Uttar Pradesh Rajarshi Tandon Open University

# Master of Business Administration

# M.COM-204

## Marketing Management

परिशिष्ट–4
आन्तरिक कवर–दो का प्रारूप
**Format of the II Inner Covers**



---

लेखक Dr. K.K. Pandey, Associate Professor, School of Business Management, IFTM University Moradabad

सम्पादक Prof. P.B. Singh, Deptt. Of Business Administration, MJP Rohilkhand University, Bareilly (U.P.)

परिमापक

---

अनुवाद की स्थिति में

| | |
|---|---|
| मूल लेखक | अनुवाद |
| मूल सम्पादक | भाषा सम्पादक |
| मूल परिमापक | परिमापक |

---

सहयोगी टीम

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

प्रूफ रीडर

---


**ISBN : 978-93-83328-52-9**



**Printed and Published** by Vinay Kumar, Registrar, Uttar Pradesh Rajarshi Tandon Open University, 2024.

**Printed By**: Cygnus Information Solution Pvt. Ltd, Lodha Suprimus Saki Vihar Road, Andheri East, Mumbai

IOST-078

# UNIT-11 INDIAN CONSUMER ENVIRONMENT

## Objectives

After studying this unit you should be able to understand:

- Target Market and market segmentation
- The need of segmentation in marketing
- The meaning and process of segmenting the market
- Targeting strategies
- The analyzing of market potential
- Family life cycle

## Structure



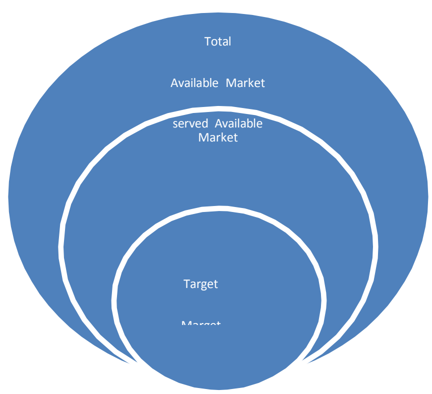
## 11.1 INTRODUCTION

There are number of factors that give rise to consumer demand, desire and wants. In this unit the discussion is further extended to the social and environmental factors that influence the decision –making process namely, reference group's opinion leadership and social class. Consumer behavior is influenced not only by the consumer personalities and motivations but also by the relationship within families.

From the marketing point of view, the family differs from larger reference group in that the members must satisfy their individual and shared needs by drawing on a common fixed supply of sources. And for the individual, the family is the strongest, most immediate and most pervasive influence on decision making.

## 11.2 TARGET MARKET

A target market is the market a company wants to sell its products and services to, and it includes a targeted set of customers for whom it directs its marketing efforts. Product, price, promotion and place are the four elements of a marketing mix strategy that determine the success of a product or services in the marketplace. A target market is a group of people likely to buy the product or service. A target market consists of customers that shares similar characteristics such as age, location, income and lifestyle to which a business directs its marketing efforts and sell its products. It is important for the business to identify and select a target market so it can direct its marketing efforts to that group of customers and better satisfy their needs and wants. This enables the business to use its marketing resources more efficiently, resulting in more cost and time efficient marketing efforts. It allows for better understanding of customers and therefore enables the creation of promotional materials that are more relevant to customer needs. Also targeting makes it possible to collect more precise data about customer needs and behaviours and then analyze that information over time in order to refine market strategies effectively.




Target markets or also known as target consumers are certain clusters of consumers with similar or the same needs that most businesses target their marketing efforts in order to sell their products and services.

## 11.3 MARKET SEGMENTATION

It divides the market into four main subcategories:

1. Demographic
2. Geographic 3.Psychographic 4.Behavioural

Through market segmentation, the enterprises will be able to notice every subdivision market purchasing potential, satisfying degree, competition and comparative analysis, to better meet market needs. Enterprises can focus more on human, financial and material resources to fight for the advantages of local market, and then occupy their own target market. Segmentation has been an essential since industrial development induced mass production, particularly in manufacturing. This caused the focus to shift from customer satisfaction to reduction of production costs.

1. **Demographic characteristics :** Characteristics of consumer market based on demographics include differences in gender, age, ethnic background, income, occupation, education, household size, religion, generation, nationality and social class. Age and gender are two of the most commonly used demographic variables used to segment markets. Demographic are useful and widely used but should be coupled with other segmentation variables to effectively define a target market. **Gender:** Due to the physiological differences, male and female have very different product demand and preferences for example, in clothing, hair and other necessities of life. Some companies target couples or men and women in relationship as opposed to a specific gender. Carnival Cruises Lines often promotes adventure trips to retired couples. **Age:** Consumers of different ages have different demands characteristics for example young people need to dress and the elderly needs are different, young needs bright, fashionable clothing whereas the elderly need dignified and simple but elegant dress. Consumers of different ages may buy your products or services; it is very helpful in marketing to know the primary ages of your most common customers. Trendy, specialty fashion retail shop often target a younger female audience. For example, an age range like 21 to 34 is often used to depict the likely consumer. Some companies carry this trait a step further and identify the average or median age of their customers. **Education and income background:** Lower income and higher income consumers will be quite different in product selection, leisure time arrangement, social communication and communication and so on. Education, income and occupation are often distinct attributes in the consumer profile. The general idea with these qualities is to identify how educated your customer is, where he works

and how much he makes. High-end providers often have to target upper-income consumers that can afford and want their goods. Low-cost providers usually target a low-to- middle-class income earner with messages to low price, affordability or great value. **Occupation:** Consumers of different occupation will lead to different desired products. For example, farmer prefers to buy load-carrying bicycle while teachers love light, beautiful style bikes. **Race and ethnic origin:** Race and ethnicity are common. But not universally used. Sports clips target men**,** but not necessarily a particular race or ethnicity, in its target marketing. Some ethnic oriented specialty supermarkets target customers with specific ethnic origins. A Hispanic grocer would naturally target a customer of Hispanic ethnicity who has a desire for certain types of foods and products familiar to his native culture.

**2.** **Psychographic characteristics :** Psychographic segmentation is based on personality characteristics mainly includes the customer's personality, the life style, the social class, the motive, the value orientation. Businesses can do this by researching consumer's preferences likes and dislikes, habits, interests, hobbies, values and socioeconomic group. These variables are concerned with why people behave the way they do and are often used effectively in conjunction with other segmentation variables. Psychographics also relates to attitudes towards certain activities like fitness, willingness to take risks, concern for the environment, political opinion, concern with fashion and innovativeness. Value and culture are strongly linked to how people think and behave and are important aspects of segmentation variables, especially in global campaigns. Personality traits such as self esteem, intelligence and introversion or extroversion also affect the processing and persuasiveness of communication. **Lifestyle:** Lifestyle is a particular habit of individuals or groups in the consumption, work and entertainment. Different lifestyles tend to produce different consumer demand and purchase behavior, even on the same kind of goods. There will be different needs in the quality, appearance, style and specifications. Many consumers does not only buy the product or goods to met the material needs, it is more important to show the performance of their lifestyle, to meet the psychological needs such as identity, status and the pursuit of fashion. **Social class:** Due to the different social class have a different social environment, different backgrounds and different characteristics of different consumer preferences, demand for goods or services are quite different. Social class are divided into six classes: Upper upper (Inheritance property, family background has famous celebrities), Lower class (The extraordinary vitality in the occupation or business and get higher income or wealth), Upper middles (they are extremely concerned about their careers, they are doing special occupations, independent entrepreneurs and managers), Upper lower (low wages, life is just at the poverty line, the pursuit of wealth but no skills, Lower lower ( the poor, often rely on long term unemployment or life public charity relief to the people). People in different social classes, the demand for cars, clothing, furniture, entertainment, reading, there is a big difference. **<u>Personality:</u>** Personality refers to the individual's unique psychological characteristics, these psychological characteristics of individuals and their environment to maintain a relatively consistent and lasting response. Everyone has a unique personality affecting their buying behavior. To distinguish between different personalities, there is a strong correlation between the premise and specific personality with the product or brand choice, so personality can become the market segments of the psychological variables.

