consumer promotions, which frequently offer price cut, or extra quantity of the same product, generally degrade the perceived value of the brand and may weaken its brand strength.

4. ***Which Product to Promote:*** Resellers perceive inventory risk associated with stocking or not stocking the product on promotion. The following conditions may be the cause of risk perception:

    (a) When the consumer demand for the product is unpredictable.

    (b) When the inventory holding costs are high.

    (c) When the product is seasonal.

    (d) When the product is likely to go out of fashion quickly.

5. ***Choice of Market Areas:*** Strong brands are good traffic builders and when such brands are inexpensive and low bulk to transport and store, there is considerable forward buying and diversion in non-deal areas by the trade. Sales promotions of similar value should be announced at the same time everywhere. Higher inventory risk would require that promotions be developed for separate markets. Excess product stocks from one market can be shifted to another market with more sales potential.

6. ***Promotion Timing, Duration, and Frequency:*** When the product or brand inventories are less than normal in trade channels, the objective of the promotion would be to build inventories. When the inventories with the traders are high, then the objective would be to clear the inventories. It is inadvisable for the producer to announce a promotion when the retailer shelves are full with the competitive brand, because the promotion is quite likely to prove unprofitable. If the product use were linked to weather conditions, then this factor would affect the consumer demand and the timing of promotion.

7. ***Rate of Discount, Terms and Conditions:*** What should be the minimum level of benefit in terms of price-cut or value addition that would attract the attention of the target customers to induce the desired change in purchase behaviour? Planners have to ascertain the j.n.d (Weber's Law) and answer this question.

    A smaller discount figure on high priced products would translate in high monetary figure and would appear significant enough to attract customer attention and is likely to influence purchase behaviour. In case of low priced products, a higher percentage figure can be associated with the purchase of multiple units of the product. Generally, the price elasticity of low priced products is high because consumers do not perceive much difference between brands, and do not mind switching to another brand. Customers can also stock more units of low priced and low bulk products in response to promotion offer. Higher discounts should be considered to achieve large short-term sales of low priced products. Strong brands in general do not involve any inventory risk, serve as traffic builders, and would not require higher discounts.

In case of trade promotion, the producer may specify the minimum purchase value or the quantity of product to avail the benefit of promotion. Payment terms may be specified, or the terms may be related to display arrangement and its timing. Consumer promotion may require coupon expiry date, or rebate claim date. Contests and sweepstakes would require spelling out the conditions of participation, etc. Depending on the specific type and technique of promotion, market conditions, and consumer response pattern, there would be different terms and conditions associated with sales promotion.

8. *Protection from Competition:* Sales promotions in general are easily imitated by competitors and legally there is nothing that any manufacturer can do about such moves. The very purpose of gaining short-term competitive advantage is lost to the manufacturer. For example, if a marketeer announces "one cake of soap free with three cakes purchased" and other competitors announce the same or some similar deals on their brands then the advantage is likely to be lost. One way to gain some protection is to develop a promotion, which would be complex to copy and allow reasonably lengthy start to the innovator. Another way is to join hands with other well-known non-competing firms and develop an exclusive joint promotion (tie-in promotion) that cannot be imitated in a hurry. For example, Ariel and Vimal Suiting developed a joint promotion.

9. *Promotion Evaluation:* Sales effect before, during, and after the sales promotion can be measured by studying the sales figures. In case of objectives related to trial purchase, or change in consumer awareness and attitude as a result of increase in perceived value of the product, measurement may be difficult.

   Pretesting can be conducted by using focus groups and consumer panels. Portfolio test is relatively expensive but a more effective method. A portfolio of sales promotions is prepared and shown to consumers in person and their responses are noted. It is often quite helpful to evaluate the response of resellers before implementing the promotion programme. The simplest way is to seek resellers' opinion and suggestions.

   Concurrent testing is done when the sales promotion is in progress. Concurrent testing may permit the promotion manager to modify the sales promotion if needed. In case of consumer contest the response to promotion can be adjudged by the number of entries received at some interval and if need be the contest period can be extended.

Student Activity

1. Define a Marketing Channel.
2. Define Channel objectives of a company.

Summary

Distribution channels are composed of wholesalers, retailers etc., and facilitate distribution of goods or services to ultimate customers. Channel decisions are usually long-term and determine product's market presence and ensure customer's accessibility to the product. Merchants take ownership title. Brokers, agents, and salespersons do not acquire title to merchandise. Producers can go direct or may involve two or more channel levels to serve end-users.

Producers' select channels generally based on considerations of product characteristics, buyer behaviour, competition, cost effectiveness, desired control, and adaptability to dynamic market conditions. Motivation of channel members focuses mainly on financial and non-financial rewards. Dealers' performance criteria include sales target, inventory maintained, promotional activities, customer service, and attending training etc.

Physical distribution manages the flow of products from producers to consumers in a cost-effective manner. To satisfy customers' needs, a company must set customer service standards. A distribution centre is a large, private warehouse designed to provide movement of goods, in and out of storage as fast as possible. Five major modes of transportation include railways, roadways, waterways, airways, and pipelines. A new trend is outsourcing physical distribution.

Sales promotion utilises a variety of incentive tools such as samples, coupons, discounts, premiums, refunds and rebates, contest and sweepstakes, trade deals, and sales contests for sales people etc. for a predetermined, limited period of time in order to stimulate trial, increase consumer or trade demand, and motivate and reward sales force, In most cases, the objectives are generally short-term sales related rather than long-term brand building.

Keywords

Vertical Marketing System (VMS): Vertical marketing system refers to an arrangement in which the whole channel focuses on the same target market at the end of the channel.

Corporate VMS: It refers to the producer's ownership of the entire channel, right from manufacturing to wholesaling, and retailing.

Administered VMS: Administered VMS is achieved when some members because of their position, size and power in the industry are in a commanding position to secure cooperation and support from resellers at different levels.

Contractual VMS: It consists of independent businesses at different levels in the channel including production and distribution, and is most popular.

Horizontal Marketing System: Horizontal marketing system occurs when two or more related or unrelated companies working at the same level come together to exploit marketing opportunities.

Multichannel Marketing System: Some companies use several marketing channels simultaneously to reach diverse target markets. This system is also called hybrid channels or multichannel.

Warehousing: Warehousing is an important physical distribution function and refers to the design and operation of facilities for storing and moving goods.

Sales Promotion: Sales promotion utilises a variety of incentive tools for a predetermined, limited period of time in order to stimulate trial, increase consumer or trade demand, and motivate and reward sales force.

Consumer Promotions: Sales promotions directed at end-users are called consumer sales promotions.

Review Questions

1. What are marketing channels? What is the difference between merchant middlemen and agent middlemen?
2. Describe different channel systems for consumer products with examples of products that are distributed by these channels.
3. Describe the major functions of marketing channels. Why are distribution channels more suitable for performing these functions?
4. Why some marketeers use more than one channel?

5. Explain the difference between intensive, selective, and exclusive distribution.
6. Under what conditions would you suggest using channels with different intensities?
7. Under what conditions would using franchise system be appropriate?
8. What are the most common types of channels industrial marketeers use? Describe the products and situations that prompt manufacturers to use these channels.
9. Describe the characteristics of different types of VMS.
10. Why do conflicts develop between channel members? Suggest a method to resolve conflict between a producer and a wholesaler.
11. Discuss three important consumer promotion tools.
12. Discuss various methods of trade sales promotions. In your view, which method is more suitable?

Further Readings

D. J. Bowersox and M. B. Cooper, *Strategic Marketing Channel Management*, McGraw-Hill 1992.

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Unit 14 Managing Marketing Communication

Unit Structure

- Introduction
- Marketing Communications
- Communications Process
- Barriers to Communication
- Communications Objectives (Marketing Communication Models)
- Hierarchy Models
- Persuasive Communication
- Communications Media
- Budget Allocation to Marketing Communications
- Marketing Communications Mix
- Selection of Promotional Mix
- Integrated Marketing Communications
- Summary
- Keywords
- Review Questions
- Further Readings

Learning Objectives

At the conclusion of this unit, you should be able to:

- Discuss communications process
- Explain the important communications models relevant to promotion planning
- State message related concepts
- Discuss media and communication systems
- Realise how marketing communications budget is allocated
- Identify marketing communications mix elements
- Describe selection of promotion mix and feedback

Introduction

The marketplace is becoming an increasingly complex arena of competitors' activities within a rapidly changing international environment. Companies try to be heard in these sophisticated and cluttered market conditions. They make every effort to speak with clear voices about their activities, products, and services. It is critically important to ensure that whatever is communicated reaches their intended audiences in a clear and consistent manner. Communication is a unique tool used by marketers in an attempt to persuade consumers to act in a desired manner. The purpose of communications is to directly or indirectly influence individuals, groups, and organisations to facilitate exchanges by informing and persuading one or more audiences to accept a company's products and/or services. Organisations' indirectly influence exchanges by communicating suitable information about their activities and products/services to interest groups such as current and potential investors, regulatory agencies, financial institutions, and society in general. Marketing communications help a company justify its existence and maintain a positive and healthy relationship with different groups.

Marketing Communications

What is Communication?

Everyone knows what communication is, yet definitions of communication vary in different textbooks. There always has been a search to formulate more precise definitions of communication. After examining 126 definitions of communication and Dance, Larson concluded:

"Although there are several points of difference in many definitions of communication, upon at least one aspect the vast majority of scholars seem to be in relative agreement. Most students view communication as a process."

Frank X. Dance and Carl E. Larson, The Functions of Human Communications:

A Theoretical Approach (Rinehart and Winston, 1976)

Terence A Shimp and Wayne Delozier say, "Communication can be defined as the sharing of a common meaning."

Donald Baak says, "Communication occurs when the message that was sent reaches its destination in a form that is understood by the intended audience."

Communication as a process would mean that it has a beginning, middle and ending. That is, communication is the transmission of a message from a sender to a receiver by means of a signal of some sort, sent through a channel of some sort communicating the intended idea and meaning. No matter how great an idea, it is useless until it is transmitted and understood by others. Communication must include both the transference and the understanding of meaning.

The marketing communications support the marketing plan and help the target audience understand and believe in the advantage of marketer's offer over competition. This is possible only through designing and implementing persuasive communications. Marketing communications has an external flow and an internal flow.

External Flow

The external flow of marketing communications is directed at the past, current and potential customers; at the channel members; at competing and non-competing firms and at various other audiences who may influence the firm's operations such as government agencies, private agencies and experts in the field. The communications mix may include advertising, personal selling, direct mail, point-of-purchase display, warranties, product updates and publicity, etc. Such communications help in developing and maintaining mutually healthy relationships with different audiences outside the company.

Internal Flow

This aspect of marketing communications flow involves various departments in the company, all the company employees and stockholders. When the company is introducing new products or dropping some existing products, product prices are revised, or company enters new markets or enters new distribution outlets, company employees often need to know what the marketing is doing. Convincing and persuasive marketing communications can help in influencing employee perceptions and shape their morale and performance. If the employees feel that their company is producing highly regarded advertisements, they are motivated to work harder, their turnover decreases and they become a source of effective public relations. Different departments, such as research, engineering, production and marketing need to share product information among them. Stockholders also need to be informed about various marketing actions, as they must be comfortable with the information that marketing decisions are in their best interests and buying company stocks would be a positive investment.

Communications Process

In any communication there are four basic components, a source, a destination, a medium and a message (Figure 14.1). The source, as the initiator or sender of the message, may wish to communicate a feeling, an attitude, a belief, or some fact to another person or persons. To accomplish this, the initiator must first find some way to encode the desired message so that it will accurately convey the message to the desired destination. The source may use words, pictures, symbols, some kind of familiar body language, or some other recognizable code or signal. Whatever the method, the important goal of the source or sender is to encode the message in a way that will maximise the likelihood that the receiver will interpret it in a way that would enable the receiver to understand the intended meaning.

The source or sender must then find a suitable channel or medium through which to transmit the message (sent message). In marketing, the potential channel alternatives are many and varied; therefore, considerable deliberation must be taken to select the channel with characteristics most appropriate to the type of message involved. To make the message delivery efficient, the channel must have direct access to the receiver and be relatively free from noise and distortion.

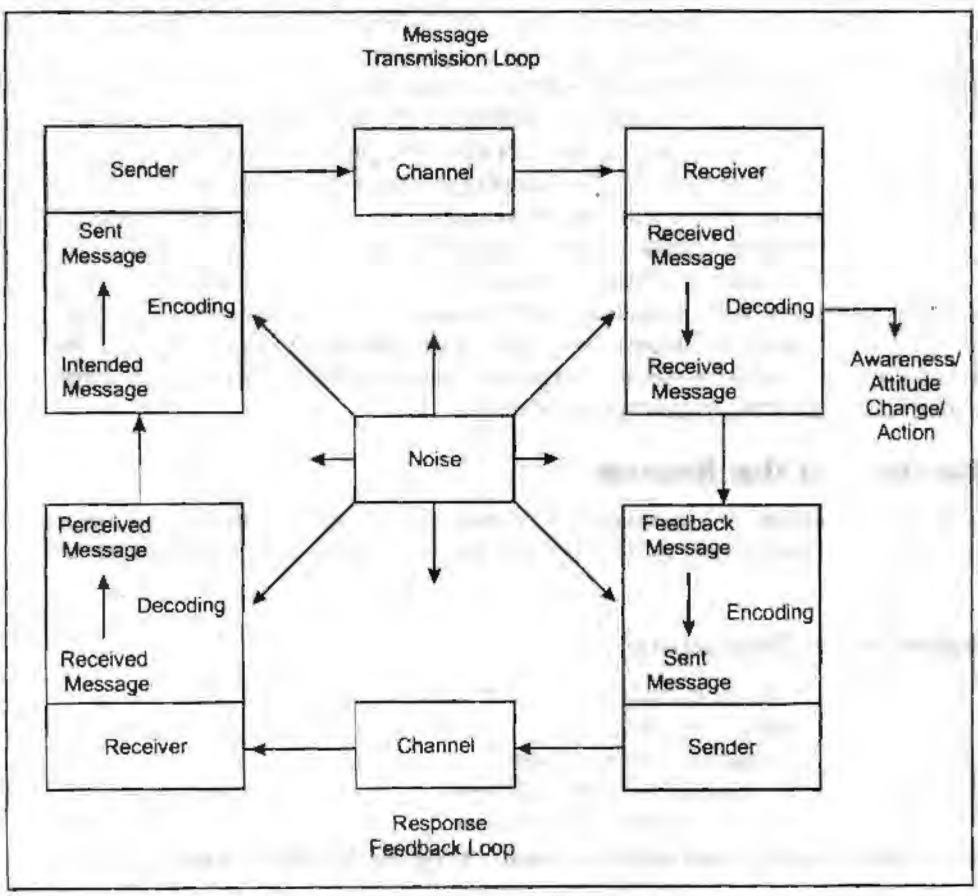

Figure 14.1: Communications and Feedback Mechanism

The sent message may reach one or more receivers. Rarely, if ever, are received messages identical to sent messages. Channel characteristics and noise present in the system are important factors that account for this difference. For example, it is quite difficult to accurately reproduce colours and textures on audio-visual medium and in newspapers, and for this reason the received message may differ from the original sent message.

The sender's message after being received by the target audience is transformed into a perceived message. The perceived message (decoded message) is the outcome of receiver's information processing activities leading to interpretation of thoughts or meanings by the receiver. Several factors affect decoding. The nature of the relationship between the sender and receiver, the sender's and receiver's experiences, attitudes, values, biases and the context in which the message is perceived, will influence the decoded message and also influence any meaning derived by the individual from it. Any actions or changes in the receiver's attitude will be the result of this perceived message.

The feedback loop (Figure 14.1) recognises that the communications process is a two-way information flow. This shows that the feedback can be viewed as the beginning of another communication in which the receiver of the communication can be thought as the message sender. The sender's and receiver's roles are reversed as they interact with each other. The feedback mechanism helps the original sender to monitor how accurately the intended meaning of the message was conveyed and received. In case of many marketing communications, mass media is used to reach widely scattered audience and in such situations, accurate feedback information is rare and very difficult to obtain.