**3.** **Geographical characteristics:** A Geographic target market can be consumers in a city, state or country. The Geographic characteristics are often based on market size, region, population density and even climate. Geographic segmentation is when a business divides its market on the basis of geography. There are several ways that a market can be geographically segmented. Market can be divided by geographical areas, such as city, county, state, region, country or international region. It can also divide into rural, suburban and urban market segments. And we can also segment a market by climate or total population in each area. Geographic segmentation is important because: (a) It is an effective approach for the companies with large national or international markets because different consumers in different regions have different needs, wants and culture characteristics that can be specifically targeted. (b) It can also be an effective approach for small businesses with limited budgets. They can focus on their defined area and not expend needless marketing dollars on approaches ill-suited for their target geographic segment. (c) It works well in different areas of population density. Consumers in an urban environment often have different needs and wants than people in suburban and rural environments. There are even cultural differences between these three areas. **(**d) It is relatively easy to break market down to geographic segments.

A small retailer may find opportunities in a small market in which larger competitors have no interest. Companies that sell beachwear will likely sell more products in warmer climates. Consumers in different regions of the country also have different tastes in food and style. For example, an ice cream shop would be more likely to start up in hot location than a cold climate.

Identifying regional preferences and attitudes can help campaigns to be better targeted for particular geographic areas.

4. **Behavioural characteristics:** It relates to consumers knowledge, attitude, and use of product and purchase occasion, such as special one-off or regular loyal buying. Identifying what the customers want from products and the benefits they seek are important to behavioural segmentation to allow marketers to better design and select products that satisfy these needs. Many marketers believe that behavioral variables are the best starting point for market segmentation. It relates to a consumer's brand loyalty, usage rate and usage situation, to name a few. Consumer's purchase products primarily for their value or benefits and this is the basic element of this segmentation. This is understandable as this segment deals an individual's reaction to the product exclusively. Businesses can use an individual's reaction to price drops, technology changes and product status to determine how to market their product or service effectively.

   **(1)** **Benefits :** It is a kind of classification method based on the different interests of consumers from the brand products. Using the benefit segmentation method, it is determined that what the benefit people are seeking for, who are seeking these benefits, how important to them these benefits are, what brand can offer these benefits etc.

   **(2)** **Opportunity :** It is the time the consumer buy and use the product. These opportunities include marriage, divorce, purchase, moving, demolition, admission, study, retirement, travel, tourism, holidays and so on. It will help improve brand usage and marketing targeted. Such as travelling agencies can provides specialized travel services at different occasion.

   **(3)** **User status :** According to the state of use, consumers can be divided into once user, nonusers, potential users, occasionally users and often user type, for different types of consumers the brand should use different marketing strategies and method. The brand who has a high market share can focus more on the potential users to change them to the actual user like leading brands, small businesses can only be used as an user services.

   **(4)** **Brand loyalty:** Consumer loyalty is the most valuable wealth of enterprises. Consumers can be divided into four types according to their brand loyalty. These are true friends, butterflies, barnacles and strangers.

## 11.4 INCOME AND CONSUMPTION CHARACTERISTICS

Marketers or companies study the consumer spending to project trends and see how consumers affect the national and world economies. Consumers divide income between consumption and saving and even if the household income goes to zero, consumption doesn't. Consumers draw on future income or saving to support the household when there is no income. This is autonomous consumption, not dependent on the income level. If consumers have extra income they spend part of that income as well.

1. **Consumption schedule:** The relationship between income and expenditure is the consumption schedule or consumption function in economics. When disposable income rises, consumption increases. The fraction of each rupee spent is the marginal propensity to consume. Consumption may exceed disposable income for low income individuals. As the disposable income increases, the average propensity to consume falls. In other words, the consumer spends a smaller percentage of extra money. Consumption increases with increased income but short term increases affect consumption less than long term increases. For an income increase of a year or less duration, consumers tend to change spending habits less than for permanent increases in income.

2. **Changes affect Expenditure :** Global or national affect personal and small business expenditures. The rise and fall of the stock market is an example of how change affects income and expenditures. When stock falls, consumers and businesses have less money or less confidence and decrease expenditures. When stocks rise, an increase in confidence and income increases expenditures. Changes in the tax code that increase taxes give the consumer less disposable income with the effect of decreasing consumption. Changes affect the small business and the consumer but the trends show most with the national economy.

3. **Consumer confidence :** Perception of the economy and expectations for the future affect expenditures. When consumers lose confidence in the economy, economists see a downward shift in consumption and economic growth. Increased income can create optimism but so can expectations of increased income. Consumer confidence affects outlook and purchases for a small business as well as individuals. The small-business owner handles income and expenditures the same as if he were handling a household. As the small-business owner profits and gains confidence in the economy, expansion and more expenditure follow.

4. **Business Inventory :** Supply and demand affect income and expenditures on a business level. Inventory builds as consumers lose confidence in the economy or have less income to spend. When confidence is high and income increases, business inventory decreases as items sell. Sales can't exceed goods available, so the small business steps up production. As the small business earns more money, it spends more, keeping with the consumption schedule or the relationship between income and expenditures.

## 11.5 CONCEPT OF ORGANIZATIONAL CONSUMERS

Buying behavior can be divided into two types as consumer buyer behavior and organizational buyer behavior. Ultimately consumers buy goods and services for consumption and different organizations buy goods and services for different purposes. Organizational buying means the activity of buying goods and services by organizations.

An organization may be any industry, which buys raw materials necessary for production of finished goods, machines, machine parts, other supplies etc. similarly government organizations such as ministry, departments, division etc buy goods and services for their use. Hospitals, schools, campuses, financial institution etc need to buy necessary materials, fuel, various supplies, construction materials and other goods and services. Wholesalers, retailers, distributors, resellers etc buy goods or services to produce finished goods, resale, ultimate use etc, this is called organizational buying and the buying behavior of organization is called organizational buying behavior.

## 10.6 CHARACTERISTICS OF ORGANIZATIONAL CONSUMERS

1. **Derived Demand :** Organizational buying is based on derived demand. Demand made by ultimate consumers creates demand for industrial goods or services. For instance, demand of electricity generator is determined according to the demand made by the consumers. Demand of organizational buyer changes in keeping with the changes in consumers' demand.

2. **Geographical concentration :** Organizational consumers remain concentrated in certain geographical area whereas consumers' market remains scattered all around. Producers want to establish industry near by supply source. Mostly, industrial market is determined considering transport facilities and cost. Along with this, raw materials, labour supply,

climate condition etc. are also considered.

3. **Few buyer and large volume :** The number of organizational buyers remains small but volume of sale is large. So, organizational marketers focus on their efforts on very small number of main buyers who buy goods and services in large volume paying bug amount of price.

4. **More Direct Channel of Distribution :** High quantity of consumer goods and services is sold out through complex structure of wholesalers and retailers. This structure keeps producers and consumers separate or it works as the bridge between them. But in organizational selling, direct contact is established between buyer and sellers. The organization, which buys in large volume, buys necessary goods directly goods from producers.

5. **Rational Buying :** Organizational buyer use rational in buying goods or services compared to ultimate consumers. They want to take more information about the features, quality, technical use, utility etc of products. Organizational buyers become aware of quality, services, delivery, price etc. of any products.

6. **Professional Buying :** Compared to consumer buyer, Organizational buyers become systematic, rational and professional. Buying agents become skilled professional. They should take frequent training on buying process, contract, material management and legal aspects of buying. Professional buyers develop formal methods of buying.

7. **Complexity :** Under organizational buying process, different persons participate in buying decision. So it becomes difficult to take buying decision. While taking decision on buying, it becomes necessary to know the role of users, motivators, decision maker and buyer whose effect goes on buying process.