Barriers to Communication

The element of noise in the communications process refers to any type of unplanned disruption or interference that may hinder the communications. The source of noise may be other competing messages vying for audience attention. The sender may have difficulty in formulating the intended message, or there may be some flaw in encoding the message. The selected channel may itself be the source of noise, such as distortion in a radio or television signal, or distractions at the point of reception. While watching a programme on TV or listening a radio programme a problem may occur in the signal transmission that interferes with reception and may lessen the impact of any commercial. Any of the three factors, selective attention, selective distortion, or selective recall may play a role and as a result of this, the audience may not receive the intended message. Selective attention helps audience to pay attention to only some messages. Because of selective distortion, the audience may distort the message to hear it the way they want to hear. In case of selective recall, audience members retain, in permanent memory, only a small fraction of messages that reach them.

Barriers at the Source

Improper derinition of objectives at the source is a barrier to effective communication. This failure is most likely to develop an ad message that does not focus on consumer needs.

Barriers in Encoding

The process of encoding could also be a possible factor for communications failure. Sometimes the creative people are more focused on creating an original ad message than in conveying meaningful product benefits. Basically, advertising creativity needs to be disciplined and purposeful from the marketer's point of view to offer some compelling reasons to consumers to buy the product or service. A message may be very effective in gaining attention but may fail in communicating the benefits to consumers.

Barriers in Transmission

Careful selection of media to reach the target audience is essential. Marketers must match the demographic and other characteristics of their user group to the profile of media consumers.

Barriers in Decoding

A failure to develop a distinct product positioning or ad message related to consumer needs is likely to create barriers in the decoding process. Consumers selectively ignore messages that fail to stimulate their interest. Besides competitive advertising clutter, continued use of the same ad for a long period is often boring to the audience and may prove to be a barrier and decrease ad effectiveness.

Communications Objectives (Marketing Communication Models)

Marketers seek any one or more of the following responses to their communications:

Cognitive Responses

The audience should pay attention to message and comprehend it. This refers to thinking, belief, and other rational aspects.

Affective Responses

The message should lead to formation of new attitude or bring about a change in attitude. This represents feelings such as liking and preference.

Conative or Behavioural Responses

The message should achieve some degree of desired change in behaviour, such as product trial or purchase action.

Researchers and scholars have developed several marketing communication models to suggest how message recipients move through a series of sequential steps to finally purchase decision. 'Noise' due to competing messages, psychological, or social factors hinders the smooth progress through the stages and the probabilities of communication success decline in each stage, reducing the chances of actual purchase.

Hierarchy Models

Marketing communications model implying that consumers pass through a series of sequential steps leading to purchase of a product or service are called hierarchy models (Figure 14.2). The AIDA model was developed in 1920s (E. K. Strong), suggesting that an effective sales presentation should attract attention, gain interest, stimulate desire, and precipitate action (purchase). Ideally, an ad would prove to be really effective if it takes this route, however, in the real world of advertising, ads rarely take the consumer all the way from awareness through purchase. This model, however, suggests the desirable qualities of an effective ad.

Stages	Models			
	AIDA Model	Hierarchy-of-Effects Model	Innovation-Adoption Model	Information Processing Model
Cognitive stage	Attention	Awareness Knowledge	Awareness	Presentation Attention Comprehension
Affective stage	Interest Desire	Liking Preference Conviction	Interest Evaluation	Yielding Retention
Behaviour stage	Action	Purchase	Trial Adoption	Behaviour

Figure 14.2: Four Best-known Hierorchy Models

Hierarchy-of-effects Model

Research findings in the area of consumer behaviour and communications has led many scholars to view communications effects in terms of hierarchy-of-effects model and many such models have been developed over the years. Hierarchy-of-effects model developed by Lavidge and Steiner has stood the test of time well and is the best known. This model helps in setting promotional objectives and provides a basis for measuring results. This model also suggests that communication produces its effects by moving the consumer through a series of steps in a sequence from initial awareness to ultimate purchase of product or service. This sequential order indicates the basic premise that communication effects are elicited over a period of time and that advertising may not precipitate the desired effects immediately because a series of effects must occur before the consumer possibly moves to the next stage in the hierarchy.

Innovation-adoption Model

According to Everett M. Rogers, this model evolved from work on diffusion of innovations. The model depicts various sequential steps and stages that a consumer moves through in adopting a new product or service. Marketers face the challenge of creating awareness and interest in the product or service among target audience and evaluate it favourably. The best way to persuade consumers to evaluate a brand is by inducing product trial or sometimes product-in-use demonstration. This can lead to product adoption as a result of consumer satisfaction or rejection if the consumer is not satisfied.

Information Processing Model

William McGuire developed this model, which assumes that target audiences are information processors and problem solvers. The first three stages in the model; presentation, attention, and comprehension are similar to awareness and knowledge, and yielding means the same as liking. Up to this point, there is similarity with Lavidge and Steiner's model. The next stage, retention is unique to this model and is not present in any other model. Retention refers to the ability of the consumer to accept and store in memory the relevant information about the product or service. Retention of information is important, because most communications, except some types of sales promotions, are designed to motivate and precipitate action not just immediately and the retained information is used at a later time to make purchase decision.

Implications for Managers

Any stage in the response hierarchy may serve to establish communications objectives and the effects can be measured. The targeted audience may be at any stage in the hierarchy and the communicator's tasks may be different in each stage. For example, popular and mature brands of the company may require only reminders to reinforce consumers' favourable perceptions. Every day there are ads about products such as, Coke, Pepsi, brands of toilet soaps, detergents, and many other products, which are in mature category and enjoy popularity among consumers.

If the research reveals that a significant number of target audience have low level of awareness about the brand and its benefits, then the task is to increase awareness of the brand, attributes, and the resulting benefits.

All the four models presented in Figure 14.2, show that in each case the starting stage is cognitive, leading to affective stage and finally to conative or behavioural stage. This progression shows the following sequence:

Learn (Cognitive)	→	Feel (Affective)	→	Do (Conative)

These hierarchy-of-effects models are sometimes referred to as standard learning models. The consumer is considered as an active participant and gathers information through active learning. This type of learning is usually more relevant when consumer is highly involved in the purchase situation and perceives much differentiation among competing brands. Communications for these types of products or services usually are detailed and attempt to furnish a great deal of meaningful information to target audience.

The research in the last more than two decades has shown that this high-involvement sequence may not hold true in case of different product categories. Some convenience products that are consumed daily and purchased routinely do not require high-involvement of consumers.

Persuasive Communication

Communication among people takes place almost constantly and in innumerable number of ways. Persuasive communication, however, is a specific type of communication in promotion. If a particular ad is intended to achieve an intermediate objective, such as to build awareness, deliver information, or remind the target audience, the ultimate objective of promotional strategy is to persuade the audience towards some desired goal of the marketer. Persuasion through advertising or PR/publicity requires longer period of time and may involve several intermediate steps, while personal selling or sales promotions take much less time and a shorter route.

Message Design

Marketing is all about satisfying consumer needs and wants at a profit and at the same time protecting the larger and long-run interests of society. The message is often considered as the most vital component in the communications process. The message is the thought, idea, attitude, image, or other information that the marketer wishes to convey to the targeted audience. How a message is presented is critically important in determining its effectiveness. Brand or promotion managers must focus on what will be the message content, how this information will be structured for communication and what kind of message appeal will be appropriate.

Message Appeals

Through the use of a variety of appeals, a marketer attempts to communicate and influence the purchase and consumption behaviour of the existing and potential consumers. One of the most critical decisions about message design involves the choice of an appropriate appeal. Some communications are designed with the intent of appealing to the rational, logical aspect of the consumers' decision-making process, and others attempt to stimulate consumers' feelings with the intent of evoking some desired emotional response. Many professionals believe that effective promotional message is created by combining practical reasons for purchasing a product or service with emotional values of the audience.

Often the promotional appeals are classified as rational appeals, emotional appeals, and moral appeals. Rational appeals are those that focus on the audience's self-interest and are directed at the thinking aspect of decision-making process. Such appeals attempt to show that the product or service will produce the desired benefits. Examples are ad messages that promise economy, assurance of resale value, quality, durability, reliability, and ease of use, etc. Rational appeals are particularly relevant for industrial buyers who choose products according to some of the mentioned criteria. In case of general consumers, they confidently rationalise most of their purchases even when the purchase decisions are based on emotional grounds. Most of us probably have a keen desire to be regarded as rational human beings and for this reason we usually extend socially acceptable reasons for our purchases.

Emotional appeals are put under two categories: positive emotional appeals, and negative emotional appeals, depending on what kind of emotions are to be triggered. Love, affection, joy, pride, humour, prestige, status, etc., are some examples of positive emotional appeals. Examples of negative emotional appeals are fear, shame, guilt, embarrassment, rejection, etc. Such appeals motivate audience to do things they should do, such as cleaning teeth (Colgate commercial), or to stop doing things they should not, such as smoking and using other tobacco products.

Moral appeals attempt to draw audience attention to what is "right." Moral appeals are generally used to urge people to support social causes such as, environmental concerns, population explosion, donating money to help victims of some natural calamity, or equal status for women, etc. The aim of all marketing communications is to capture audience attention, hold interest, precipitate their desire, and elicit desired action. This requires focusing on four important message issues: what should be said, how should it be said and what would be the message execution style, and who should say it (spokesperson).

Message Structure

Message structure refers to how the elements of a message are organised. Extensive research has been conducted to understand how the message structure influences its effectiveness and includes message sidedness, order-of-presentation, conclusion drawing and verbal versus visual message characteristics.

Message Sidedness

A message can be either one-sided or two-sided. A one-sided message mentions only benefits or positive attributes of the product or service. For example, advertisements of Maruti 800 only address its advantages and don't mention any possible weaknesses. If the audience is favourably predisposed, or if it is not likely to hear an opposing argument, then a one-sided message is most effective. A two-sided message presents not only the strong points of the product or service, but also admits to any weaknesses. The negative part of the information is usually relatively unimportant compared to positive information. Such messages become more effective because they help increase the source credibility and thereby reduce resistance to message acceptance.

Two-sided messages can be refutational or non-refutational. In a refutational message, the negative information is presented first then refuted. On the other hand, a non-refutational message would simply mention various pros and cons about the product or service in a straightforward manner.

Two-sided messages are often seen in the case of comparative advertising, where the name of one or more competitors are openly mentioned for the purpose of claiming overall superiority or superiority on a selective attribute basis. To enhance credibility, the advertiser usually mentions an independent research organisation as the supplier of comparison data.

One-sided messages tend to confirm what the audiences already believe about the brand and therefore consumers generate cognitive responses in the form of support arguments, which reinforce their initial position. When the audiences are not favourably predisposed, a two-sided message is more effective because it acknowledges their initial position and the consumers tend to view the advertiser as more honest or credible. This minimises the audience's use of counter arguments as the advertiser is perceived trustworthy, which should then result in more acceptability of the advertiser's message.

Order of Presentation

Order of presentation of message arguments is an important consideration in the design of promotional message (Figure 14.3). Important message arguments can be presented in the beginning of the message, in the middle, or at the end. Research shows that items presented in the beginning or the end of the message are remembered better and stand a much better chance of recall than those presented in the middle.

Climax versus Anticlimax Order

When the strongest message arguments are presented at the end of the message, it is called climax order. But when the most important message points are presented at the beginning of the message, it is referred to as anticlimax order.

The main message points when presented in the middle are called pyramidal order. Based on research findings, the following guidelines can help in deciding the message order.

- When the audience is likely to have low-involvement in a product category, an anticlimax order tends to be most effective.
- In case of audiences having high level of interest in the product category, a climax order tends to be most effective.
- The least effective order of presentation is believed to be pyramidal order.

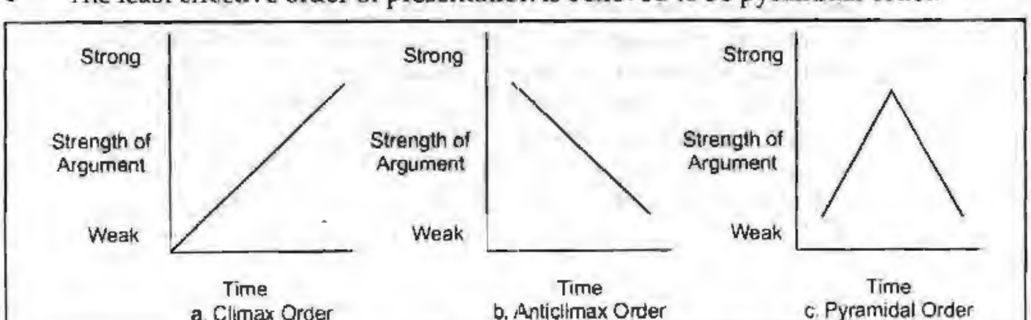

Figure 14.3: Graphical Presentation of Three Message Orders

Recency and Primacy Effects

When many competing messages are involved, as is the case in print or TV ads, different advertisers often consider primacy effect and recency effect. The primacy effect occurs when the message presented first creates greater opinion or attitude change. But if the message arguments presented last produce greater opinion or attitude change, it is recency effect. It appears that both primacy and recency effects work at different times. So far, research findings are not conclusive on this issue. There are advertisers who believe either in primacy or the recency effect and accordingly decide about the message order or the ad placement.

Conclusion Drawing

It is an important issue for marketers to decide whether the message should allow the audience to draw their own conclusions about the product or service or the message should draw a firm conclusion for the audience. Research shows that drawing a firm conclusion or leaving the conclusion drawing to audience largely depends on the nature of target audience, the type of product or service and the nature of communication situation.

Sometimes, conclusion drawing may be affected by the complexity of the product where even the highly educated audience may need assistance. For example, in the present conditions in our country, many highly educated people, in certain disciplines, may not be fully conversant with the complexities of computers.

Verbal versus Visual Messages Characteristics

No one can deny the importance of visual and non-verbal elements in advertising. A good number of ads use very little written information and mainly focus on visual elements to covey the message. Pictures used in ads convey meaningful information and also reinforce the ad claims. According to Andrew A. Mitchell, the verbal and visual portions in an ad have their influence on ad processing by audiences, who often develop images based on illustrations and pictures. Research by H. Rao Unnava and Robert E. Burnkrant has shown that verbal information was low in imagery value while the pictures providing examples increased immediate as well as delayed recall of the product attributes. Advertisers often create ads where the visual image supports the verbal appeal to develop strong and persuasive impressions in the audience's mind.

Message Source

The company seeking to promote a product or service is the ultimate message source. Sometimes the message source identity may be quite clear, but at other times the company may use some distinctive individuals as the apparent message source. A message source is quite distinct from the message itself and the distinct individual may have considerable impact on the communication effectiveness. If the target audience identify with endorser and perceive closer link between the source personality and a product, the stronger the message effect. Quite a few companies marketing consumer durable and non-durable products are using popular sports persons and film stars in their advertising to endorse their products. It has been a common sight to see Sachin Tendulkar, Rahul Dravid, Saurav Ganguly, Amitabh Bachchan, Shahrukh Khan and many others – the list goes on and on – endorsing some well-known brands. Companies expect to derive three types of benefits from endorsers:

- Endorsers increase viewing of TV ads and readership of newspapers and magazines, etc.
- Endorsers can influence positive attitude change towards a company and its brands because of their credibility.
- Endorser's perceived personality characteristics can get associated with a brand's imagery.

Source Credibility: Source credibility means the extent to which the audience perceives the source as having relevant knowledge, expertise, or experience and believe that the source will provide unbiased and objective information about the product or service.