## 11.7 MARKET POTENTIAL

Market potential is the entire size of the market for a product at a specific time. It represents the upper limits of the market for a product. Market potential is usually measured either by sales value or sales volume. Market potential is just a snapshot in time. It is a fluid number that changes with the economic environment. For example rising and falling interest rates will affect the demand for products that are typically financed like cars and houses.

**Analysis of Market Potential**

Determining the market potential of a product is part of successful marketing process and requires marketing research. There is need to examine at least three factors that will determine whether the market potential of the product is worth the investment.

1. **Analyzing potential customer base :** There is need to determine the size and demographic characteristics of one's potential consumers. Important information to obtain includes the population size of target market, their product preferences and their median annual household income. This will tell the number of potential customers and whether they can actually afford the product. One can assess their product's potential customer base analyzing secondary data or data that already exists such as demographic data collected by Census Bureau on household demographics in each state. You can also decide to collect primary data, which is a data you collect specifically to analyzing the market potential of a product. Typical means of collecting primary data includes telephone surveys using a random sample of households drawn that you believe match your target market.

2. **Analyzing Competition :** Bringing an entirely new type of product to the market like an iPod, you will almost certainly have competition. It is important to assess the number of your competitors, their respective share of the current market and how your product can be differentiated from their. This research can be undertaken using both primary and secondary research. Secondary data sources may include industry surveys, membership directories of industry organizations, data collected by local chambers of commerce and data collected by local agencies. Primary data can be collected by simply shopping around and examining your competition from the perspective of not only a competitor but as a consumer.

3. **Analyzing the Current Environment :** Market Potential is not a static concept. It changes with the general economic and political environment. For example, if interest rate goes up, people may not be willing to use credit to purchase big-ticket items like cars. This will lower the demand for those products and decrease the product's overall market potential. A change in tax rates may also suppress spending as less money is available on discretionary purchases, thereby reducing a product's overall market potential. Market potential can increase if wages increases, taxes are lowered or interest rates decline because product demand may increase.

Once you have established that an opportunity matches your business's vision, goals and financial indicators, you are ready to assess its market potential by examining specific key factors.

Ability to compete : The potential for you to compete most effectively in the marketplace based on price advantages or market differentiators. If you will not be able to compete effectively, be wary of such an endeavor. Build on your strengths to increase the chances of future successes.

Duration of the opportunity: The opportunity last long enough for you to seize it and reap it reward. Duration is critical to determining attractiveness. For example, a new product or service based on long term trend, such as changing demographic, has an enduring window of opportunity. One based on a fad, such as the latest fashion trend, has a limited life. Another consideration is how long you have before competition might flood the marketplace.

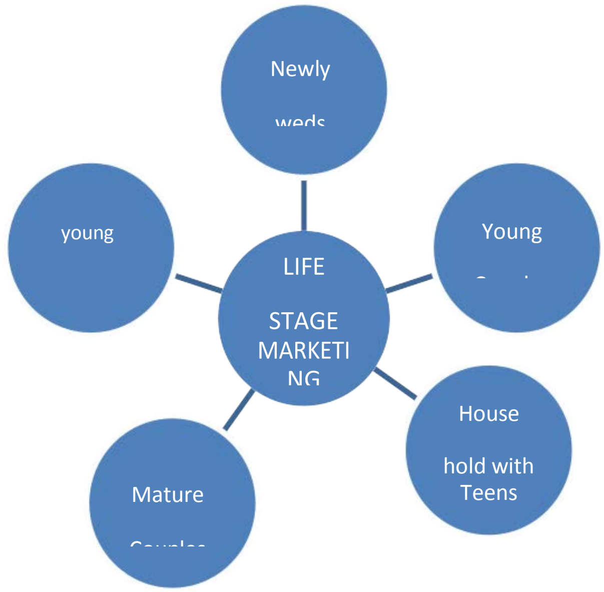
Growth potential: Long-term growth rather than immediate rewards make one opportunity more attractive than another. An entrepreneur may decide to offer a new product in a growth areas rather than pursuing sales of existing products that have minimum growth potential.

Risks and Rewards: A certain amount of risk is involved in all entrepreneurial ventures and growth is no different. How much will the opportunity cost to pursue in terms of time, money and physical resources? What is your potential return on your investment? Are the risks acceptable to you and your business? Do the rewards compensate for the risks? Keep in mind that typically the risks associated with the growth opportunities increase as you move away from the products and markets that are new products and researching and penetrating new markets will also increase.

## 11.8 FAMILY LIFE CYCLE

In 1960's, based on their research Wells and Gruber came up with a new concept of segmentation called Family life cycle. Families pass through a series of stages that changes them over time. This process historically has been called the family life cycle (FLC). While household and family composition has changed it is still important to consider the consumption changes that may occur as individuals move from living with parents to creating their own household either alone or with others, over the course of their lives. What kind of product are purchased and consumed by what types of families and household. As individual consumers and their buying habits differ from person to person from situation to situation, each family or household has similar variations. Several factors influences the ways in which they spend. The most important among them are Family life cycle (FLC) position, reference group, social class, subculture and culture. As people find themselves in various positions in the life cycle such as single, married, married with children or widowed, their needs change. Hence different mixes or types of products or services are required to allow them to properly function.

**Different Stages of Family Life Cycle**




One approach divides the family life into five clear stages: young singles, newlyweds, young couples, household with teens and mature couples. Other approaches to life cycle divisions include additional grouping such as retired couples and solitary survivors. The basis for the various life cycle categorization includes such demographic factors as age of the household head, marital status of household head, presence of children, ages of children, presence of children in college, employment status of household head (working, receiving government financial assistance or retired), employment status of spouse, number of other adults, household size, and survivours status of the household head (retired, widowed or single). In its early incarnations, the FLC would often assume that marketers should think of FLC categories in a "progressive manner"-that everyone move through from single to married to empty nest categories. The family has undergoes significant changes in the past in regard to remaining single, single parents, couples without children and unmarried same sex couples. Still it is important to remember that categories of the product mixes would probably shift based on the needs of members of each category. Marketers can position their offering to help facilitate easier transitions from one stage to another.

1. **Young singles :** Young single between 18-24, lives majority with their parents, a minority, one in four live with roommates. These consumers are much likely than other adult to buy snacks foods, cookies and ice-creams. They share, to some degree, grocery-shopping chores. They tend to buy more staples such as bread, butter, canned soup, spaghetti suace, laundry

detergent and facial tissues than does the average adult. They also consume more beer, wine and spirit coolers. Discretionary income is spent mostly on entertainment, movies, compact disc, sports and recreation equipment, and shoes. Ownership of motorcycle by this group is 15% above average. Young singles tend to be heavy magazine readers, newspaper, television viewers, computer/internet users and cell phone users. The programming they prefer is late night talk/variety, weekend professional basketball, situation comedy and prime time. The focus of these individuals is primarily on themselves.

2. **Newlyweds :** The newlyweds market is made up of 5.16 millions people who have married one year or less. The largest segment ie 43% is 25-34 years old. Newlyweds own their own homes and tend to buy such household furnishing as sofas, wall units, wall to wall carpeting, dinning room furniture, kitchen and cooking appliances and table setting, including fine china. Younger and older newlyweds buy basic furnishing, linens and cooking appliances at much higher rates than the general adult population. Newlyweds are cognizant of the needs of each other and often work together to select goods and services that reflect this. Joint decision making on goods and services is common. Oder newlyweds may bring children into marriage and this will affect consumption patterns of the family depending on the ages and genders of the kids.

3. **Young couples without children :** Young couples, aged 30-39 married without children, number 3.80 million. These consumers are highly educated professionals earning people, who live mostly in cities. Young couples without children whether professional or other jobs, spend more time and money entertaining friends or relatives at home, going to bars or nightclubs, dancing and dinning out than do such couples with children. They consume above-average quantities of distilled spirits and bottled water. This group is more likely to travel overseas, purchase fine china and crystal, invest in collections of antiques and art and remodel their homes. Not big investors, they prefer to spend rather than save. The professional young couples frequently read magazines and watch less television.