Source Expertise

Research findings show that expert and trustworthy endorsers are more persuasive than others considered less knowledgeable or trustworthy. A credible source's message influences beliefs, opinions, attitudes and behaviour because the audience believes that information from such a source is accurate and becomes integrated in the belief system of individuals and may be maintained even after the message source is forgotten. An expert is likely to be the best choice when the product nature is technical and consumers need to be assured about safety and reliability. This is a typically high-involvement decision situation and consumers need solid reassurance.

Marketers use a number of approaches to communicate source expertise. Endorsers are often chosen for their expertise and experience in a particular product or service area. The sources can be scientists, doctors, professors, engineers, athletes, famous musicians, artists, a typical housewife and many others. Research shows that celebrity endorsers are most persuasive when they are knowledgeable, qualified and experienced to talk about what they are endorsing.

Source Trustworthiness

Expertise is fine, but consumers must also be convinced about the expert's trustworthiness. Finding endorsers with an image of being trustworthy is at times difficult. Such figures hesitate to endorse a brand because of the potential effect on their reputation and image. It often helps if trustworthy individuals say things that are not only favourable to the brand but also talk about some insignificant limitation of the product, as no product can be thought to be one hundred per cent perfect.

Another approach to enhancing credibility is to use the company chairman or chief executive officer as the spokesperson in the firm's advertising. Many advertisers believe that the ultimate commitment to quality and customer service is to use CEO or the company president as the spokesperson. Eric Reidenback and Robert Pitts have suggested that the use of company president or CEO can improve consumer attitudes and increase the likelihood that they will enquire about the company's product or service. For example, the ad of Khaitan Marathon fan used the Khaitan chairman as the spokesperson.

Marketers use a typical satisfied consumer (Lalitaji in Surf ad), which often is the best choice when consumers strongly identify with the role involved. A typical satisfied consumer is considered as sincere and trustworthy.

Source Attractiveness

Attractiveness of a source surrounds similarity, familiarity and likeability. Similarity is an assumed resemblance between the source and the members of audience and familiarity means the knowledge of the source through exposure. Likeability is the affection developed for the message source as a result of physical appearance and behavioural aspects. Consumers often admire the source's looks and other personality traits and thus the source's attractiveness becomes persuasive through a process of identification. This means that the audience develops a need to search for some type of resemblance or relationship with the source.

Overexposure

According to Valerie Folkes, consumers are often sceptical of endorsers because they know that the endorsers are paid to appear in an ad. This problem is relatively more serious when the same endorser appears in ads by different companies, leading to overexposure. Marketers often include some clause in the contract banning the endorser from appearing in any other ad for a period of time to check overexposure, but such clauses are generally expensive. When a celebrity appears in many different ads, the credibility of the endorser goes down. It is not unusual, to view in TV commercials in our country the same rather senior looking lady in the role of a mother, or mother-in-law endorsing a detergent, a cooking medium, a hair-oil or an Ayurvedic cough-remedy. The same familiar faces are seen in too many ads for different products. The point being emphasised is that consumers are unlikely to be impressed with such ads.

Likeability

Advertisers often use physically attractive persons in their ads as a passive or decorative model to compel audience attention. Attractiveness generates positive influence and can lead to favourable evaluations of products as well as ads. The relevance and suitability of the model depends on the nature of the product. For example, Cindy Crawford appears in Revlon ads. Since physical appearance is quite relevant for cosmetics and fashion clothing, attractive female models are more appropriate for such products.

Message Execution Style

The message needs to be powerfully presented with regard to headline, copy, visuals, colour, sounds, and non-verbal clues. William Bernbach strongly believed that the element of message execution is just as important as the message. There are various ways in which a message can be presented in different promotion mix elements, such as factual message, scientific or technical evidence, testimonial, demonstration, comparison, slice-of-life, lifestyle, fantasy, humour, etc.

Communications Media

In an advertising context, the medium means the channel used to communicate the messages, for example, the broadcast media and the print media. Both these media are non-personal in nature. The various media used by advertisers to communicate with audiences are different in a number of aspects, such as the type of audience, the number of audience they can reach, costs and qualitative factors, etc. There are basic differences among media concerning the rate and the manner in which the information is communicated and can be processed by audiences. When the readers are in a position to read as long as they desire and process the ad message at their own convenience, such as ads appearing in newspapers, magazines, or direct mail, the information processing is 'self-paced'. On the other hand and in sharp contrast, the information from broadcast media of television and radio cannot be processed at the audiences' convenience because it is 'externally paced' and the rate of transmission of the messages is controlled by the medium itself. These differences in the processing rate for print and broadcast media are important and have significant implications for advertisers in media choice. In case of personal selling, the salesperson is the message carrier and can make adjustments according to the situation and customer requirements. This allows face-to-face dialogue between the salesperson and the customer.

Print media offers the advantage of being self-paced and makes it easier for the message recipients to read and process a detailed and complex ad message. It is often advantageous for advertisers to use print media in case of high-involvement products that require a rather lengthy copy in an attempt to communicate detailed information. Broadcast media, in most cases, are more appropriate for shorter messages. For example, TV is more suitable when pictorial information along with words and movement is important. Often shorter and attention arresting messages on broadcast media are followed by print ads to furnish more detailed and complex information. For immediate recognition of the ad message in print, advertisers use the same version of the ad as in broadcast media.

Marshall McLuhan says, "The medium is the message." This means that an ad message is interpreted and influenced by the environment in which it is received and communicates an image that is independent of the message content. This effect is known as qualitative media effect. For example, the ad for a designer dress for women is likely to have more of an impact in a magazine like Femina or Vogue than India Today or Reader's Digest.

The image of media vehicle is independent of the type of message it carries and can have significant effect on reactions to message.

Advertisers are also concerned with clutter in media environment. Besides the actual programmes in broadcast media, there are large numbers of commercials competing for the consumers' attention. This clutter is quite annoying to consumers and poses difficulties to advertisers in effectively communicating ad messages. The problem is more intense during prime time or popular TV shows due to the increasingly popular trend of shorter commercials of 10 or 15 seconds duration.

Types of Communications Systems

Different communications systems vary in complexity, level of communicator and receiver contact, feedback time and adjusting to feedback. The types of communication can be basically classified under two heads, interpersonal communication and impersonal communication. The impact and influence of each differs significantly.

Interpersonal Communication

Communication occurring at a personal level between two or more people is termed as interpersonal communication. This communication may be face to face between two people, on the telephone, or through mail.

Informal communication concerning products or services is more likely between two friends. Such word-of-mouth communication is likely to be highly persuasive because one friend apparently has nothing to gain from the other friend's future reactions. For this reason, marketers realise that positive word of mouth about their product or service can be very beneficial. On the other hand, negative word of mouth can be disastrous, more so because it is difficult for marketers to control this situation. In many situations of high-involvement purchases or before buying services, consumers often rely more on informal communication.

Table 14.1: Characteristics of Different Types of Communications Systems

Communication	Characteristics			
Types of Communications	Complexity	Contact	Feedback time	Adjustments
Mass Communication	High	Low	Long	Low
Interpersonal	Low	High	Short	High
Organisational	Moderate	Moderate	Moderate	Moderate
Public Communication	High	Low	Long	Moderate

Formal interpersonal communication takes place between a salesperson and a potential customer. The salesperson is the sender of the message and the customer is the receiver. This communication, when face to face, tends to be more effective because the salesperson can immediately notice the customer's reaction, verbal or non-verbal, indicating whether the intended message is received. In case of telephonic communication, only the words or voice tones, etc., do provide quick feedback. Mail also permits feedback but it is slower and much depends on the receiver's willingness and ability to answer.

Marketers are increasingly realising that non-verbal messages are sometimes more important than verbal messages particularly in personal selling and advertising.

Feedback, both verbal and non-verbal, in interpersonal communications, enables the message initiator to have some indication concerning acceptance of message and if required, the sender can explain, repeat, or modify the message in more detail. Marketing communicators are generally quite attentive to feedback and modify messages based on what they see or hear from the audience. It is only through feedback that the message initiator can know the impact of intended message and for this reason feedback has been shown as an integral part of communications model.

Impersonal Communication

Communications directed to large and scattered audience is called impersonal communications. An example of impersonal communications is mass communication, such as advertising or publicity. There is no direct contact between the sender and the receiver. The organisations, both for profit and non-profit, are usually the source of mass communications. They develop and transmit suitable messages through specific departments or spokespersons. These messages are usually meant to reach targeted audience or audiences to inform, influence, or persuade them. For example, a toilet soap or detergent marketer may wish to persuade individuals and households to use its brand of toilet soap or detergent. Generally, the objective of marketing communications is to induce purchase of a product, to create a positive attitude toward its product, to impart the product a symbolic meaning, or to convince that it can satisfy consumers' needs or wants in a better way than the competitive products.

The typical mass media used are newspapers, magazines, billboards, radio, television and transit media, etc. Mass communication is used both by profit and non-profit organisations. Marketing organisations use mass communication usually for commercial purposes, while non-profit organizations' objectives are social or cultural in nature.

Budget Allocation to Marketing Communications

Rarely, if ever, are theoretical approaches to budgeting used. In practice, firms use one or more methods developed through practice and experience that have been somewhat resistant to change for more than a decade. Some firms use more than one method, and approaches to budgeting vary among companies depending on size and sophistication of the company.

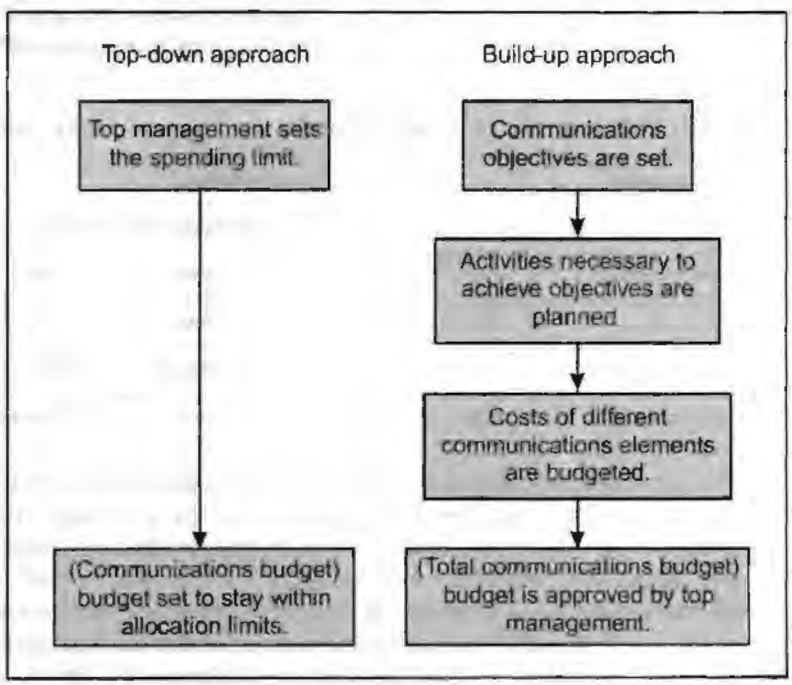

Figure 14.4: Top-down and build-up Budgeting Approaches

In practice, companies use two totally different approaches to budget setting, top-down approach and build-up approach (also called bottom-up approach). In case of top-down approach, the budgetary amount is established by higher management and passed down to various departments. There is no real theoretical base for this approach. Top-down methods of budgeting include the affordable method, arbitrary allocation, percentage of sales, and competitive parity method.

Top-down methods are judgmental in approach and the budget is apparently not linked to the objectives and the strategies decided to attain them. The build-up approach takes into account the company's communications objectives and budget is allocated on the basis of what is considered essential to accomplish the goals. This approach includes objective and task method, and quantitative models.

The affordable method (also called all-you-can-afford method): This is quite a simple method. After all other allocations have been made to cover other relevant company expenditures whatever is left is allocated to communications considering that this is what the firm can afford to spend. No consideration is given to what is expected of communications. One may reasonably think that the chances of under or overspending are high with this method.

This approach is fairly common among small firms; high-tech firms in particular focus on new product development and engineering and believe that if the product were good it would sell on its own. Surprisingly, this method often produces good results. If a company is doing proper allocation to other elements of business, then probably the amount left over for communications is adequate to meet the company's advertising needs.

The thinking seems to be "we can't be hurt with this method as we are allocating what we can afford and not get into any financial problems." This method is not based on sound decision-making principles.

Arbitrary Allocation

This method of budget allocation seems to have no theoretical basis. The management determines the budget on the basis of what is felt to be necessary, however, there are no criteria to defining what is really meant by "necessary" in the context of advertising budget allocation. This method does not offer any advantages but is used by many firms. It lacks any systematic thinking that may reflect some relationship with advertising objectives. Probably the managers believe that some amount should be spent on advertising and pick up a figure as advertising budget. Apparently there is no basis to explain this approach.

Percentage of Sales Method

Of all the methods developed and used to determine the marketing communications budget, probably the percentage of sales is the most commonly used method, especially by large and medium sized companies. The basis is the total sales of the brand or product.

In its simplest application, a fixed percentage of last year's sales figure is allocated as the budget. A variation of this is method is to use a percentage of the projected sales figures of the next year as the base. Yet another variation is to calculate the average sales of the last several years to decide budget allocation. In another slightly different approach, a fixed amount of the unit product cost is taken as the communication mix expense and multiplied by the number of projected sales units.

For example, if the total sales in 2001-2002 were ₹ 1000,000. The budget may be decided as 10% of this figure for 2002-2003, which would be ₹ 100, 000 (10% of 1000,000 = 100,000). In case the ad budget is to be decided on the basis of sales units, let us assume the manufacturing cost per pair of jeans is ₹ 200 and the money allocated per unit is ₹ 20. The projected sales figure is 50,000 jeans for the coming year, then the total communications budget can be easily calculated and would be ₹ 1000,000 ($50,000 \times 20 = 1000,000$).

Competitive Parity Method

Many advertisers base their promotion mix budget allocation on competitor's expenditures. Such information is easily available in trade journals and business magazines. Adopting this approach, managers decide budget amounts by matching competitor's percentage-of-sales allocations. The logic behind this approach is that the collective wisdom of the firms probably generates communications budgets that are quite close to optimal. Not everyone would be too far from what is adequate in a given industry. This method also takes into view the competition leading to stability in the market-place and minimising the chances of promotional wars.

There are disadvantages in using competitive parity method. First, it ignores the fact that each firm allocates budget to accomplish specific communications objectives to solve certain problems or to take advantage of the present or emerging opportunities. The inherent assumption seems to be that all the firms have similar communications objectives, and their allocations are correct, which may be far from reality. Second, the method assumes that all firms will have equally effective communications programmes because the expenditures are similar and ignores the contributions of media and creative executions.

Objective and Task Method

Setting objectives and budget decision are linked together and should be considered simultaneously. For example, it does not make sense to have an objective of creating awareness among 200 million audiences in the target market unless the firm is prepared to allocate minimal budget amount required to achieve this goal. The objective and task method is based on build-up approach. Three steps need to be taken:

- Defining the communications objectives to be accomplished,
- Deciding specific strategies and tasks necessary to achieve them, and
- Estimating the costs involved in putting these strategies and tasks in operation.

The total of all the associated costs is the base to determine the advertising budget.

Implementation of objective and task method in determining the communications budget requires a higher degree of managerial involvement. The whole process must be monitored throughout keeping in view how well the objectives are attained and suitable changes in strategies made, if deemed necessary. This approach represents an attempt to introduce intervening variables such as awareness, knowledge, or attitude formation, etc., which are presumed to be indicators of immediate and future sales.

Experimental Approach

The promotion or brand manager uses tests and experiments in one or more selected market areas. The purpose is to determine the impact of input variations that might be used. The feedback data from these experiments and tests is used in determining the non-personal methods of communications budget. A brand may be simultaneously tested in several market areas with similar population, level of brand usage and brand share. Different expenditure levels are kept for each market. Brand awareness and sales levels, etc., are measured before, during, and after the test in each market. Results are compared and estimates can be developed on how the budget variations might influence the communications results nationwide. The managers may decide any level of budget depending on the firm's advertising objectives. Apparently, the experimental approach removes the difficulties faced by other budgeting methods.

The major drawbacks of this approach are the expenses and time involved. The advertiser also cannot control the environmental variables that may influence the outcome of such tests. The development and use of quantitative techniques, which are often used in deciding advertising and other budget allocations but have met with limited success.

Marketing Communications Mix

The major elements of marketing communications mix (also called promotion mix) include advertising, sales promotion, personal selling, public relations and publicity, and direct marketing. Each element of communications mix has its own unique attributes and associated costs.

Advertising

Advertising is any paid form of non-personal mass communication through various media to present and promote products, services, and ideas, etc. by an identified sponsor.

Advertising can be extremely cost effective because it can reach a large population at a low cost per person and the message can be repeated several times. TV commercials combine movement, visuals, sound, and colour. A company can attempt to enhance its own image and that of its brand by including celebrity endorsers in its ads appearing in various media.

TV advertising is expensive in terms of actual target audience reached. TV commercials are usually very brief to furnish meaningful information to audience. Advertising can rarely provide rapid feedback, measuring its effect on sales is difficult. Advertising clutter in almost all media is making advertising less capable of attracting consumer attention.

Sales Promotion

More recently, the Council of Sales Promotion Agencies has offered a more comprehensive definition, "Sales promotion is a marketing discipline that utilises a variety of incentive techniques to structure sales-related programmes targeted to customers, trade, and/or sales levels that generate a specific, measurable action or response for a product or service."

Examples of sales promotions include free samples, discounts, rebates, coupons, contests and sweepstakes, premiums, scratch cards, exchange offers, early bird prizes, various trade deals, etc. All such offers generally include specified limits, such as offer expiry date or a limited quantity of merchandise. Sales promotions are aimed at either increasing immediate sales, to increase support among marketer's sales force, or gain the support of resellers of company product.

Personal Selling

Personal selling is a face-to-face paid personal communication and aims to inform and persuade prospects and customers to purchase products, services, or accept ideas of issues. It involves more specific communication aimed at one or several persons.

Personal selling is most effective but also more expensive than other promotion mix elements. It provides immediate feedback, allowing sellers to adjust their sales messages to improve the impact on customers. Personal selling helps sales people to determine and respond to customers' information needs and also interpret body language.

Public Relations and Publicity

Public relations is a broad set of communication activities employed to create and maintain favourable relationships with employees, shareholders, suppliers, media, educators, potential investors, financial institutions, government agencies and officials, and society in general, such as annual reports, brochures, events sponsorship, sponsorship of various programmes beneficial for society.

Publicity is a tool of public relations. It is non-personal mass communication, but not paid for by the benefiting organisation for the media space or time. It appears in the form of news story about an organisation, its products, or activities. Some common tools of publicity include news releases, press conferences, and feature articles.

Unpleasant situations arising as a result of negative events may precipitate unfavourable public reactions for an organisation. To minimise the negative effects of such situations leading to unfavourable coverage, companies have policies and procedures in place to help manage any such public relations problems.

Direct Marketing

Direct marketing is vending products to customers without the use of channel members. It is a system by which firms communicate directly with target customers to generate the response or transaction. The response may be to generate an inquiry, a purchase, or even a vote. Direct marketing uses a set of direct-response media, such as direct mail, telephone, interactive TV, print, Internet, etc. Through these media, direct marketers implement the communication process.

Most companies use primarily conventional promotion mix elements to move products through intermediaries, many companies are adopting direct marketing as well to reach customers directly to generate immediate behavioural response.

Selection of Promotional Mix

Different organisations vary in their composition of promotion mix. No matter which element of promotion mix or a combination they choose, they aim to inform, persuade, or move customer closer to making a buying decision. Depending on the type of customers and the kind of product, consumers sometimes rely to some extent on word-of-mouth communication from personal sources.

Product Characteristics

Promotion mix for non-durable consumer products includes advertising, sales promotion, personal selling, and public relations. Many other products used both by personal consumers and also by industrial buyers such as computers, get advertising, sales promotion, and personal selling. Advertising and personal selling is used for many consumer durable products such as home appliances, autos, tractors, housing, etc. Industrial products, such as aircraft and heavy earth-moving and construction equipment are mainly sold through personal selling.

Product life cycle stage is another consideration. During the introductory stage, advertising and publicity are most cost-effective. Advertising and publicity are powerful tools for creating awareness. Personal selling is very helpful in creating comprehension among consumers and gaining distribution coverage. Sales promotion can induce trial during introductory stage of life cycle. During growth and maturity stages of consumer products, heavy emphasis on advertising becomes necessary and in some cases sales promotion is also used. Industrial products during these stages often require personal selling coupled with sales promotion. During decline stage, firms generally decrease promotional support, particularly advertising.

Market Characteristics

This aspect is particularly important for industrial products. Allocation of promotional funds in order of priority goes to personal selling, advertising, sales promotion, and public relations. If business buyers are located only in certain geographic areas, and are large buyers then personal selling is more cost effective. Companies operating in consumer markets, allocate more funds to sales promotion, advertising, personal selling, and public relations in order of priority. Generally, personal selling is more appropriate for high involvement expensive, complex, and risky products.

Pull and Push Strategies

Promotion mix decisions also depend on the choice of promotion strategy. In case of pull strategy, a marketer directs its communications to consumers to develop strong consumer demand for the product or service. This is primarily accomplished through advertising and sales promotion. This induces consumers to ask resellers of the product. Retailers in turn go to wholesalers or the producer to buy the products. This strategy intends to pull the goods down through the channel by creating demand at the consumer level. This strategy suits strong high-involvement brands, when consumers perceive high differentiation between brands, and the brand choice is made before going to the store. With push strategy, the manufacturer promotes the product only to the next institution down the marketing channel. Each channel member promotes to the next channel members down the line. This strategy usually involves using personal selling and trade sales promotions to motivate resellers to stock the product and sell the product to consumers. In certain cases, retailers pass on part of the benefit to consumers to clear the stocks early. Push strategy is suitable when the brand loyalty is low, consumers are aware of brand benefits, and purchase decisions are made in the store.

Integrated Marketing Communications

Different marketing and communication functions are generally managed as totally separate entities and such companies do not realise that marketing communication tools should be coordinated for communication effectiveness and present a consistent image to target markets.

Many companies recognise the need for increased strategic coordination of different promotional elements. Integrated marketing communication (IMC) is an attempt to coordinate various marketing and promotional activities to make marketing communication to target customers more effective and efficient. The first definition of IMC by American Association of Advertising Agencies says:

"... a concept of marketing communications planning that recognises the added value of a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines - for example, general advertising, direct response, sales promotion, and public relations - and combines these disciplines to provide clarity, consistency, and maximum communications impact."

What marketers must understand is that everything they do or do not do sends a message. Every corporate activity has a message component. According to Duncan and Moriarty, consumers and other stakeholders receive four company/brand related messages (Figure 14.5).

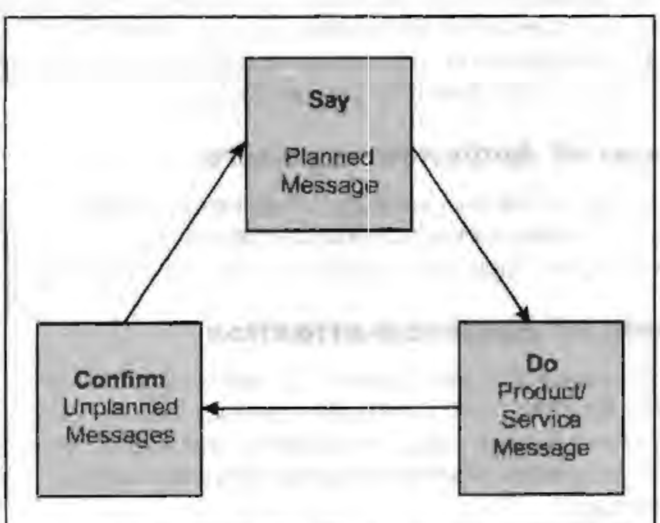

Figure 14.5: Say, Do, Confirm Model

1. *Planned messages:* Planned messages are say messages, representing what companies say about self. These messages represent typical marketing communications such as advertising, personal selling, sales promotion, direct marketing, publicity, etc. Such messages often have the least impact because they

are viewed as marketer controlled and self-serving. Planned messages should aim to accomplish the predetermined set of communications objectives. This is the most basic aspect of Integrated Marketing Communications (IMC).

2. ***Product messages:*** Product or service messages are do messages, as they communicate what the company does. Messages from product, its price, and distribution elements are referred to as the product messages. Customers and others receive totally different messages from ₹ 75 lakh BMW and ₹ 2.36 lakh Maruti 800. Product messages cause great impact because when a product performs as promised, the consumer gets a positive and reinforcing message. On the other and, if there is gap between the product's performance and the communicated promises, the customer is more likely to get a negative message.

3. ***Service messages:*** Company's employee interactions with consumers also become a source of messages. In many service-providing companies, customer service personnel are supervised by operations, and not marketing. The service rendered sends messages, which have greater impact than the planned messages.

4. ***Unplanned messages:*** Such messages are confirm messages as they represent what others say and confirm/not confirm about what the company says and does. Companies have little or no control over the unplanned messages that result from employee gossip, news stories not under the control of the company, comments that traders or competitors pass on, word-of-mouth communications, or major disasters. These unplanned messages, favourable or unfavourable, may influence consumer attitudes quite significantly.

The objectives of integrated marketing communications are to coordinate all of a company's marketing and promotional efforts to project and reinforce a consistent, unified image of the company or its brands to the market-place. The IMC approach is an attempt to improve over the traditional method of treating promotion elements as totally separate activities. IMC is increasingly helping companies to develop most suitable and effective methods to contact customers and other interested groups.

Communications Feedback

Feedback helps marketers to evaluate the effectiveness of marketing communication. It is difficult in most cases to determine the effect of advertising alone on consumer purchase behaviour and due to this reason marketers determine whether the ad results in exposure, attention, comprehension, message acceptance and retention.

Measurement of Audience-exposure

Exposure to a message can be measured by taking into account the circulation figures of print media and programme rating for broadcast media. These figures are conveniently available for newspapers, magazines and for different broadcast media programmes.

Measurement of Audience-attention

These figures are measured by recognition of a message by the audience. Consumers are asked whether they have seen a particular message and can they associate it with a brand or manufacturer. Research agencies conduct recall and recognition tests in case of broadcast media to ascertain whether consumers recalled relevant message regarding the brand or company.

Measurement of Audience-comprehension

This is measured with the help of aided or unaided recall tests for specific message points in the communication. Researchers probe consumers to determine the level of comprehension of a message.

Measurement of Audience's Message Acceptance

Consumers' attitudes towards the brand are a good indicator of message impact. This can be done by measuring their attitudes towards the brand before and after the exposure to ad message. Researchers compare matched groups of consumers exposed to the message and those not exposed to the message to determine the impact of advertisement on audience attitudes.

Measurement of Audience's Message-retention

Average consumers are likely to retain a message in their memory if it was successful in making an impact. They do not pay attention to messages that are not relevant to them. They are also likely to forget messages over time unless they are repeated.

William J. McGuire has presented an advertising processing model that depicts the types of feedback that each step can possibly provide. These steps typically assume that as consumers move from exposure to other intervening steps, the probability that they will buy the promoted product increases with each succeeding step (Figure 14.6).

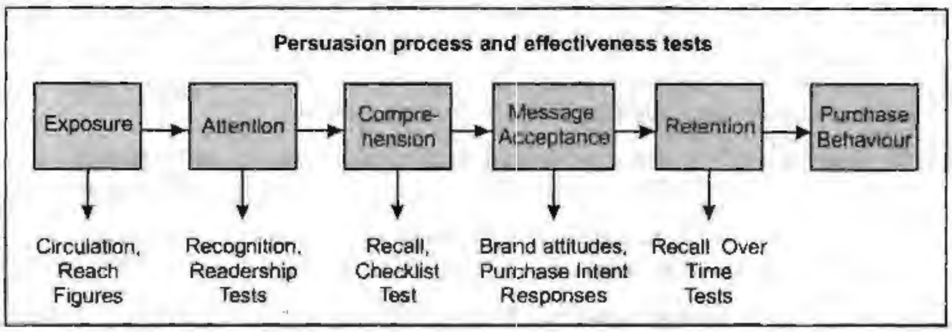

Figure 14.6: Decoding Process and Feedback

Technological developments have created opportunities to help in establishing a link between consumers' exposure to company or brand related messages and their subsequent attitudes and purchase behaviour. In case of company products, electronic scanners record sales at checkout counters and furnish useful data.

Despite several developments, it is still difficult to precisely record the impact of advertising and other promotions on consumer purchase behaviour. A major reason is that besides marketing communications, there are several other variables that influence consumers' purchase behaviour.

Student Activity

1. Define communication.
2. Define external flow of Marketing Communication.

Summary

The purpose of communications is to directly or indirectly influence individuals, groups, and organisations to facilitate exchanges by informing and persuading one or more audiences to accept a company's products and/or services.

The current view about marketing communications is that it is an interactive dialogue between the organisation and its audiences and that every type of brand contact with customers is important because it communicates something that can strengthen or weaken customers' view of the company.

In any communication there are four basic components: a source, a destination, a medium and a message. The source encodes the desired message so that it will accurately convey the message to the desired destination. The source may use words, pictures, symbols, some kind of familiar body language, or some other recognisable code or signal.

The aim of all marketing communications is to capture audience attention, hold interest, precipitate their desire, and elicit desired action. This requires focusing on four important message issues: what should be said, how should it be said and what would be the message execution style, and who should say it.

Companies use different methods to determine promotional budget that include all-you-can-afford, percentage-of-sales, competitive parity, objective-and-task, and experimental methods. The most scientific approach is objective-and-task method.

Major promotion mix elements include advertising, sales promotion, personal selling, public relations publicity, and direct marketing. Each has its advantages and limitations. Advertising is any paid form of non-personal mass communication through various media to present and promote products, services, ideas, etc. by an identified sponsor.

Keywords

Internal flow: This aspect of marketing communications flow involves various departments in the company, all the company employees and stockholders.

Cognitive Responses: The audience should pay attention to message and comprehend it. This refers to thinking, belief, and other rational aspects.

Affective Responses: The message should lead to formation of new attitude or bring about a change in attitude. This represents feelings such as liking and preference.

Conative or Behavioural Responses: The message should achieve some degree of desired change in behaviour, such as product trial or purchase action.

Hierarchy-of-effects model: Research findings in the area of consumer behaviour and communications has led many scholars to view communications effects in terms of hierarchy-of-effects model and many such models have been developed over the years.

Innovation-adoption model: According to Everett M. Rogers, this model evolved from work on diffusion of innovations.

Persuasive communication: This is a specific type of communication in promotion.

Message Structure: Message structure refers to how the elements of a message are organised.

Advertising: Advertising is any paid form of non-personal mass communication through various media to present and promote products, services, and ideas, etc. by an identified sponsor.

Sales Promotion: Sales promotion is a marketing discipline that utilises a variety of incentive techniques to structure sales-related programmes targeted to customers, trade, and/or sales levels.

Personal Selling: Personal selling is a face-to-face paid personal communication.

Direct Marketing: Direct marketing is vending products to customers without the use of channel members.

Review Questions

1. How would you define marketing communications? What are the main elements of communications process?
2. Explain hierarchy model. For what kind of purchases do these models fail, when it comes to explaining the steps consumers take in making buying decisions?
3. What is message appeal? Illustrate your answer with three examples each of rational and emotional appeals.

4. Emotional appeals are appropriate for what kind of products. Give your reasons.
5. What is the significance of message source?
6. How do market and product characteristics affect promotion mix?
7. What are the different methods for promotion budget determination? Which is the best method, in your view?
8. How do advertising and publicity differ? Which one of these is more effective and why?
9. What is the major strength of sales promotion? Under what situations is sales promotion more appropriate?
10. What is integrated marketing communications? How can a company apply this concept?