4. **Married couples with children :** Married couples with children are divided into two groups with very different lifestyles-dual earner couples and other married couples (typically a working member and a homemaker member). Dual earner couples make more money than other married couples. They have less free time, and their home life is often more hectic. The age of the children directly affect the consumption patterns of the family. Having preschool children brings the need for day care, baby foods, and early child development learning materials and so on.

When the children enter grade school, there are needs such as school clothes, sports equipments, skill lesion (dance, music, sports etc), youth group activity support and peer influenced clothing and music. Having preteens in the family also affects product and services needs.

5. **Household with teenagers :** In the majority of household both spouse are employed. Households with teen agers tend to buy more than average quantities of brownie and cookie mixes, ice creams, ice milk, snack cakes, salty snacks, frozen pizza, pizza mixes. They are typically own cars, motorcycle, recreational vehicles, audio equipments and compact discs. Television viewing includes late night movies, early morning news and weekend sports.

## 11.9 SUMMARY

Market segmentation is important as it help the firm to get customer focused. There are different bases that can be used to segment the consumer market. In fact, each customer characteristic is used successively to arrive at the target market. Thus market segmentation is a customer strategy. The market segmentation approach is now also being used by industrial marketers who use size, buying motives, end user characteristics, and geography as the bases to segment their markets.

Every human society has some type of social class structure which divides its member into hierarchical groups. Within these social classes, social groups tend to form and it is this group that is responsible for transmitting the behavior patterns. Several factors distinguish these groups including occupation, wealth, education, possessions and values.

The family has an institutional position in larger society and provides the primary setting for consumer socialization, whereby children learn consumer tastes, preferences and shopping styles. Family influence is an important factor in developing marketing strategy.

The family also has a life cycle that determines its needs and expenditure patterns at different points in its development.

## 11.10 KEY WORDS

**Market Potential :** Market potential is the entire size of the market for a product at a specific time.

**Social Class :** The division of members of a society into a hierarchy of distinct status classes so that, member of each class have the same status and members of all other classes have either higher or lower status.

**Social class hierarchy :** The grouping of members of society according to status high to low.

**Family Life Cycle :** The idea that families move through a series of stages in a developmental fashion.

**consumer socialization :** The process by which we learn to become consumers. Or the process by which the young people acquire skills, knowledge and attitudes relevant to their functioning as consumer.

**Extended family :** The nuclear family plus relatives such as grandparents, aunts, uncles, and cousins.

**Hierarchy of effects :** Sequential steps used in decision making involving thinking, feeling, then behavior.

**Social relevance :** The extent to which an innovation can be observed or the extent to which having others observe it has social cachet.

**Social risk :** Potential harm to one's social standing that may arise from buying, using or disposing of an offering.

**Total market potential :** The total possible sales of the product by all competitors.

## 11.11 SELF ASSESSMENT QUESTIONS

1. What is target market?
2. How market segmentation divide the market?
3. Explain Psychographic characteristic in market segmentation?
4. What is market potential and how it is analyze?
5. Define family life cycle? Describe various stages of family life cycle?

## 11.12 BIBLIOGRAPHY


1. Bonoma, Thomas A, *Organizational buying Behaviour,* (New York AMACOM, 1987).
2. Webster, Frederick E., *Organizational buying Behaviour,* (Prentice-hall, 1972).
3. Dibb, Sally and Simkin, Lyndon, *Market Segmentation Workbook:Target Marketing for Marketing Managers*, (London: Routledge, 1996).
4. Dibb, Sally, *Market Segmentation Workbook Disk,*(London: International Thompson Business Press, 1999).
5. Myers James H, *Segmentation and Positioning for strategic marketing decisions*, (South- Western, 1966).

6. Weinstein, Art, Handbook of market segmentation, (Haworth Press, 2004).

7. Chatterjee, B. K., *Marketing Management : A Finance Emphasis,* 3rd ed., (Mumbai: Jaico Publishing House, 1998).

8. Kolter, P, "Marketing Management Planning, Implementation and Control", 6th ed. Prentice Hall of India 1994.

9. Loudon, D. L. and Della Bitta, A. J., *Consumer Behaviour, Concept and Application*, McGraw-Hill, 1984.

# UNIT-12 PRODUCT DECISION AND STRATEGIES FOR CONSUMERS

## Objectives

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

- The product, types of product and its dimensions
- The marketing strategy for different types of product
- The product line decision and its importance in the overall business strategy
- Diversification of product line decision

## Structure



## 12.1 INTRODUCTION

To study the various elements marketing mix, it is essential to appreciate that the most crucial element in it is the product. Most of the time product fails not because of quality but because they fail to live up to the customers' expectations. The product is much more than just a bundle of physical attributes. It is the total concept that the customer buys. Product includes both good and service. Marketer should consider product benefits and services, instead of product itself.

Marketing is a strategy used by companies to communicate with the consumer and make him knowledgeable about the various features of their products and services.

## 12.2 PRODUCT AND ITS TYPES

Product is one of the important elements of marketing mix. A marketer can satisfy consumer needs and wants through product. A product consists of both good and service. Decisions on all other elements of marketing mix depend on product. For example, price is set for the product; promotional efforts are directed to sell the product; and distribution network is prepared for the product. Product is in the center of marketing programme. Therefore, product has a major role in determining overall success of marketing efforts.

A marketer tries to produce and sell such products that satisfy needs and wants of the target market. Other words used for product are good, commodity, service, article, or object. In marketing literature, product has comprehensive meaning.

According to Philip Kotler "Product is anything that can be offered to someone to satisfy a need or a want."

According to William Stanton "Product is complex of tangible and intangible attributes, including packaging, colour, price, prestige, and services, that satisfy needs and wants of people."

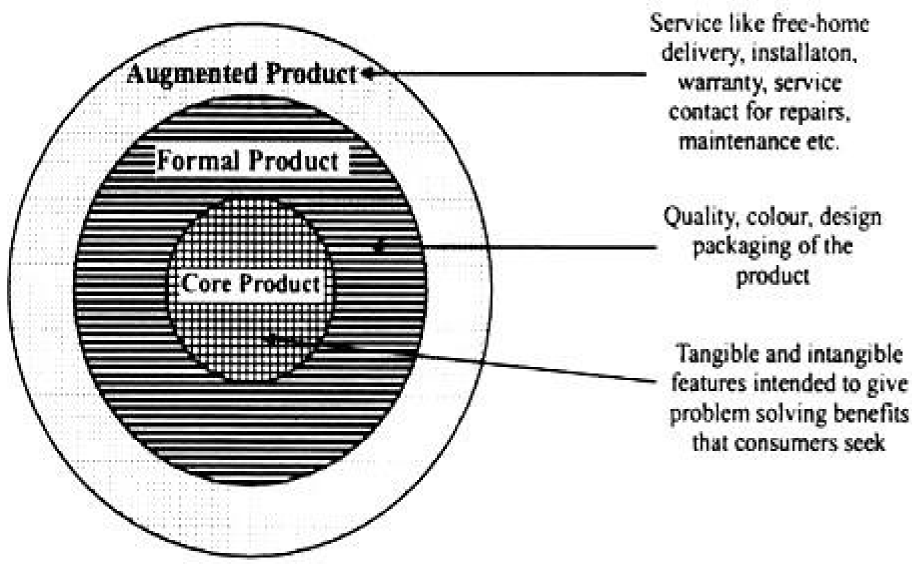
According to W. Alderson "Product is a bundle of utilities, consisting of various product features and accompanying services."

Thus, Product is a vehicle or medium that delivers service to customers. Further it can be said that Product is a bundle of benefits- physical and psychological- that marketer wants to offer, or a bundle of expectations that consumers want to fulfill. Marketer can satisfy needs and wants of target consumers by products. Product includes both good and service. Normally, product is taken as a tangible object, such as a pen, television set, bread, book, vehicle, table, etc. But, tangible product is a package of services or benefits.

Marketer should consider product benefits and services, instead of product itself. Importance lies in the services rendered by the product, and not tangible object itself. People are not interested just possessing products, but the services rendered by the products.

For examples, we do not buy a pen, but writing service. Similarly, we do not buy a car, but transportation service. Just owning product is not enough. It must serve our need and want. Thus, physical product is just a vehicle or medium that offer services, benefits, and satisfaction to us.

Product can also be referred as a bundle of satisfaction, physical and psychological both. On the basis of the above description of the term product, we can identify three dimensions of products viz. core product, formal product and augmented product:




**(i) Core Product :**

It is a bundle of tangible and intangible features of the product; which impart it a problem solving capacity to fulfill that need of consumer, for which he/she buys the product. Core product includes basic contents, benefits, qualities, or utilities.

**(ii) Formal Product:**

It means the formal form, in which the product is presented in the market and by which consumer recognizes it. It includes things, like colour, design, style, quality, brand name and packaging of the product; which give it a formal shape for recognition and buying.

**(iii) Augmented Product:**

This dimension of the product is very important in today's highly competitive market. It includes services provided/ promised by the dealer along with the product e.g. free-home delivery, instructions for use of the product, installation facility, warranty/guarantee, service contact for repairs, maintenance, after-sales service etc. As per the definition, anything which can satisfy need and want of consumers is a product. Thus, product may be in form of physical object, person, idea, activity, or organisation that can provide any kind of services that satisfy some customer needs or wants.

## 12.3 PRODUCT DIMENSIONS

Different people view product differently. Similarly, their expectations are different. The different views or ways to see or perceive the product can be said as product dimensions.

1. **Managerial Dimension :** According to management, a product is viewed as the total product. It includes all those tangible and non-tangible aspects that management wants to offer. Managerial dimension of product covers mainly core products, product-related features, and product-related services.
2. **Consumer Dimension:** To consumers, a product is a bundle of expectations. They view product as a source of expectations or satisfaction. Thus, for consumer, total benefits received from product are important. This view is very important for a marketer.
3. **Social Dimension:** Society considers the product as a source of long-term welfare of people. Society expects high standard of living, safety, protection of environment, and peace in society.

## 12.4 CHARACTERISTICS OF PRODUCT

Product has following features:

1. Product is one of the elements of marketing mix or programme.
2. Different people perceive it differently. Management, society, and consumers have different expectations.
3. Product includes both good and service.
4. Marketer can actualize its goals by producing, selling, improving, and modifying the product.
5. Product is a base for entire marketing programme.
6. In marketing terminology, product means a complete product that can be sold to consumers. That means branding, labeling, colour, services, etc., constitute the product.
7. Product includes total offers, including main qualities, features, and services.
8. It includes tangible and non-tangible features or benefits.
9. It is a vehicle or medium to offer benefits and satisfaction to consumers.
10. Important lies in services rendered by the product, and not ownership of product. People buy services, and not the physical object.

## 12.5 TYPES OF PRODUCT

A company sells different products (goods and services) to its target market.

**They can be classified into two groups:**

1. Consumer Product, and
2. Industrial Products

**1. Consumer Products :**

Consumer products are those items which are used by ultimate consumers or households and they can be used without further commercial and engineering processes.

**Consumer products can be divided into four types:**

**i. Convenient Products :**

Such products improve or enhance users' convenience. They are used in a day-to-day life. They are frequently required and can be easily purchased. For example, soaps, biscuits, toothpaste, razors and shaving creams, newspapers, etc. They are purchased spontaneously, without much consideration, from nearby shops or retail malls.

**ii. Shopping Products :**

These products require special time and shopping efforts. They are purchased purposefully from special shops or markets. Quality, price, brand, fashion, style, getup, colour, etc., are important criteria to be considered. They are to be chosen among various alternatives or varieties. Gold and jewelleries, footwear, clothes, and other durables (including refrigerator, television, wrist washes, etc.).

**iii. Durable Products :**

Durable products can last for a longer period and can be repeatedly used by one or more persons. Television, computer, refrigerator, fans, electric irons, vehicles, etc., are examples of durable products. Brand, company image, price, qualities (including safety, ease, economy, convenience, durability, etc.), features (including size, colour, shape, weight, etc.), and after-sales services (including free installation, home delivery, repairing, guarantee and warrantee, etc.) are important aspects the customers consider while buying these products.

**iv. Non-durable Products :**

As against durable products, the non-durable products have short life. They must be consumed within short time after they are manufactured. Fruits, vegetables, flowers, cheese, milk, and other provisions are non-durable in nature. They are used for once. They are also known as consumables. Mostly, many of them are non-branded. They are frequently purchased products and can be easily bought from nearby outlets. Freshness, packing, purity, and price are important criteria to purchase these products.

**v. Services :**

Services are different than tangible objects. Intangibility, variability, inseparability, perishability, etc., are main features of services. Services make our life safe and comfortable. Trust, reliability, costs, regularity, and timing are important issues.

The police, the post office, the hospital, the banks and insurance companies, the cinema, the utility services by local body, the transportation facilities, and other helpers (like barber, cobbler, doctor, mechanic, etc.,) can be included in services. All marketing fundamental are equally applicable to services. ‘Marketing of services’ is the emerging facet of modern marketing.

**2. Industrial Products :**

Industrial products are used as the inputs by manufacturing firms for further processes on the products, or manufacturing other products. Some products are both industrial as well as consumer products. Machinery, components, certain chemicals, supplies and services, etc., are some industrial products.

Again, strict classification in term of industrial consumer and consumer products is also not possible, For example, electricity, petroleum products, sugar, cloth, wheat, computer, vehicles, etc., are used by industry as the inputs while the same products are used by consumers for their daily use as well.

Some companies, for example, electricity, cements, petrol and coals, etc., sell their products to industrial units as well as to consumers. As against consumer products, the marketing of industrial products differs in many ways.

**Industrial products include:**

1. Machines and components
2. Raw-materials and supplies
3. Services and consultancies
4. Electricity and Fuels, etc.

## 12.6 MARKETING STRATEGY

Marketing is a strategy used by companies to communicate with the consumer and make him knowledgeable about the various features of their products and services. It is an essential part of attracting the target buyers to a particular product, and companies use various innovative or tried-and-tested techniques to stay ahead of their competitors and make their place in the market. Here are some of the most popular and effective types of marketing :


**Affinity Marketing –** Also known as Partnership Marketing, this technique links complementary brands, thereby creating strategic partnerships that benefit both companies. While one adds value to existing customers by generating more income, the other builds new customer relationships.

**Alliance Marketing –** Here two or more entities come together to pool in their resources to promote and sell a product or service, which will not only benefit their stakeholders, but also have a greater impact on the market.

**Ambush Marketing –** This strategy is used by advertisers to capitalize on and associate themselves with a specific event without the payment of any sponsorship fee, thereby bringing down the value of sponsorship. It has sub-categories like direct or predatory ambushing or indirect ambushing by association, to name a few.

**Call to Action (CTA) Marketing –** CTA is a part of inbound marketing used on websites in the form of a banner, text or graphic, where it is meant to prompt a person to click it and move into the conversion funnel, that is, from searching to navigating an online store to converting to a sale.

**Cause Marketing :** Finding a cause both your customers and your company cares about can create magic for your business. This requires internal knowledge about what your organization cares about and who they want to help in the world. A good example of this is Toms Shoes. Instead of doing the traditional "buy one get one free" promotion, Toms built a strong customer following and reputation for giving back by giving away a free pair of shoes to someone in need for every shoe purchase made by their customers.