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Unit 15 Changing Trends in Marketing Mix

Unit Structure

Learning Objectives

At the conclusion of this unit, you should be able to:

- Describe nature of relationship marketing
- State role of value creating in marketing
- Discuss strategies to develop relationships
- Realise increasing importance of relationship in consumer market and non consumer market

Introduction

One of the strongest advocates of relationship marketing is Christian Gronroos (1990a,b; 1994); he defines relationship marketing as follows: 'to identify and establish, maintain and enhance and terminate relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met. This is done by a mutual exchange and fulfillment of promises. It is, however, important to emphasize that the relationship marketing perspective excludes neither the marketing decision-making activities associated with attracting customers, nor the processes that lead to innovation and new product development (Gronroos 1990b). Rather, it recognizes that these types of marketing activity need to be balanced with activities associated with the building of ongoing customer relationships.

Relationship Marketing

The relationship marketing perspective provides a broader and a longer-term view of the role of marketing in an organization. In doing so, it leads to integration of other aspects of management, so that the division between what is 'relationship management' becomes somewhat arbitrary. This broader perspective is recognized by Christopher, Payne and Ballantyne (1991), who define relationship marketing as 'the understanding, explanation and management of ongoing collaborative business relationships between suppliers and customers'. And Morgan and Hunt (1994) define it as 'all marketing activities directed towards establishing and maintaining successful relational exchanges.

A similar classification was developed by Christopher *et al* (1991), who identify six 'markets' with which organizations have relationships".

- Customer market;
- Referral market;
- Supplier market;
- Employee market;
- Influence market;
- Internal market;

According to Christopher *et al* (1991), the traditional customer market is where the emphasis is on developing relationships to attract and retain customers. Secondly, the referral market includes all organizational contacts that have the potential to act as advocates for the firm, providing word-of-mouth support for the organization. Christopher *et al* gives the example of banks, where referral groups include insurance companies, property brokers, accountants, solicitors, surveyors and valuers and other banks as well as existing customers. The third group is the Supplier market, where the need is to foster cooperative buyer, supplier relationships – relationships that reflect a 'win-win' situation rather than the traditional and somewhat adversarial focus on getting the lowest price from suppliers. Thus the emphasis shifts to achieving reliability, quality, on-time delivery, flexibility in delivery, lowering of costs and so on.

The fourth group is the employee market. This recognizes the vital role people play in an organization and, hence, the success of the organization depends on attracting a sufficient number of suitably motivated and trained employees. The suitably motivated and trained employees. The fifth group is the influence market – a market that includes parties that may influence the business environment in which the organization operates. These parties include government policy-makers, the media, environmental and other lobbyists and the general public. The final group is referred to as the internal market. This market explicitly recognizes employees as internal customers and the importance of developing strong relationships with them. Consistent with this is the view that, in every firm, marketing is becoming everyone's job (McKenna 1991).

Moving from a discussion of 'who' relationships might be with, Bitner(1995) describes three 'types' of marketing activity in the context of 'promises'. Drawing from Gronroos (1990a), she suggests that the external, rather traditional and transactional approach between the organization and its customers is about 'making promises'. Secondly, internal interaction occurs within the organization and this is referred to as "enabling promises'.

Finally, the interaction between employees and customers is described as 'keeping promises'. Organizations that have a relational perspective will focus also on internal and interactive marketing activity as well as on external marketing. These interactions are expressed in Figure 15.1.

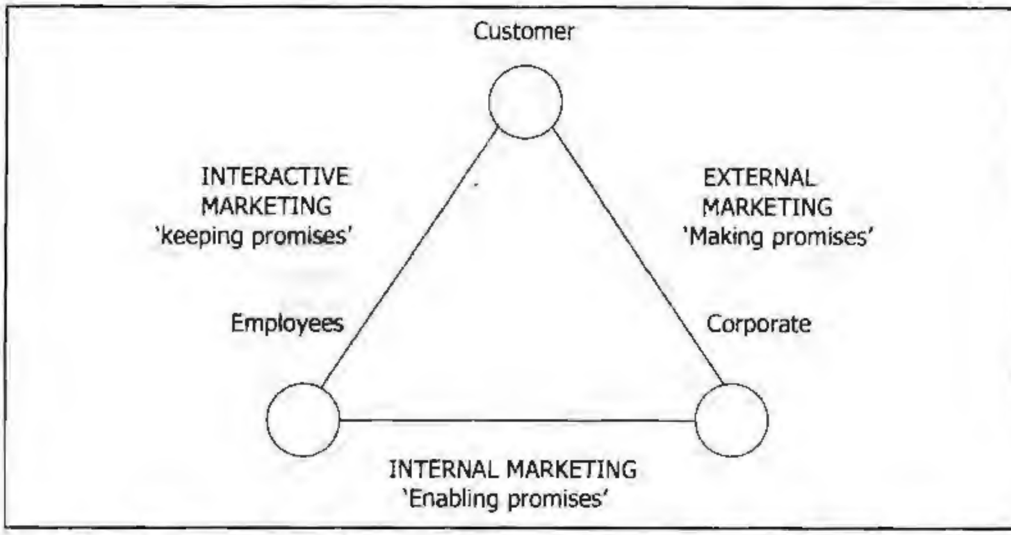

Figure 15.1: Three Types of Marketing

Differences between Transaction and Relationship marketing

In the preceding discussion, no specific mention is made of how relationship 'markets' or types of relationships differ by industry. Is relationship marketing generic to all industries? Are the various types of relationships that may be developed, as discussed by Christopher *et al* (1991), Bitner (1995) and Gummesson (1995) relevant to all types of firms, be they in the consumer product or industrial and service sectors? Before answering these questions it is useful to clarify further the specific differences between transaction and relationship marketing.

One underlying difference between the two types of marketing is that transaction marketing tends to focus on the outcome and value distribution surrounding the product, while relationship marketing tends to focus on service processes and value creation (Sheth *et al* 1988; Gronroos 1990b, 1994). This suggests that transaction marketing may be more appropriate for product-based industries such as fast-moving consumer goods (FMCG), where a lesser amount of service is usually involved in the differentiation process, as compared with firms in the industrial goods or services markets.

This distinction between product and service is also evident in the work of Christopher *et al* (1991), whose seven dimensions are used to distinguish between transaction and relationship marketing. In a similar manner, Gronroos (1990b) has identified eight dimensions. It is important to note, however, that the distinction between product and service is less apparent in this categorization. Although Gronroos implies a product/ service difference in the discussion surrounding 'dominating quality' the characteristics distinguishing transaction from relationship marketing are more focused on the dimensions of the relationship per se.

Consumer products

Respondents suggest that changes to their marketing practice should include improved efforts to 'understand customer needs', 'listen more' and develop 'high-level contact with primary customers'. This might imply an effort to move beyond the emphasis on customer focus to a richer understanding of key customers (both trade and final consumers). Further, respondents see a need for improved quality of planning, with greater emphasis on formal planning rather than a reliance on intuition or reacting to situations as they occur. A major feature of consumer products, including consumer durables, is the growing concentration of retail power and the increasing need for manufacturers to develop strategies, structures and programmes specifically for these chains.

Increasing Importance of Relationship Marketing to Consumer Products

The research about marketing practice has shown that the dominant trend in the organizations studied is to develop relationships. However, there is considerable variation in the way relationship marketing is being practised (e.g., database, interaction and network) and in most organizations aspects of both transaction and relationship marketing coexist. Further, managers of all types of organizations, including consumer products, report a need actively to get closer to and better to understand their customers. Thus, although consumer product firms may appear to be less relational than industrial and service firms, relationship marketing, in fact, both practised in and relevant to them.

As previously discussed, there are a number of changes taking place in the practice of marketing. These include:

- Changing resources/structure;
- Developing a relational philosophy;
- Increased segmentation and niche marketing;
- A changing market orientation;
- Increases measurability/accountability;
- Increased use of technology.

The five trends that are related to relationship marketing are:

- Increasing service aspects of consumer products – related to 'developing a relational philosophy' and increased segmentation and niche marketing';
- Financial accountability, loyalty and customer value management – retailed to 'increased measurability and accountability'.
- Organizational transformation – related to changing resources/structure.
- Retailing and systematic relationships – related to 'a changing market orientation';
- Interactive media and mass customisation – related to 'increased segmentation and niche marketing'.

Service aspects of consumer products

The service sector now dominates Western and other developing economies and the service component of consumer products is increasingly used as the key point of differentiation or competitive advantage. This is happening to such an extent that it may be becoming arbitrary where one draws the line between what is a product and what is a service organization. Once a firm takes on a service orientation, then the management of both the internal and external relationships in an organization become increasingly important. Writers such as Heskett, Sasser and Hart (1990) in their description of the service delivery system identify these relationships. An important aspect of this system is the management of internal communications and relationships and the key performance indicator is employee motivation and satisfaction.

Examples of the blurring of the boundaries between a product and a service are increasingly being shown in consumer -goods companies. For example, a footwear company includes a protective spray on its shoes, which minimizes the amount of cleaning, while a producer of breakfast cereals includes an automatic seal to keep the cereal fresh after use. Often the facilitating factor is IT. An example is where consumer product companies include web page addresses that can be used to provide on-line help and further information about the product. Another example is where consumer products are becoming 'wired' back to the manufacture.

Financial Accountability, Loyalty and Customer Value Management

As consumer product markets become more competitive, managers are being challenged to accept that an emphasis on a limited range of performance. Financial measures now inadequate as a means of determining the overall well-being of a company and its brands. Increasingly, the argument is that 'what' is required is a balanced presentation of both financial and operational measures (Kaplan and Norton 1992:71). One issue is how to put 'hard' values on what may be considered 'soft' measures. For example, in trying to improve loyalty rates, some organizations are rethinking the 'service-profit chain' interconnections. Thus, measures are taken to show the impact of employee satisfaction and loyalty on the 'value' of the products they make and deliver. This is based on the premise that these results might contribute to higher customer satisfaction and loyalty scores and, ultimately, greater 'lifetime value' results for the organization.

Thus, with service management relationship marketing becomes a central activity. The white goods manufacturer and banking examples have common characteristics that further highlight the importance of relationships. There are clear and focused objectives and programmes that offer value and reward loyalty, powerful systems that measure and monitor performance and management structures and processes that support and refine the organization's activities. According to Mendonca and McCallum (1995), companies such as these now recognize that the heavy initial expense of acquiring a new customer relationship as long as possible; indeed, excellent marketers view profitability on an individual customer lifetime basis.

By using technologies such as interactive communications, computer networks and sophisticated software programmes, organizations are finding new ways to build closer relationships with both customer loyalty and thus provide an organizational structure that allows for the development of stronger relationships. British Petroleum is achieving this.

Sharing knowledge through BP's Virtual Team Network

Two important features of the old bureaucratic organizations was that they connected the leaders of the corporation to their businesses and they allowed businesses to exchange critical knowledge. Can these features be preserved in the newer flat, lean and decentralized organizations? British Petroleum believes it can because of the advances in information technology. BP is amazingly flat and lean. Its revenues in 1996 were $US 70 billion, with 53,000 employees and some go business units that span the globe. There is literally nobody between the general managers of the business units and the nine operating executives who oversee the businesses with the chief executive. In order to share knowledge about customers and the company's assets, BP has created virtual team networks, which are linked by computer technology. These networks aim to allow people to work cooperatively and share knowledge quickly and easily regardless of time, distance and organizational boundaries.

Retailers and Systematic Relationships

Retailing and consumer products go hand in hand and of particular interest to consumer product marketers are the relationships that exist between the firm and retailers. Growing retail power is a relatively recent phenomenon, whether it be automobile megadealers, consumer electronics outlets, grocery supermarket chains, home furnishing depots or toy warehouse. It also has the potential to change the balance of power and the nature of the relationships between consumer goods companies and retailers.

During the 1990s, in areas as diverse as Western Europe, North America and parts of the Pacific Basin, a small number of supermarket chains began, to dominate their respective markets. In doing this they were becoming increasingly competent and sophisticated in the development of their marketing strategies including own branding. This is leading to retailers becoming dominant in their relationships with what they term their 'suppliers'. For example, in a study of major supermarket groups in the UK, Brookes (1995) identifies several major shifts by leading chains such as J.Sainsbury, Marks & Spencer and Tesco and their impact on fresh –product suppliers.

Retailers are also seeking to build long-term 'co-operative partnerships' as opposed to 'adversarial relationships' with their suppliers (Buzzell and Ortmeyer 1995) . In order to ensure continuous supply 'programme' buying on a global scale is now the norm for many leading retail groups. To ensure 'transparency of suppliers' cost structures they are likely to suggest ways of reducing costs and then ask for the savings to be passed on to them. Retailers expect to be kept regularly informed and are often involved in all stages of quality assurance and therefore impose standards at every stage from when the particular produce is planted when it is placed onto supermarket shelves. They may want direct involvement with their suppliers R&D activities, and they may ask for exclusive rights to new products when it suits their purpose.

Relationship Marketing in Organizational Markets: From Competition to Cooperation

To achieve quality improvement, the buyer and seller had to change the basic paradigm from competition to one of cooperation, so that both parties would gain in the relationship. The supplier base was reduced and the buyers focused on a limited number of suppliers with whom they developed deep and meaningful relationships as both parties gained in such an environment. This includes:

- How do we pick partners?
- Empirical models of buyer – seller relationships
- Reputation
- Performance satisfaction
- Trust
- Social bonds
- Comparison level of alternatives
- Mutual goals
- Interdependence and power
- Shared technology
- Non-retrievable investments
- Adaptation
- Structural bonds
- Cooperation
- Commitment
- Relationship building process
- Partner selection

Student Activity

1. Define relationship marketing.
2. What is the difference between transaction marketing and relationship marketing?

Summary

'Price has typically become less crucial in supplier-manufacturer relationships, where long-term partnership, relationship marketing and single sourcing are now key elements.

This change from a competitive to a cooperative relationship does not mean that buyers and sellers did not have good personal relationships under the old model. These personal relationships allowed a supplier to gain small advantages over his or her competitor. The supplier with good personal relationships with the buyer would also gain, as, sometimes, there was a shortage or, in the event of the supplier making an error, the buyer would pull all the stops to help the supplier. Nevertheless, the basic atmosphere was one of adversarial negotiation when it came to price setting and to gaining concessions on the size of orders and volume. A very competitive environment existed.

The nature of relationship marketing is interactive. Price has become less crucial in relationship marketing. Relationship marketing is about value creating network in the market. Relationship development is through partner selection, defining purpose, creating value and maintaining it. Commitment is the most common dependent variable used in buyer-seller relationship.

Keywords

Customer market: The traditional customer market is where the emphasis is on developing relationships to attract and retain customers.

Referral market: Referral market includes all organizational contacts that have the potential to act as advocates for the firm, providing word-of-mouth support for the organization.

Supplier market: Supplier market, where the need is to foster cooperative buyer, supplier relationships - relationships that reflect a 'win-win' situation rather than the traditional and somewhat adversarial focus on getting the lowest price from suppliers.

Employee market: This recognizes the vital role people play in an organization and, hence, the success of the organization depends on attracting a sufficeint number of suitably motivated and trained employees.

Influence market: A market that includes parties that may influence the business environment in which the organization operates.

Mega relationships: Relationships on levels above the market proper - e.g., political and economic alliances between countries.

Review Questions

1. Suggest a way in which a supplier can categorize his customers into those where a cooperative supply relationship should be sought and those where each transaction should be sought and those where each transaction should be treated as essentially an isolated case.
2. Do all customers want close relationships with their suppliers?
3. It is often suggested that a supplier should demonstrate his commitment to those customers with which he wants to develop a close relationship. How can a service organization demonstrate such commitment?