**Close Range Marketing (CRM) –** Also known as Proximity Marketing, CRM uses Bluetooth technology or Wi-Fi to promote their products and services to their customers at close proximity.

**Cloud Marketing –** This refers to the type of marketing that takes place on the internet, where all the marketing resources and assets are transferred online so that the respective parties can develop, modify, utilize and share them.

**Community Marketing –** This technique caters to the needs and requirements of the existing customers, as opposed to using resources to gather new consumers. This promotes loyalty and product satisfaction and also gives rise to word of mouth marketing among the community.

**Content Marketing –** In this case, content is created and published on various platforms to give information about a certain product or service to potential customers and to influence them, without making a direct sales pitch.

**Cross-media Marketing** – As the name suggests, multiple channels like emails, letters, web pages etc are used to give information about products and services to customers in the form of cross promotion.

**Database Marketing –** This utilizes and information from database of customers or potential consumers to create customised communication strategies through any media in order to promote products and services.

**Digital Marketing –** This strategy uses various digital devices like smartphones, computers, tablets or digital billboards to inform customers and business partners about its products. Internet Marketing is a key element in Digital Marketing.

**Direct Marketing –** This is a wide term which refers to the technique where organizations communicate directly with the consumer through mail, email, texts, fliers and various promotional materials.

**Diversity Marketing** – The aim of this strategy is to take into account the different diversities in a culture in terms of beliefs, expectations, tastes and needs and then create a customized marketing plan to target those consumers effectively.

**Evangelism Marketing –** It is similar to word-of-mouth marketing, where a company develops customers who become voluntary advocates of a product and who promote its features and benefits on behalf of the company.

**Email Marketing :** As soon as customers migrated into the online world, Internet marketers have attempted to collect and organize emails for potential prospects. Many business-to-business marketers depend on email marketing as a primary way to connect with customers. At industry tradeshows, IBM consultants can often be seen exchanging email information with their prospects.

**Freebie Marketing –** Here a particular item is sold at low rates, or is given away free, to boost the sales of another complimentary item or service.

**Free Sample Marketing –** Unlike Freebie Marketing, this is not dependent on complimentary marketing, but rather consists of giving away a free sample of the product to influence the consumer to make the purchase.

**Guerrilla Marketing –** Unconventional and inexpensive techniques with imagination, big crowds and a surprise element are used for marketing something, a popular example being flash mobs.

By keeping in mind the distinctive features of the product, the demographics of the target consumer and their spending power, and the current strategies of existing companies, an effective marketing strategy may be successfully created.

**Mass Marketing :** Major corporations need to drive large numbers of purchasing of their products in order to survive and grow. While mass marketing may seem like a shotgun approach to marketing this is far from the truth. Big businesses spend big money in understanding big data–thats a lot of bigs!) This gives them an insight to where to place media for their potential national customers who buy their products and services. Walmart is an example of an effective mass market retailer. As the number one retailer in the world, they are very smart about their mass marketing efforts, often giving their customers a feeling of locality and warmth.

**Newsletter Marketing :** A fun way to promote a business is to write a newsletter that highlights some of the newsworthy things that have happened for the organization. The Motley Fool have been sharing their investment insights with their community for many years. These newsletters create a sense of inclusion and participation with their members and has provided a key driver for their incredible growth.

**Online Marketing :** As commerce has propagated to the Internet, a new form of marketing has emerged. From online banners to those annoying pop ups, online marketers have attempted to get their customers attention any way they can. Most online strategic marketing efforts today are a mix of growth hacking strategies (A/B testing taken to the max) and a variety of awareness tactics that drive attention. A very effective online marketer is the insurance company who simply asks their users to enter their zip code for an instant quote on a better savings.

**Offline Marketing :** With mass adoption of the Internet, many companies are finding new ways of integrating offline marketing with new technologies to create more engaging customer experiences. The Coca-Cola company has create vending machines that invite customers to hug them. This continues to tie the Coca-Cola brand to the core emotion of happiness, but also invite customers to experience the real product offline.

**Outbound Marketing :** Sometimes it's important for companies to let their potential customers know they exist. By developing a list of prospects a company can begin to reach out to their individual target groups in order to find new customers. When Microsoft was selling their accounting software they often used outbound marketing to identify potential targets before trying to call the companies for an in-person meeting.

**PR Marketing :** One of the most important marketing strategies is public relations. Many effective marketers work with the media to bring awareness to their products and the benefits their products offer. Also, in many cases where things go wrong, a good PR marketing strategy is vital. When Apple's founder Steve Jobs was alive, Apple held a major press conference to announce every new product. This tradition is now continued by their new Apple CEO and CMO.

**Relationship Marketing** : Many companies focus on building relationships with their customers instead of always exclusive trying to sell them something (transactional marketing). Customers who love your brand more will also spend more money with your brand. Many traditional retailers have found this to be true. Walgreens has seen that customers who buy from all of their purchasing channels (store, web, mobile, etc) buy up to six times more than the average customer that only buys in their store.

**Scarcity Marketing :** In some markets it's important to control how much product is available at one time. In many cases this is done because of the difficulty of acquiring raw materials or higher quality of the product. A company may choose to make their products accessible to only a few customers. Rolls-Royce's release of their Chinese edition car called Phantom sold quickly. While the cost of the car was higher than most cars the scarcity drove the desire and the price.

**Transactional Marketing :** Driving sales can be challenging, especially for retailers that have to consistently sell products in high volume to consumers. In order to stay with the demands of investors, retailers have to encourage consumers to buy using coupons, discounts, liquidations, and sales events. High volume big-box retailers like Target are constantly running promotional events in order to get interested consumers into their stores.

**Article Marketing :**In industries where expertise is highly valued, articles can offer a powerful tool to showcase your knowledge and expertise. Some innovations are shared in the form of articles or white papers where technical information needs to be convey to specialized buyers. Amazon.com has dedicated part of their site for white papers on technical know-how on cloud computing. This is a very sophisticated form of marketing for specialized buyers.

**Content Marketing :** Write and publish content to educate potential customers about your products and services. For the appropriate businesses, this can be an effective means of influencing them without using direct selling methods.

**Social Media Marketing :** Social media sites like Facebook and Twitter offer a unique opportunity for savvy businesses willing to invest in customer engagement. Social media marketing is still in its infancy but is growing up rather quickly. Companies like Southwest Airlines have departments of over 30 people whose primary responsibility is to actively engage with customers on social media.

**Cross-Media Marketing :** Provide customers information through multiple channels like email, physical mail, websites, and print and online advertisements to cross promote your products and services.

**B2B Marketing :** Business-to-business marketing is a marketing practice of individuals or organizations (including commercial businesses, governments, and other institutions). It allows businesses to sell products or services to other companies or organizations that in turn resell the same products or services, use them to augment their own products or services, or use them to support their internal operations. International Business Machines is a well known B2B marketer. IBM's business has grown because taking a very intelligent approach at marketing their products to other business and governments around the world.

**Promotional Marketing :** Promotional marketing is a business marketing strategy designed to stimulate a customer to take action towards a buying decision. Promotional marketing is a technique that includes various incentives to buy, such as:

- Contests : We all enjoy winning something for free. Contests offer an attractive marketing vehicle for small business to acquire new clients and create awareness.
- Coupons: According to CMS, a leading coupon processing agent, marketers issued 302 billion coupons in 2007, a 6% increase over the previous year. Over 76% of the population use coupons, according to the Promotion Marketing Association (PMA) Coupon Council. Coupons still work and provide an affordable marketing strategy for small business.
- Sampling: Try before you buy. Giving away product might appear profit-limiting, but consider how giving your customers a small taste can lead to a big purchase. Retail genius Publix supermarkets share samples of their award-winning key lime pie

not because people question the goodness of the pie but to get their customers to buy more.