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Unit 16 E-marketing

Unit Structure

- Introduction
- Fundamental Concept of Web Marketing
- Role of Internet in a Marketing Setting
- Why the Internet is a Valuable Tool in Marketing?
- Developing an Internet Marketing Strategy
- Current Challenges and Future Prospects for E-marketing
- Summary
- Keywords
- Review Questions
- Further Readings

Learning Objectives

At the conclusion of this unit, you should be able to:

- State the fundamental concept of Web Marketing
- Realise the importance of Web Marketing
- Discuss benefits of Web Marketing
- Explain how Web Portal is developed
- State how Traffic on Net is managed

Introduction

This unit demonstrates why the Internet is a valuable marketing tool. Further, it explores the multifaceted potential of marketing roles for the Internet and shows how to develop an Internet marketing strategy. It illustrates how the Internet is being utilized to enhance marketing strategies. The challenges of using the Internet in marketing and the future of e-marketing are also discussed.

Fundamental Concept of Web Marketing

According to a leading marketing consultant, John Graham, there are a few principles that companies should review when considering whether and how to use the Internet. Here is a description of several of them:

- E-commerce is Not for Everyone – A firm should not jump to the Web unless it has a valid and compelling reason.
- The Web Does Not Stand Alone – A variety of marketing strategies are needed to make customers use a Web site, not just bookmarks or banner ads.
- Traditional Marketing Channels are Still Valid – Direct mail, for example, is still very viable.
- It is a Matter of Planning or Perish – Even with the best research, everything does not go as planned. Therefore, contingency planning is needed.
- Look at the Web as Research – The Web is a reflection of what consumers do not like and what they want changed. It is excellent in transforming unpleasant and painful experiences (like cat buying).

- All that Counts is the Customer – Good Web-based firms know that they must treat consumers as individuals who need to be understood.
- Let's Get Outside Ourselves – Greater attention should be paid to external forces of change. Firms must recognize that most breakthroughs are the result of looking outward at external trends.
- If you See it, Don't Believe it – E-commerce is not "right" for every firm.
- Just Because it works Doesn't Mean it's Right – A firm could be vulnerable despite everything looking good.
- It's 24/7 for Everyone – The Web knows no place or time-based boundaries.
- The Customer is in Charge – The more information that firms have on customers, the better the service levels they can provide.

Role of Internet in a Marketing Setting

In this unit we will explore the role of the Internet in a marketing setting. We will also look at how to develop an Internet marketing strategy and the challenges of using the Internet.

Before delving into our discussion of marketing and the Internet, let us define four basic terms.

Internet

The Internet, also known as "the Net," is a global electronic superhighway of computer networks – a network of networks in which users at one computer can get information from another computer and, sometimes, talk directly to users at other computers. It is a profit cooperative, self-sustaining system accessible to hundreds of millions of people, worldwide.

WWW

The World Wide Web (WWW), also known as "the Web," comprises all of the resources and the Internet, whereby people work with easy-to-use Web addresses and pages. Through the Web, users see words, colourful charts, pictures and video and here audio. Although the two terms have somewhat different meanings, they both relate to on-line activities – and they are both used interchangeably by the media and by companies. Thus, in this lesson (and book), both terms will have the same connotation; on-line actions.

E-marketing

E-marketing includes any marketing activity that is conducted through the Internet, from customer analysis to marketing –mix components.

E-commerce

E-commerce refers to revenue-generating Internet transactions. E-marketing is the broader concept and it does not necessarily have sales as the primary goal.

By virtue of its rather low costs, its wide geographic reach and the many marketing roles it can serve, the Internet should be a key part of any firm's marketing strategy regardless of the firm's size or characteristics. The broadened scope of marketing in the decades ahead will require virtually every firm to have a Web presence, much as they now have a telephone, an answering machine and other technological tools.

Since the Internet's inception as a commercially viable business resource just a few years ago, its importance and value have been misperceived by many. At first, a number of experts talked of how Internet firms would soon overwhelm traditional retailers and drive them out of business. They predicted that, by 2001, annual on-line retail sales in the United States alone would reach hundreds of billions of dollars. They were wrong: on-line retail sales are only a fraction of what was predicted. So now, scores of experts are writing off the Internet as a short-lived fad; and they cite the high failure rate of "dot com" firms as evidence of the Internet's fall. Again, they are wrong about the Internet's impact.

Why the Internet is a Valuable Tool in Marketing?

Hundreds of millions of people around the globe are surfing the Web. This signifies great e-marketing opportunities for firms.

People surf the Internet for a variety of reasons other than shopping. For instance, they seek out entertainment, financial, sports and news sites. They do product research. They "talk" to one another (many via AOL Instant Messenger, www.aol.com/aim/home.html). They communicate with companies to register complaints and make suggestions. They send E-mails and greetings cards. The U.S Postal Service (www.ups.com) handles 570 million pieces of mail per day; in contrast, there are 1.5 billion E-mails messages everyday.

Companies (actually, their employees) also surf the Web for a variety of reasons other than shopping. For instance, they check out what competitors are doing. They read about industry trends and events. They communicate with their suppliers. They exchange data among offices anywhere in the world. They monitor inventory conditions. They survey customers and measure their satisfaction. They do very sophisticated analyses of customer databases.

Benefits of a Company Using the Internet in Marketing

The Internet's value in marketing is best seen by reviewing the benefits that a company may receive by going on-line.

1. ***Communicability:*** The web makes it easy for a firm to communicate with every one of its constituencies: consumers, suppliers, resellers, employees, the media, government bodies and others. As one observer noted, "the Internet allows you opportunities to talk to people on a continual, dialog basis in a way that we've never had before.

2. ***Focus/tailored approach:*** The Web enables a company to focus on a specific target market and offer a marketing mix, especially devised for that target market. For example, "with the Internet, you can keep track of purchase history – every single purchase a customer has ever made with you. The reason has ever made with you. The reason that's so important is because purchase history is probably one of the most predictive things in understanding what somebody is most inclined to buy in the future. The other thing the Internet is good for is targeted E-mails."

3. ***Information:*** A firm can amass information about almost any facet of its business from free Web sites, as well as from fee-based ones. Both secondary data and primary data can be garnered via the Internet.

4. ***Timeliness:*** With the Internet, a company can operate in "real time", which means the ability to communicate, gather information and so forth in a very contemporaneous manner. The time lags associated with other marketing tools are much shorter on the Web.

5. ***Cost efficiencies:*** These can be reduced costs from Internet usage. Postal costs decrease. Inventory costs can be lowered because there is more efficient communication between companies and their suppliers. Sales personnel can follow-up with clients in a more efficient manner. There are no shipping costs for items such as software that are sold via the Web and downloaded by customers.

6. ***Dynamism/flexibility:*** The Internet is a very dynamic and flexible medium, which lets a company rapidly adjust its marketing mix. For instance, if a firm sees that

a particular product is not selling well, it can instantly change the advertising through its Website or lower the price until the consumer demand reaches a satisfactory level. Likewise, if a firm runs out of a popular item that is selling, a reorder can be placed immediately through the Web.

7. *Global Possibilities:* With the Internet, a company can effectively and inexpensively communicate with its various constituencies around the world, thereby increasing the reach of the firm's marketing strategy. The expensive part of operating a global E-commerce Web site is often the distribution costs that result from expanding into new geographic markets.

8. *Multimedia capabilities:* The Internet has large multimedia possibilities for marketers, especially as additional users convert to cable, DSL or other fast connections. More company Web sites will soon be showing 3-D product pictures that can be rotated 360 degrees, streaming audio and video, photo galleries of product offerings and so forth. At hard Rock Café, we'll use the Web to create a forum for up and coming artists and to bring national bands that play our large concert venues into the smaller locations.

9. *Interactivity:* Unlike traditional advertising, which is unidirectional (from companies to audience), the Internet can be deployed in an interactive manner (from company to audience and from audience to company) – much like personal selling. Thus, a company can ask people to click on a section of its Web site that they would like to visit and then transport them to that particular section, where more user choices are made. For example, an airline site can gather data on the destination and date a person who wants to travel to and from his or her home area and then display the alternative flights that fit the person's criteria.

10. *Sales:* For a clicks-only firm, the Internet represents the sole source of revenue. For a bricks – and – clicks firm, the Internet offers the potential for growing the business. As an example in 1999, 25 per cent of Southwest Airline's (www.southwest.com) reservations were made on-line. By 2004, the company expects 75 per cent of its reservations to be made on-line. Also consider that among experienced Internet users (those who spend 18 hours a month on-line and who have been on-line for, at least, two years), one-fifth makes 10 or more purchases via the Internet during any 90-day period.

Developing an Internet Marketing Strategy

To best utilize the Internet in marketing, a firm should adhere to a systematic process in preparing and enacting the proper strategy. Figure 16.1 presents the steps to be followed in this process. The six middle boxes in the flowchart relate to the basic components of an Internet marketing strategy. The four outside boxes are key influences in making strategic decisions. Let us explore each of these factors.

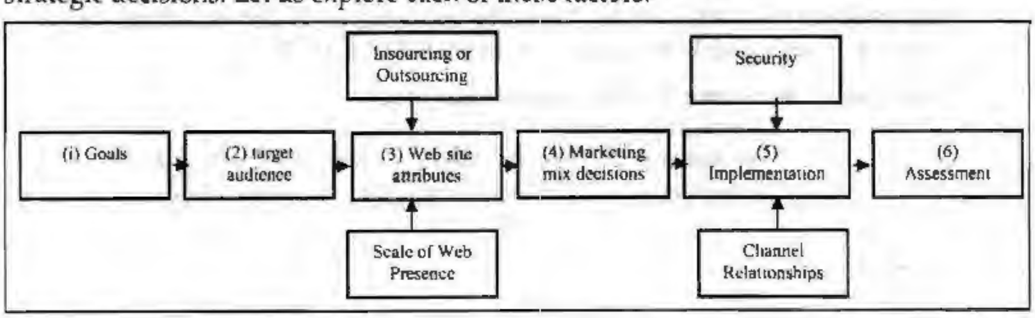

Figure 16.1: Developing Internet Marketing Strategy

Enumerating the Objectives

Both quantitative and qualitative objectives should then be enumerated. According to one recent study, 67 per cent of the responding companies want to use the Internet to attract new customers 62 per cent to build loyalty among existing customers, 58 per cent to improve customer service, 48 per cent to streamline business processes, 47 percent to grow market share, 45 per cent to enhance communication among customers and 41 per cent to enhance communication among employees.

Selecting the Target Audience

The target audience is identified and selected and its desires studied. Here are some recent research findings about on-line users:

Consumers around the world are more likely (80 per cent) to shop on-line from home rather than while at work. In the United States and Canada, Web users are balanced between males and females about on-line users:

1. Six types of Internet consumers have been identified: newbie shoppers – first-time Web purchasers who are older than other on-line shoppers and start with small purchases; reluctant shoppers – who are motivated to buy but worried about security and privacy issues; frugal shoppers – those who actively search for the lowest prices, strategic shoppers – those who know what they before going on-line and go to specific sites to shop; enthusiastic shoppers – those who like to shop; and convenience shoppers (the largest group) – those who buy on-line to save time.
2. People have numerous reasons for shopping on-line. Different target audience places a different emphasis on these reasons. That is why consumer desires must be examined carefully before embarking on the specifics of an Internet marketing strategy.

Determining the Website Attributes

Web site attributes are determined. However, before getting into Web site details, the company must first decide whether to undertake all Web-related activities itself (insourcing) or to have specialized firms do some or all Web-related activities for it (outsourcing). Most companies outsource the technical development and maintenance of their Web sites, far fewer fully develop Web sites from their own. Small firms often outsource the entire operation.

Taking Internet-based Marketing-mix Decisions

Internet-based marketing-mix decisions are made while developing the Web site; and they must be consistent (synergistic) with off-line marketing decisions. These are some examples:

1. ***Product decisions:*** Which products are cited ate the Web site? Which products are featured at the Web site? Many firms do not list or describe all of the items in their product mix. Also, what should be the features of downloadable products (software, music, publications, etc.,) that are sold on-line?
2. ***Distribution decisions:*** If the company sells at its Web site, does it ship from one locale or from around the country (world)? How quickly can (should) products be delivered to customers? In 2000, it took an average of 6 days for customers to receive their orders and only 36 per cent of orders were received on time or early?
3. ***Promotion decisions:*** Which promotion mix should be used to reach the firm's Internet goals? There are many ways to promote a Web site and E-marketing efforts ranging from banner ads to listing Web addresses in traditional ads to E-mail and more. One of the most effective new on-line promotion tools is the opt-in (permission–based) E-mail, where by Internet users agree to receive targeted E-mail from a firm. It is more effective than unsolicited E-mail, which turns off a lot of people. Each year, 40 billion opt-in E-mail, which turns off a lot of people. Each year, 40 billion opt-in E-mail messages are sent in the United States. Thus,

"Marketers must make sure E-mails are targeted, of value to the customer and integrated with their overall strategy. Only firms providing value will be able to maintain a dialogue with consumers.

4. *Pricing decisions:* A company engaging in E-commerce has two fundamental pricing decisions: How should on-line prices relate to those for off-line businesses (including those of the firm itself)? How frequently should prices be changed to reflect market conditions? Because so many Internet shoppers are price-driven, on-line prices have tended to be lower than off-line prices for the same products and on-line transactions are often not subject to sales tax. Although the technology exists to adjust on-line pricing by the minute, firms must be careful not to confuse consumers or to get them upset if they visit a site and then return the next day to purchase, only to find that the price has risen.

Implementing the Internet Marketing Strategy

At this point, the Internet marketing strategy is implemented. Again, there are two factors that affect the firm's ability to properly enact its strategy; this time, they are security and channel relationships. A vast number of Internet users are concerned about Web security and they are hesitant to provide personal information for fear that "hackers" will obtain the data or that firms will resell the data. The security issue can be dealt with by offering a secure section of a Web site, protected by a well-known firm such as VeriSign (www.verisign.com) or be Trusted (www.betrusted.com), for entering personal data and credit-card information. The reselling issue can be handled by having a clear, user-friendly privacy policy that is accessible by clicking an icon at the firm's Web site.

With regard to channel relationships, a move into E-commerce may place a company into conflict with its suppliers or resellers, which may view this action as a form of competition. So, the trade-offs have to be weighed.

Once the strategy is enacted, the firm must be sure that it runs smoothly. Thus, it must be alert to several possible breakdowns in the system, such as site crashes, out-of stock conditions, a slow response to customer inquiries, incorrect prices, hacker invasions and poor coordination with the off-line strategy.

The last step in an Internet marketing strategy is to assess performance and make necessary modifications. Assessment should be closely tied to the Web goals (step 1) that have been set in terms of image, customer service, sales and so forth. These are some of the measures that can be utilized: daily Web site traffic, average length of the stay at the Web site, ratings on customer service surveys, sales revenues, the cost per transaction, repeat business, the number and type of system breakdown per time period and more. The value of banner ads placed at other sites must be also judged for effectiveness.

Current Challenges and Future Prospects for E-marketing

In this section, we look at the challenges and future prospects for marketing and the Internet.

Challenges of Using the Internet in Marketing

Some challenges that marketers face when employing the Internet are beyond their control (such as slow-speed modern connections and the complexity of multichannel marketing); others are self-inflicted (such as poor customer service and overly rapid expansion). Before turning to several specific challenges, both uncontrollable and self-inflicted let us cite some general reasons why E-marketing can be daunting.

- The company's corporate culture may be resistant to change.
- Internet marketing may not capitalize on a company's core competencies.

- The proper roles for E-marketing may not be specified clearly enough – or be realistic in nature.
- Web users may be very demanding.
- The personal touch may be important to many customers.
- Channel partners may be alienated.
- On-line and off-line systems may be hard to integrate.
- It may be difficult to determine what Internet functions to insource and which to outsource.
- Investment costs and ongoing expenses may be underestimated.