**B2C Marketing :** The ultimate goal of B2C marketing (business-to-consumer marketing) is to convert shoppers into buyers as aggressively and consistently as possible. B2C marketers employ merchandising activities like coupons, displays, store fronts (both real and online) and special offers to entice the target market to buy. B2C marketing campaigns are focused on a transaction, are shorter in duration, and need to capture the customer's interest immediately. These campaigns often offer special deals, discounts, or vouchers that can be used both online and in the store.

**Reverse Marketing:** In reverse marketing, the idea is to get the customer to seek out the business rather than marketers seeking the customer. Usually, this is done through traditional means of advertising, such as television advertisements, print magazine advertisements, and online media. While traditional marketing mainly deals with the seller finding the right set of customers and targeting them, reverse marketing focuses on the customer approaching potential sellers who may be able to offer the desired product.

In 2004, Dove launched the Dove Campaign for Real Beauty focusing on the natural beauty of women rather than advertising their product. This campaign caused their sales to soar above $1 Billion and caused Dove to re-create their brand around this strategy. Although successful, this campaign caused a lot of controversy and discussion due to what people saw as an advertisement with a contradictory message.

**Telemarketing:** Telemarketing can play an important part of selling your products to consumers and it must not be overlooked as many companies rely on it to connect with customers. Telemarketing (sometimes known as inside sales, or telesales in the UK and Ireland) is a method of direct marketing in which a salesperson solicits prospective customers to buy products or services, either over the phone or through a subsequent face to face or Web conferencing appointment scheduled during the call. Telemarketing can also include recorded sales pitches programmed to be played over the phone via automatic dialing. Telemarketing has come under fire in recent years, being viewed as an annoyance by many.

**Free Sample Marketing:** Unlike Freebie Marketing, this is not dependent on complementary marketing, but rather consists of giving away a free sample of the product to influence the consumer to make the purchase.

**Direct Mail Marketing:** A channel-agnostic form of advertising that allows businesses and nonprofits organizations to communicate directly with the customer, with advertising techniques that can include text messaging, email, interactive consumer websites, online display ads, fliers, catalog distribution, promotional letters, and outdoor advertising. Direct marketing messages emphasize a focus on the customer, data, and accountability.

**Characteristics that distinguish direct marketing are:**

- Marketing messages are addressed directly to the customer(s). Direct marketing relies on being able to address the members of a target market. Addressability comes in a variety of forms including email addresses, mobile phone numbers, Web browser cookies, fax numbers, and postal addresses.

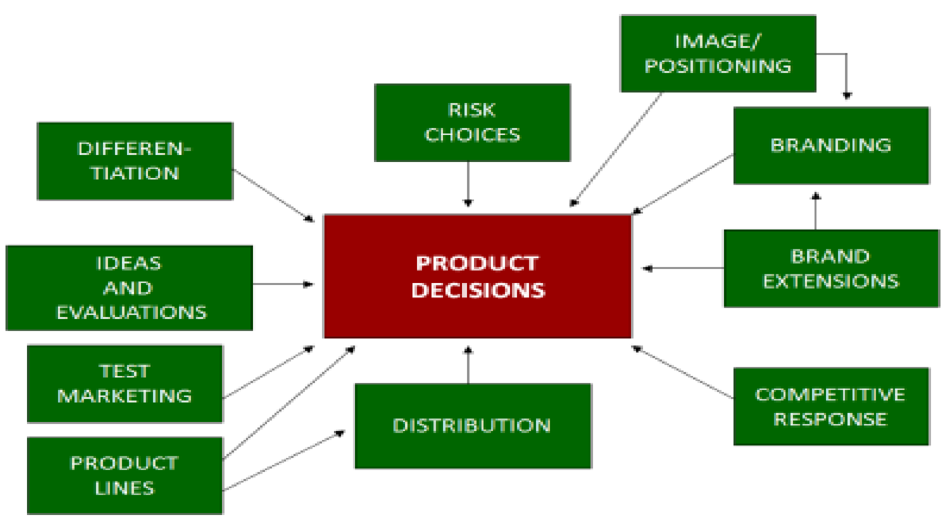
- Direct marketing seeks to drive a specific "call to action." For example, an advertisement may ask the prospect to call a free phone number or click on a link to a website.

- Direct marketing emphasizes trackable, measurable responses from customers regardless of medium.

- Direct marketing is practiced by businesses of all sizes—from the smallest start-up to the leaders in the Fortune 500. A well-executed direct advertising campaign can prove a positive return on investment by showing how many potential customers responded to a clear call-to- action. General advertising eschews calls-for-action in favor of messages that try to build prospects' emotional awareness or engagement with a brand. Even well-designed general advertisements rarely can prove their impact on the organization's bottom line.

## 12.7 PRODUCT LINE DECISIONS – BUILDING A PRODUCT LINE

A product line is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges (Philip Kotler and Ronald E. Turner).



Each product line consists of product items, which should be evaluated. First, product-line managers must know the sales and profits of each item in the line. Second, they must know how their product line compares with competitors' product lines in the same markets. This provides information needed for making several product-line decisions.

One of the major issues facing product line managers is the optimal length of the product line. The issue of product-line length is influenced by company objectives. A manufacture can systematically enlarge the length of its product line in two ways: by stretching its line and by filling its line. Line stretching involves the question of whether a particular line should be extended downward, upward, or both ways. Line filling raises the question of whether additional items should be added within the present range of the line.

In some case, product length is adequate, but the line needs to be modernized. Line featuring raises the question of which items to feature in promoting the line. Line pruning raises the question of how to detect and remove weaker product items from the line.

**Individual Product Decisions**: Individual product decisions include the following product decisions: product attributes (quality, features, and design), branding, and packing and labelling. Brand decisions can add great value to a product and is therefore an intrinsic aspect of product strategy. The key brand decisions are:

**Branding Decisions**

The first decision is whether the company should put a brand name on its product.

**Brand-sponsor Decisions**

The product may be launched as a manufacturer-owned brand, or it may be launched as a licensed name brand.

**Family-brand Decisions**

At least four brand-name strategies can be distinguished: individual brand names, a blanket family name for all products, company trade name combined with individual product names.

**Brand-extension Decisions**

A brand-extension strategy is any effort to extend a successful brand name to launch new or modified products or lines.

**Multibrand Decisions:**

In a multibrand strategy, the seller develops two or more brands in the same product category.

**Brand-repositioning Decisions**

The company sometimes must decide whether to reposition any of the brands.

## 12.8 PRODUCT LINE DIVERSIFICATION STRATEGY

The growth objectives of a firm are quite restricted when the established product lines crosses its growth limit. These objectives are further depressed when the company faces problems in maintaining its market share or is on the verge of dying. In such circumstances, its future can be safeguarded, if adequate and timely decisions are taken on the **diversification** of the product line. The product line diversification takes place when the company seeks to enter new market segments with a completely different product or products. Generally speaking, **product line diversification** policies aim at exploring new avenues of growth opportunities, sales stability and higher profitability. However, the firm's object in this context varies considerably. Some firms give due importance for diversification in order to survive while others diversify to grow and prosper; and yet others to reduce their costs. In the present case, when competition is very intense, "diversify or die" becomes the need of the hour for the marketers. There are three types of diversification: concentric, horizontal, and conglomerate.

**Concentric diversification**

This means that there is a technological similarity between the industries, which means that the firm is able to leverage its technical know-how to gain some advantage. For example, a company that manufactures industrial adhesives might decide to diversify into adhesives to be sold via retailers. The technology would be the same but the marketing effort would need to change.

It also seems to increase its market share to launch a new product that helps the particular company to earn profit. For instance, the addition of tomato ketchup and sauce to the existingc"Maggi" brand processed items of Food Specialties Ltd. is an example of technological-related concentric diversification.

The company could seek new products that have technological or marketing synergies with existing product lines appealing to a new group of customers. This also helps the company to tap that part of the market which remains untapped, and which presents an opportunity to earn profits.