Future of E-marketing

Here are some projections about the future of E-marketing:

- The overall impact of the Internet on all parties will be enormous, but somewhat different than originally anticipated. The emphasis will be more on E-marketing (using the Internet to enhance marketing strategies) rather than on E-commerce (revenues from Internet transactions).
- Bricks-and-clicks firms will outperform bricks-and-mortar firms and clicks-only firms. Bricks-and-clicks firms that have a bricks-and-mortar background will do the best of all, due to their name recognition, their customer following and their established physical presence.
- The growth of new high-speed transmission modes such as cable and DSL connections services will allow more multimedia capabilities to be incorporated into company Web sites, creating an exciting environment for browsing, entertainment and shopping by users.
- Business-to-business E-commerce will far outstrip business-to-consumer E-Commerce. According to eMarketer, by 2004, annual worldwide business-to-business on-line revenues will approach $2.8 trillion, while business–to-consumer revenues will be about $428 billion.

Student Activity

1. Define Internet.
2. Describe the importance of Internet in Marketing?

Summary

The Internet is a global electronic super highway of computer networks that is accessible to people worldwide. E-marketing involves any marketing activity through the Internet. It is a broader concept and it does not necessarily have sales as the primary goal. E-marketing is evolving in three phases: 1) traditional bricks and 2) mortar firms, clicks-only Internet firms and 3) Bricks and clicks firms that combine the other two formats. E-marketing has various benefits which includes communicability, a focus/ tailored approach, information, timeliness, cost efficiency, flexibility, global possibilities, interactivity and sales.

Keywords

E-marketing: It includes any marketing activity that is conducted through the Internet, from customer analysis to marketing -mix components.

E-commerce: It refers to revenue-generating Internet transactions. E-marketing is the broader concept and it does not necessarily have sales as the primary goal.

Multimedia capabilities: The Internet has large multimedia possibilities for marketers, especially as additional users convert to cable, DSL or other fast connections.

Distribution decisions: If the company sells at its Web site, does it ship from one locale or from around the country (world)? How quickly can (should) products be delivered to customers?

Promotion decisions: Which promotion mix should be used to reach the firm's Internet goals? There are many ways to promote a Web site and E - marketing efforts.

Review Questions

1. Distinguish between E-marketing and E-commerce.
2. Discuss the six basic steps in developing an Internet marketing strategy.
3. Why is it important for a company to monitor the links, both internal and external, at its Web site?
4. State four major challenges facing E-marketers.

Further Readings

Philip Kotler, *Marketing Management*, Pearson Education, 11th Edition 2003.

Kieth Blois, *Text Book of Marketing*, Oxford Publication, 5th Edition 2005.

Case Studies

Case 1: The Body Shop and Marketing

The Body Shop recorded rapid growth during the 1970s and 1980s. However, its founder, Anita Roddick had publicly dismissed the role of marketing. It is well-known that she publicly ridiculed marketing for putting the interests of shareholders before the needs of society. She also held in similar low esteem the financial community that she referred to as "merchant wankers." While things were going very favourably, nobody seemed to mind her sceptical approach. After all, it was possible that she had actually found a new way of doing business, and the results so far stood to prove it. But how even such a famous and admired person as Anita Roddick could manage indefinitely without consulting the fundamental principles of marketing, wondered marketing experts and others. By the end of the 1990s, The Body Shop was experiencing bad times and the sceptics among the marketing and financial field were quick to point out the folly of its founder's apparently idiosyncratic ways.

From a high in 1992, The Body Shop shares dropped to a low witnessed at the start of 2003, despite the market index rising over that period. Profit remained similarly depressed, with performance in almost all European, North American, and Far Eastern markets stagnant.

Yes, everybody recognised that Anita Roddick has been the dynamo behind The Body Shop's success. From a small single outlet, she inspired and managed the growth of the chain to some 1500 familiar green-fronted establishments in 46 countries around the world. Yet, until the late 1990s, she continued to boast that The Body Shop had never used, or needed, marketing. Much of the company's success has been tied to its promotional approach by campaigning for the pursuit of social and environmental issues. But while Roddick campaigned for everything from physical torture of wives and Siberian tigers to the poverty-stricken mining communities of Southern Appalachia, the company was facing major problems in all its key markets.

Part of the problem of The Body Shop was its failure to fully comprehend the dynamics of its market place. Positioning on the basis of good causes may have been enough to launch the company into the public mind in the 1970s, but what it now needed was a sustainable long-term positioning. Other companies soon launched similar initiatives. For example, the Boots Pure Drug Company matched one of The Body Shop's earliest claims that it did not test its products on animals. Competitors had copied even the very feel of The Body Shop store that included its décor, staff, and product displays. How could the company stay ahead in terms of maintaining its distinctive positioning when many others had similar differentiation? Its causes seemed to become increasingly remote from the real concerns of shoppers. While most shoppers in UK may have been swayed by a company's unique claim to protect animals, it is not clear how many would be moved by its support for Appalachian miners? If there was a Boots or Superdrug store next door, why should a buyer shell out a premium price to buy from The Body Shop? The Body Shop may have pioneered a very clever business launching formula over twenty-five years ago, but the concept had been successfully copied by others. And these other companies had made enormous strides in terms of their social and environmental concerns and awareness.

Part of the company's problem has been blamed on the inability of Roddick to delegate. She is reported to have spent almost half of her time globetrotting in propagating support of her good causes, but did have a problem in delegating marketing strategy and implementation. Numerous capable managers who were brought in to try to implement professional management practices apparently gave up in bewilderment at the lack of discretion that they were given, and then left dismayed.

The Body Shop's experience in America typified Roddick's pioneering style, which frequently ignored sound marketing analysis. She sought a new way of doing business in America, but in doing so she dismissed the experience of older and more sophisticated retailers – such as Marks & Spenser and Sock Shop, which came unscratched in what is a very difficult market. The Body Shop decided to enter the US markets in 1988 not through a safe option such as a joint venture or a franchising agreement, but instead by setting up its own operation from scratch, according to Roddick's principles of changing the business rulebook and cutting out the greedy American business community. But this was an exceedingly risky move. Her store format was based on the British town centre model. She did not bother to appreciate the fact that Americans spend most of their money in out-of-town malls. In 1996, the US operation lost 3.4 million pounds.

Roddick's critics claim that she has a naïve view of herself, her company, and business in general. She has consistently argued her philosophy that profits and principles don't mix, despite the fact that many of her financially successful competitors have been involved in major social initiatives.

The rift between Roddick's and others' view of the world was revealed in the results of an innovative independent social audit that The Body Shop commissioned in 1966. The company was prompted to commission the study after the report following media criticism that its social and environmental credentials might not actually be as good as the company claimed. The results highlighted eye-opening shortcomings in virtually every one of the company's stakeholder relationships. The company scored well in certain areas such as promoting human and civil rights, pollution control, product information, wages, and benefits, women's opportunities, and energy conservation; but it scored really badly on issues of corporate governance, relationships with shareholders, responsiveness to complaints of customer and franchises, accuracy of promotional claims, communication, and reaction to criticism.

Critics claim that had Roddick not dismissed and ridiculed the need for marketing for so long, The Body Shop could have certainly avoided future problems that it faced. But by 2000, it was paying the price for not having devoted sufficient resources to new product development, to innovation, to refreshing its product ranges, and to moving the business forward. It seems that heroes can change the rulebook when the tide is flowing with them, but adopting the disciplines of marketing allows companies to anticipate and react when the tide begins to turn against them.

N.B: The Body Shop was sold to L'Oreal, the world's largest cosmetics manufacturer, in March 2006, for £ 656 million. Dame Anita Roddick gained

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personally to the tune of £130 million. Since British and French companies have very divergent views on strategy and day-to-day management, it remains to be seen how successful the union will ultimately turn out to be. For The Body Shop, it's yet another chapter in its struggle to remain relevant in a changing world.

(*Source:* SHH Kazmi, Marketing Management: Text and cases, Excel Books)

Questions

1. Analyse the significant issues in the case. Was Anita right in ridiculing the marketing?
2. How has Anita Roddick positioned The Body Shop and maintained its identity with social and environmental causes as a unique positioning approach?
3. Determine if Anita made any mistakes in running the Company? Was her approach to not modifying the company positioning right?
4. If you were in Anita Roddick's place, what would have you done for company's US operations?

Case 2: Wahaha – Taking the Fizz out of the Giant Cola Brands

Chen Zong Qinghou, a Chinese farm worker, started a company of beverages and ice creams with two retired teachers in 1987, hardly anyone could have imagined that this company could give sleepless nights to global giants such as Coca-Cola and Pepsi Co. But the new company, Wahaha, the pride of many contemporary Chinese consumers, has managed to do just that.

Wahaha, one of the leading homegrown Chinese beverage brands, had revenues of US$1.37 billion (11.4 billion yuan) and profits of US$162.7 million (1.34 billion yuan) in 2004.

Wahaha, which is meant to mimic the sound of a baby laughing, demonstrates clearly what great brand stories are made of. The company started small, and in 1991, it merged with the state-owned Hangzhou Canning Factory. The 1996 joint venture with the Danone Group gave the company foreign investment to the extent of US$45 million. After dabbling in many product categories, it launched its trademark brand the 'Future Cola' in 1998 to compete against the global cola giants. Today, Wahaha's product portfolio includes milk and yogurt drink, purified and mineral water, carbonated soft drink, fruit and vegetable juice, sports drink, and iced tea including cognee (rice porridge), canned food and health products.

Wahaha has been careful in its strategy to compete against the global cola and food giants. As the fashion conscious Chinese consumers seem to prefer the global colas in the larger coastal Chinese cites, Wahaha has till now focused on rural and semi-urban Chinese areas. Further, the Wahaha brand has generously used home grown celebrities for all its products. This is in line with its overall strategy to position Wahaha as a patriotic company and to tap into the patriotic fervor of the Chinese consumers.

By projecting Wahaha's products as China's own, the Wahaha brand has carved out a clear positioning in the market against the global brands. But whether this strategy will work in the long run is a million dollar question and will require constant efforts to balance the brand promise and its careful delivery in a hostile and increasingly competitive Chinese market-place.

(*Source:* SHH Kazmi, Marketing Management: Text and cases, Excel Books)

Questions

1. What aspects of consumer behaviour have been discussed in this case?
2. What is likely to be the adoption process of Wahaha products among consumers?
3. Discuss the positioning strategy of Wahaha.

Case 3: End of All Work and No Play Culture?

Every year, about 100 million Japanese spend about $75 to see Mickey Mouse and wait two hours in line to rocket through Space Mountain at Tokyo Disneyland. They flock to hear Aron Narikiyo, "Elvis-san," a wildly popular Elvis impersonator. They ski, attend cultural events, go bowling, take juggling lessons, and play pachinko, a vertical version of pinball. What they also do in great numbers is shop. One hundred and twenty million Japanese consumers with rising disposable incomes translates into lots of buying power. Long considered a society of all work and no play, Japan finds both its culture and its consumers changing.

In the conventional picture of modern Japan, men work most of the time, and women are relegated to background positions of stay-at-home wives and mothers. Indeed, many older Japanese accept without complaint endless, unquestioned hard work. But the old ways are changing. Japanese men are discovering that fun is sometimes more important than earnest dedication to the workplace. And Japanese women are assuming professional roles outside the home. Declaring that its citizens should start enjoying life, the government officially shortened the workweek from forty-eight hours to forty and funded the Leisure Research and Development Centre to teach its citizens the value of leisure time. With more money to spend and more time in which to spend it, the Japanese are becoming active and experienced consumers, dedicated to make their country a seikatsu taikoku – a "lifestyle superpower."

Two of the most powerful groups of Japanese consumers are the more than 8 million Dankai Juniors, children of Japan's post-war baby boom, and women, whose status and affluence continues to grow. Raised during a prosperous time in an affluent society, young Japanese spend a lot of money on sports, audiovisual equipment, entertainment, and fashion. Although looking for value more than they did in the 1980s, these young consumers still splurge on new products that improve the quality of their leisure time. One of their favourite places to go for fun is Namco's Wonder Eggs, an arcade specialising in virtual reality games. As for tastes in fashion, this group prefers American and European styles and colours. To attract these trendy customers, some small shops in areas frequented by young people carry only imported clothing.

In today's Japan, women comprise about 40 per cent of the country's 64.5 million-person work force, and more than 50 per cent of mothers work outside the home. Following the Equal Employment Law of 1986, women began to pursue more education, entered a variety of professions, began earning their own salaries, and became champion consumers. Besides attending concerts and plays, travelling, engaging in sports, and frequenting "relaxation parlours," where the sounds of birds singing or waves crashing on the shore relieve stress, Japanese women shop. Choosy about labels, many Japanese women favour distinctive brands, such as Armani suits, Yves St. Laurent towels, and $1,600 Gucci handbags.

Benefiting from Japan's growing appetite for consumption, retailing – both upscale and value-oriented – is booming. To attract consumers by providing more spacious and attractive surroundings, venerable department stores and such as Mitsukoshi and Takashima are remodelling and modernising their interiors. New speciality shops are springing up, as are large shopping

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centres with avenues of stores and abundant parking space. Although many Japanese equate a good product with a high price tag, many others are becoming increasingly value-conscious, looking for high quality at low prices. Retailers are responding by opening giant discount stores. One of them, J World, is recording annual sales of over $180 million on discounted top-of-the-line brands such as Nordica and Sony. What the Japanese call "roadside chains," freestanding retail buildings, are springing up in the suburbs. Two such competing chains, Aoyama and Aoki, sell name brand men's clothing at lower-than-department-store prices.

When Japanese leaders commanded the country to relax, the leisure industry rushed to provide places to do it. Just as retailing is profiting from larger numbers of Japanese shoppers, the leisure industry is profiting from the greater amount of time that Japanese are spending on recreation. In one year alone, two hundred companies applied for permits to develop new theme parks. To enable ski enthusiasts to make one-day trips from Tokyo, a bullet train station opened at a popular ski resort, Gala Yuzawa. For those who prefer to schuss in climate-controlled comfort, indoor ski slopes are available within city limits. Built on top of one of Tokyo's numerous skyscrapers, the International Aquarium gives city dwellers a chance to escape temporarily to an undersea world. Having discovered the pleasures of camping, Japanese are pursuing this pastime in record numbers. American commercial camp-ground developer KOA recently opened its first Japanese compound in Okayama. Vacationers can swim, play tennis, visit the mini zoo, or join in recreational group singing at the Karoake Kabin.

With all these choices and more, people don't have trouble deciding how to have fun on a day off or a week-long break, but the Japanese are still novices at "hanging out." A Leisure Development Centre survey revealed that 40 per cent of respondents wouldn't know what to do with a month off. To help them, the National Recreation Association offers a one-year course on how to enjoy life. Many Japanese, however, are convinced that the art of having fun is "Made in the U.S.A."

(*Source:* SHH Kazmi, Marketing Management: Text and cases, Excel Books)

Questions

1. What are the significant issues in this case?
2. "The changing role of Japanese women has influenced their buying behaviour." Discuss this statement in the light of what you have learned in this case.
3. To market leisure facilities in Japan, what aspects of Japanese consumers' behaviour is of interest?

Case 4: Look Ma, Fair Hands

The glow on Rakesh Kumar Sinha's face is hard to miss — and it's all due to FairGlow, the fairness soap from the Godrej stable. No, Sinha isn't a user, but as vice president for sales and marketing at Godrej Consumer Products, he has reason to be bright — again.

For the past three months, FairGlow has been growing at close to 40 per cent; Sinha claims that the advertising support for the brand has also doubled since last year. Agency Mudra, which handles the brand, says there will be "interesting activities" around the brand in the next few weeks.

The activity is urgently needed. FairGlow may be erupting like Etna at the moment, but until the last quarter of 2004, the brand bore a closer resemblance to Haleakala, the world's largest dormant volcano. Within two years of its launch in 1999, FairGlow had become a ₹ 100-crore brand.

But now the entire fairness soaps category — Godrej Fair Glow, Hindustan Lever's Fair & Lovely soap and Emami Naturally Fair herbal fairness soap— has shrunk to ₹ 80 crore.

In comparison, fairness creams, which were around ₹ 550 crore, crossed ₹ 800 crore by end-2004. Even in the ₹ 4,000 crore soaps market, the fairness segment has a minuscule 2 per cent value share (just 1 per cent in volume terms).

Although FairGlow still has the lion's share of the fairness segment, its 60 per cent share works out to just ₹ 48 crore, which is less than half its earnings in year two.

In other words, even if FairGlow keeps up its scorching 40 per cent growth, it will take another two years or so for it to regain its 2001 position. So, is Sinha happy because FairGlow is getting a second opportunity to score?

When FairGlow soap was launched in December 1999, the dice were heavily loaded in its favour. The foremost reason is that most Indians associate beauty with fair skin.

Even the competition's research bears that out: according to a 1998 Hindustan Lever study, 78 per cent of women in India aspired to be two shades fairer because they believed it made them more attractive and confident.

"It is a colonial hangover," comments Ashish Mishra, head strategic planning, Mudra.

The decision to promote the fairness proposition as a soap also made strategic sense; in India, creams had a penetration of only 25 to 30 per cent.

On the other hand, soaps enter over 95 per cent of Indian households. And FairGlow was priced at ₹ 11 for a 75-gram bar, compared to ₹ 26 for a 25 gram tube of Fair & Lovely cream. "We offered fairness through a soap, which was more convenient to use at no extra cost," says Sinha.

With high expectations from the product, Godrej planned a high visibility launch. On the launch day, FairGlow created a "surrogate roadblock" on television channels (the 40-second television commercial ran simultaneously on all channels within a five- to 10-minute time frame to ensure that even viewers who surf channels during commercial breaks caught a glimpse of the brand).

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Then, the product was advertised on all top rated programmes such as Kaun Banega Crorepati and Kyunki Saas Bhi Kabhi Bahu Thi. "The opportunity was big because it was a true innovation," says Mishra.

But there were huge credibility issues to be tackled: the stay-on proposition of creams — once applied, creams stay on all day — while soaps are washed off within seconds of application.

Sinha argues, "The same is true with hair conditioners or a face wash, which are also washed away. But consumers still believe that they work." True, but fairness soaps had to contend with an established category (launched in 1975) like fairness creams. For hair conditioners and face washes there was no close alternative product.

Godrej's solution was simple: it tailored its commercials to focus on customer testimonials. The result, within a year of launch, FairGlow was selling between 400 and 500 tonnes a month (a volume share of 1 per cent in the toilet soaps segment).

How did HLL, whose Fair & Lovely had more or less created the market for fairness products, react? Within a couple of month of FairGlow's launch, HLL retorted with a prolonged teaser campaign for Lux Sunscreen soap. The new variant was launched in March 2000 — and withdrawn barely a few months later.

In the second half of 2000, battle-lines had been drawn between the soap and the cream. FairGlow and Fair & Lovely aired similar television commercials on the marriage theme; only, Fair & Lovely launched two ads in response to FairGlow's single ad spot.

"We could not match their advertising muscle," admits Sinha. Instead, Godrej resorted to offers like buy-three-get-one-free in end-2000.

Even as Fair & Lovely and FairGlow fought it out on TV screens, the sun was eclipsing over the toilet soaps industry.

Consumers were downgrading to the sub-popular category: in 2000, while the popular category grew by just 1 per cent, the sub-popular category was clipping along at a brisk 15 per cent. FairGlow being an offering in the popular segment of soaps, was naturally going to be hit.

Then, in December 2000, a year after the launch of FairGlow soap, it committed a vital strategic mistake. It extended FairGlow into creams with the proposition, Bedaag gorapan (spotless beauty).

But instead of being considered a natural brand extension, the move further fuelled a suspicion that consumers had harboured — fairness soaps may not be as effective as creams.

Importantly for Godrej, it lost the high ground of innovation that it had made its USP. Sinha admits that if he could change one thing about FairGlow's past, "We would never venture into creams".

Even as FairGlow's brand extension backfired, HLL engaged in battle on another flank — it launched Fair & Lovely soap. Naturally, the already thin dividing line between cream and soap further blurred.

Fair & Lovely's soap was a high profile launch with its theme, Ek tukda chand ka (A piece of the moon). While a barge backlit by the moon floated on the sea off Mumbai's Marine Drive, practically every hoarding in prominent places hollered the benefits of Fair and Lovely soap. But at ₹ 15

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per cake, (nearly 50 per cent more expensive than FairGlow), HLL's new battering ram did not find too many takers.

Analysts say that HLL used the soap as merely a flanking strategy to guard its cream user-base. "The idea was that even if consumers bought a fairness soap, it would be from the same brand basket," says one analyst. HLL executives did not meet The Strategist for this article.

Still, HLL did not rest after its soap launch. Over the next two years, the company launched several new Fair & Lovely cream variants.

FairGlow, on the other hand, was still fighting consumer perception that soaps may not work. It launched a "money-back challenge" to build up credibility in 2002. Fair & Lovely reacted by offering two soaps for the price of ₹ 20 (coming down to the FairGlow price).

The sales graphs, though, remained dim. By mid-2004, FairGlow put the cap on its cream misadventure. It followed with an ad campaign in late-2004 that illustrates the efficacy of the soap. That's paid off dividends, and sales are currently up. Whether they'll be able to reach their previous highs, though, is anyone's guess.

(*Source:* www.bsstrategist.com, February 22, 2005)

Questions

1. What is the positioning of FairGlow soap? Why is this positioning likely to appeal to Indian consumers?
2. Why was the extension of FairGlow to face cream a bad decision?

Case 5: Haier Brand

Haier is the world's 4th largest white goods manufacturer and one of China's Top 100 electronics and IT companies. Haier has 240 subsidiary companies and 30 design centers, plants and trade companies and more than 50,000 employees throughout the world. Haier specializes in technology research, manufacture, trading and financial services. Haier's 2005 global revenue was RMB103.9 billion (USD12.8 billion).

Guided by business philosophy of CEO Zhang Ruimin, Haier has experienced success in the three historic periods — Brand Building, Diversification and Globalization. At the 21st anniversary of founding of the Haier Group December 26, 2005, Haier announced its 4th strategic development stage of Global Brand Building. In 1993, Haier brand was officially recognized as a famous brand and in 2005 valued at RMB70.2 billion. Since 2002, Haier has consecutively been ranked first in the row of China's most valuable brands for manufacture of 15 products, including refrigerators, air-conditioners, washing machines, televisions, water heaters, personal computers, mobile phones and kitchen integrations. Haier was ranked first of China's Top 10 Global Brands by China State Bureau of Quality and Technical Supervision (CSBTS) for refrigerators and washing machines. On August 30, 2005, Haier was ranked 1st of China's Top 10 Global Brands by the Financial Times.

Haier has been widely recognized as a leader of 9 products in terms of domestic market shares and the 3rd player of 3 products in the world market and world-class company in the fields of home integration, network appliances, digital and large-scale integrated circuits and new materials. Haier has long attached significance to innovation in satisfying the demands of worldwide consumers and realizing win-win performance between Haier and clients. Haier has currently obtained 6,189 patented technology certificates (819 for inventions) and 589 software intellectual property rights. Haier has hosted and taken part in modification of about 100 China's technological standards. Haier invented technology, incorporated in the Safe Care water heaters and dual-drive washing machines, has been proposed to the IEC Criteria.

Haier's "OEC", "Market-chain" and "Individual-goal combination" management performances have been recognized worldwide. Haier's experiences have also been introduced into case studies of business mergers, and to financial management and corporate cultures of many foreign educational institutes, including Harvard University, University of Southern California, Lausanne Management College, the European Business College and Kobe University. Haier's "Market-chain" management practice has also been recommended to the EU for Case Studies, and its "Individual-goal combination" management concept has been recognized by worldwide management researchers as a feasible solution of commercial over stocks and accounts overdue.

Facing fierce global market competition, Haier has launched the global brand building strategy and updated the spirit, "Create resources, worldwide prestige" and work style "Individual-goal combination, swift action and success", with an aim to gain global recognition and sustainable development.

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Haier is an example of how an Asian company can build a brand and take it beyond its national market. Haier brand which is built on quality and a commitment to offer innovative products at a competitive price, exports to over 150 countries around the world, has 13 factories spreading from Philippines to Iran to the US and recently became the no. 1 refrigerator maker in the world, overtaking Whirlpool.

Haier traces its history back to the Qingdao General Refrigerator factory, which was founded in 1958 as a cooperative to repair and assemble electric appliances. Till Chinese entrepreneur Ruimin Zhang took charge of the factory in 1984, the company struggled with its quality and incurred huge losses. Haier attracted tremendous publicity when Zhang smashed faulty refrigerators with a sledgehammer, to send out a message about his commitment to quality. Today, Haier commands approximately over 30% share of the Chinese market in white goods and had revenues of US $9.7 billion as of 2003.

True to that event, Haier has built its brand on quality. Haier's strategy has been to establish a leadership position in the domestic market before venturing into global markets. Unlike most players who concentrate on the low end of the market by offering cheap products, Haier has focused on offering innovative products at a competitive price and the brand is starting to see results. A case in point is that Haier is the leading brand in the US in mini-refrigerator category.

Haier's commitment to quality and innovation is evident by the 18 international product design centers that it has established in Los Angeles and Tokyo which are in turn supported by production facilities in US, Japan and Italy.

Though it is common to see charismatic CEOs such as Sir Richard Branson, Steve Jobs and Bill Gates leading the brands in the western world, it is hardly the case in Asia. Many Asian executives shy away from publicity. Ruimin Zhang has set an example to many Asian companies about how the CEO can take charge of the brand and be the chief brand ambassador. Zhang's aggressiveness to build his brand, his commitment to quality and his business acumen has attracted much deserved global accolades.

Ruimin Zhang was placed nineteenth among the twenty-five most powerful people in business outside the US by Fortune magazine in 2003 and Haier was ranked the most admired Chinese brand in 2004 by a Financial Times/ Pricewaterhouse Coopers survey.

(*Source:* SHH Kazmi, Marketing Management: Text and cases, Excel Books)

Questions

1. Analyse the Haier case and identify significant issues.
2. Discuss Haier's branding strategy.

Case 6: From Direct Selling to Direct Marketing

For years Avon lady was a fixture in American neighbourhoods. Selling door-to-door built Avon into the world's largest manufacturer of beauty products. Avon operates in 135 countries and besides the cosmetics it also sells jewelry, home furnishings, and baby-care products. Avon pioneered the idea of hiring housewives for direct selling cosmetics in the neighbourhood. But in 1980s, as millions of women began to work outside the home, the cosmetics maker's pool of customers and sales representatives dwindled, and its sales faltered. By 1985, its profits were half what they had been in 1979.

Consumer research showed that many women thought Avon's make-up was "stodgy," its gifts products overpriced, and its jewelry old-fashioned. So the company created a more contemporary line of jewelry, lowered the prices of its giftware to offer more items under $15, and expanded its lipstick and nail polish colours.

On the selling side, recruiting sales people had become problematic, much as it had for other direct sellers like Mary Kay Cosmetics and Premark International's Tupperware division. To attract sales representatives and boost productivity, Avon improved incentive-compensation plans and offered free training programmes for recruits. As a result, Avon's direct-sales business – which accounts for 70 per cent of sales and 85 per cent of operating profits – experienced a dramatic turnaround. Within a year sales rose 17 per cent, to $2.9 billion, and profits jumped as much as 25 per cent.

Today more than 450,000 sales representatives work for Avon and fill out some 50,000 orders daily. Sales exceed $3.5 billion a year. Nonetheless, Avon estimates that at least ten million women in the US who are interested in buying from Avon are unable because no sales representative is calling. To win back some of the customers and attract new ones, the company has begun mailing catalogues directly to potential customers nationwide. The move represents growing concern at Avon that its core market has matured. The growing number of women joining work force means that fewer of them have time to meet with Avon representatives. Although Avon remains the nation's largest direct seller of beauty products, supermarkets and discount stores are stealing market share. Avon hopes that mail-order catalogues will help to reach "stranded" customers.

The plan is to send catalogues to people who have moved or who no longer are active buyers. They can then order directly through the company or through a salesperson. Initial expectations are modest. Avon hopes catalogue sales will reach $25 million the first year. In the long run, Avon hopes to penetrate major cities and suburbs, the places where much of the female work force is absent at prime selling times. Avon is also increasing the use of toll free numbers in conjunction with this strategy.

Source: Pat Sloan, "Avon Looks Beyond Direct Sales," Advertising Age, February 22, 1993.

Questions

1. What are the significant issues in the case?
2. Do you think Avon's approach in response for changing conditions is right for products that need personal contact by saleswomen?
3. Suggest any other solution than what Avon is planning to do.

Case 7: Wall-Mart

In 1980s, Wall-Mart heavily invested in the IT Sector. Early in the year, the company began using Electronic Data Interchange (EDI) systems and linked stores and distribution centres through computers. This helped the company to keep track of goods movement in real-time and quickly replenish stocks at the stores. This also minimised incidence of out-of-stock situations and helped better management of the inventory. It eliminated the inconvenience to customers resulting from non-availability of products.

In 1987, Wal-Mart installed a satellite communication system that linked stores, distribution, and suppliers' systems and completely automated the entire distribution process of the company. The system also linked all the company stores to the General Office a two-way voice and data communication, and one-way video communication. It was in 1980s, that Wal-Mart management thought of using IT to get more customer-related information appreciating the rapid pace of the firm's expansion and the difficulties of keeping track of diverse needs of millions of customers. The buying habits, needs, and preferences differed in different areas. Products that were popular and high in demand in one outlet were not as hot in other stores. Wal-Mart started investing in-data warehousing systems located at its headquarters at Bentonville, Arkansas. The company gathered sales and customer-related information serviced by each store. To gain better insights into the needs, preferences, and purchase behaviour of consumers, the company used data mining tools that could be used to analyse gathered information related to products being sold at each store level, consumers' demographic and ethnic profiles in the store vicinity, and their frequency of purchases of each product and accordingly replenishment etc.

Experts at Wal-Mart used 3-D visualisation tools to make accurate estimates of products that were most likely to be bought by consumers depending on various aspects of their profiles, locations, events, weather conditions etc., considering around 10,000 parameters. This helped Wal-Mart replenish its 90% stocks every month.

To help customers and make their shopping experience pleasant, in 1996 the firm installed 2 to 5 information kiosks in each store, from where customers could access information. A customer could find out the price of any product, its brief description and locate availability of any item, which was not available in a particular store. Wal-Mart introduced a hand-held product locator device called 960. A store employee would assist the customer by entering the item number in 960. The 960 would indicate the nearest Wal-Mart store in a radius of 30 – 40 miles that had the product, store location, its telephone number, and the number of units available. If a customer needed something urgently, the employee would arrange that the product were brought to the store, where the customer was at that point of time. This service was highly admired by its customers.

Wal-Mart launched its website in 1996 – www.walmart.com- to make information accessible to the customers on all the products the company stocked and to enable its customers to make online purchases. The site had many user-friendly features, and for prompt delivery of the purchased items, Wal-Mart tied with Fingerhut, a US based direct marketing company.

Wal-Mart website had advanced features to ensure credit card security online. The site was also connected to a call centre, through which customers

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could place their queries and grievances. Customers registered at Wal-Mart site were kept informed of different in-store sales promotions and events in their nearest store. The website also has other customer service tools that enable customers to record a package lost in mail and then, Wal-Mart would send the required product to the customer.

In March 2003, Fortune magazine ranked Wal-Mart as the largest company in the world and America's most admired business house.

(*Source:* SHH Kazmi, Marketing Management: Text and cases, Excel Books)

Questions

1. Explain how the use of modern IT has helped Wal-Mart in delivering more in customer service.
2. Visit the Wal-Mart website and prepare a presentation highlighting different Internet aided services for the customers.