**Horizontal diversification**

The company adds new products or services that are often technologically or commercially unrelated to current products but that may appeal to current customers. This strategy tends to increase the firm's dependence on certain market segments. For example, a company that was making notebooks earlier may also enter the pen market with its new product.

Horizontal diversification is desirable if the present customers are loyal to the current products and if the new products have a good quality and are well promoted and priced. Moreover, the new products are marketed to the same economic environment as the existing products, which may lead to rigidity or instability.

Horizontal integration occurs when a firm enters a new business (either related or unrelated) at the same stage of production as its current operations. For example, Avon's move to market jewellery through its door-to-door sales force involved marketing new products through existing channels of distribution. An alternative form of that Avon has also undertaken is selling its products by mail order (e.g., clothing, plastic products) and through retail stores (e.g. Tiffany's). In both cases, Avon is still at the retail stage of the production process.

**Conglomerate diversification (or lateral diversification):**

Conglomerate diversification is designed to take advantage of growth opportunities without bothering about any synergistic effect. Under such a diversification programme, although financial considerations are dominant, product consideration does play a vital role.

**Marketers have identified five ways of diversification. These are:**

1. **Synergistic Diversification**

   In synergistic diversification**,** new products are marketed. When the resources for manufacturing and marketing are highly compatible with the existing resources of the firm, the synergies sport from commonalities in the production process R & D facilities, sales-force competence, and distribution network. The Bush Company, by resorting to synergistic diversification, has profitably expanded its market for a wide variety of its products, such as radios, transistors, two- in-one, three-in-one recorders, TV (colored and black and white) and videos.

2. **Conglomerate Diversification**

   Conglomerate diversification is designed to take advantage of growth opportunities without bothering about any synergistic effect. Under such a diversification programme, although financial considerations are dominant, product consideration does play a vital role.

3. **Product Line Extension**

   Product line extension is another form of diversification that aim at reaching those market segments which the firm has not yet penetrated. **Product line extension** may be valid if it is an area in which the consumers enjoy a wide variety of brands to choose from and are accustomed to switch over from one to another, or if the competitors lack a comparable product or if they have themselves expanded into these areas. The Bakeman, the well-known biscuit producers, have extended their product line by adding bread, cake and confectionery to their existing line. Similarly, VIP, a leading producer of vests and briefs, has added socks and panties to its product line. Extension in the present product mix may be done by increasing the number of lines and / or the depth within a line. Such new lines may be related or unrelated to the present products. For example, a large provision stores may add drugs, cosmetics and housewares (width), while at the same time, increasing its assortments of dry fruits, baby foods, detergents (depth), etc.

**4. Product Proliferation**

Proliferation is a limited form of diversification. It involves the development of new varieties of an initial product or of take-offs that are similar to that product (not being a new product). When the manufacturer of biscuits adds a new flavor, such as orange or pineapple, there is a product proliferation, for there is nothing new to be mastered or risked.

**5. New-Field Entry**

It involves the entry of a firm in those categories of products which are new to it. In this type of diversification, the firm starts producing those goods which are quite unrelated to its product line. For instance, a confectionery firm may diversify its product line by producing frozen foods or soaps, etc. The Bakemans, well-known biscuit manufacturers, have profitably expanded their export market by diversifying into soap and detergents. Similarly, the Reliance Group, besides producing textiles, caters to the needs of the chemicals market.

A firm may resort to more than one **type of diversification** at a time. For instance, a paint manufacturer may, for a long-range product, think of entering the market for Sunmica; for an intermediate range, it can go in for paints that are pollution-resistant. On a short-term basis, it may diversify into the production of bright and sophisticated looking paints which bear more a bright and pleasing look.

Occasionally, there are some specific reasons for resorting to diversification. For instance, textile industries producing sarees may find it desirable to bring out sarees of different types to cater to the needs of different classes of buyers. Lakme, by diversifying, has profitably extended its export cosmetic market.

## 12.9 SUMMARY

Product is the heart or core of any successful marketing strategy. It is an important element that provides competitive advantage to a firm. As the environment becomes more complex and technology is easily accessible to all firms, products become undifferentiated. All firms offer the same level of quality features; warranties etc. and are identical in respect of the core product. It is in this sense that the formal or expected product is identical among competing firms.

Tomorrow's competitive advantage will accrue from augmented and potential product. The range of products a firm markets is called its product mix. The marketer has to take the strategic decisions that affect breadth and depth of his product mix. He should also be able to use the product line decision concept to effectively plan the strategy and customize it to local market.

## 12.10 KEY WORDS

**Marketing :** A social and managerial process whereby individuals and groups obtain what they need and want through creating and exchanging products and value with others.

**Product :** Anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organizations, and ideas.

**Product line :** The collection of products in a company that are closely related to some way to one other.

**Customer value :** The difference between the values the customer gains from owning and using a product and the costs of obtaining the product.

**Customer satisfaction :** The extent to which a product's perceived performance matches a buyer's expectations. If the product's performance falls short of expectations, the buyer is dissatisfied. If performance matches or exceeds expectations, the buyer is satisfied or delighted.

**Diversification :** A strategy for company growth by starting up or acquiring businesses outside the company's current products and markets.

## 12.11 SELF ASSESSMENT QUESTIONS

**1.** Define product and gives various types of product?

**2.** What are durable and non-durable products?

**3.** What are marketing strategies for the different types of product?

**4.** What is product line decision? Give its diversification strategies?

## 12.12 BIBLIOGRAPHY


1. Lehmann, Donald R. and Winer, Russell S. *Product Management*, (New York: McGraw- Hill, 1997), xix, chps7-9.
2. Morse, Stephen, *Handbook of successful product management*, (New Delhi: Crest, 2004).
3. Chatterjee, B. K., *Marketing Management* : *A Finance Emphasis*, 3rd ed., (Mumbai: Jaico Publishing House, 1998).
4. Kolter, P, *"Marketing Management Planning, Implementation and Control"*, 6th ed. Prentice Hall of India 1994.

Uttar Pradesh Rajarshi Tandon Open University

# Master of Business Administration

# M.COM-204

## Marketing Management

**BLOCK**

# 2

## PRODUCT AND BRANDING DECISIONS

**UNIT-13**

**Product Life Cycle and New Product Development**

**UNIT-14**

**Branding and Packaging Decisions**

**UNIT-15**

**Pricing Policies and Practices**

**UNIT-16**

**Sales Forcasting**

परिशिष्ट–4

आन्तरिक कवर–दो का प्ररूप

**Format of the II Inner Covers**

विशेषज्ञ समिति

1. Dr. Omji Gupta, Director SoMS UPRTOU Allahabad.
2. Prof. Arvind Kumar, Professor, Department of Commerce, Lucknow University, Lucknow.
3. Prof. Geetika, HOD, SoMS, MNNIT Allahabad
4. Prof. H.K. Singh, Professor, Department of Commerce, BHU Varanasi
5. Dr. Gyan Prakash Yadav, Asst. Professor, UPRTOU
6. Dr. Devesh Ranjan Tripathi, Asst. Professor, SoMS, UPRTOU
7. Dr. Gaurav Sankalp SoMS, UPRTOU

लेखक Dr. K.K. Pandey, Associate Professor, School of Business Management, IFTM University Moradabad

सम्पादक Prof. P.B. Singh, Deptt. Of Business Administration, MJP Rohilkhand University, Bareilly (U.P.)

परिमापक

अनुवाद की स्थिति में

| | |
|---|---|
| मूल लेखक | अनुवाद |
| मूल सम्पादक | भाषा सम्पादक |
| मूल परिमापक | परिमापक |

सहयोगी टीम

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

प्रूफ रीडर



**ISBN : 978-93-83328-52-9**

# UNIT-13 PRODUCT LIFE CYCLE AND NEW PRODUCT DEVELOPMENT

## Objectives

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

- The product life cycle
- Elements of marketing mix
- The importance of new product in market strategy
- The process of new product development
- Marketing strategies at various stages of product life cycle

## Structure



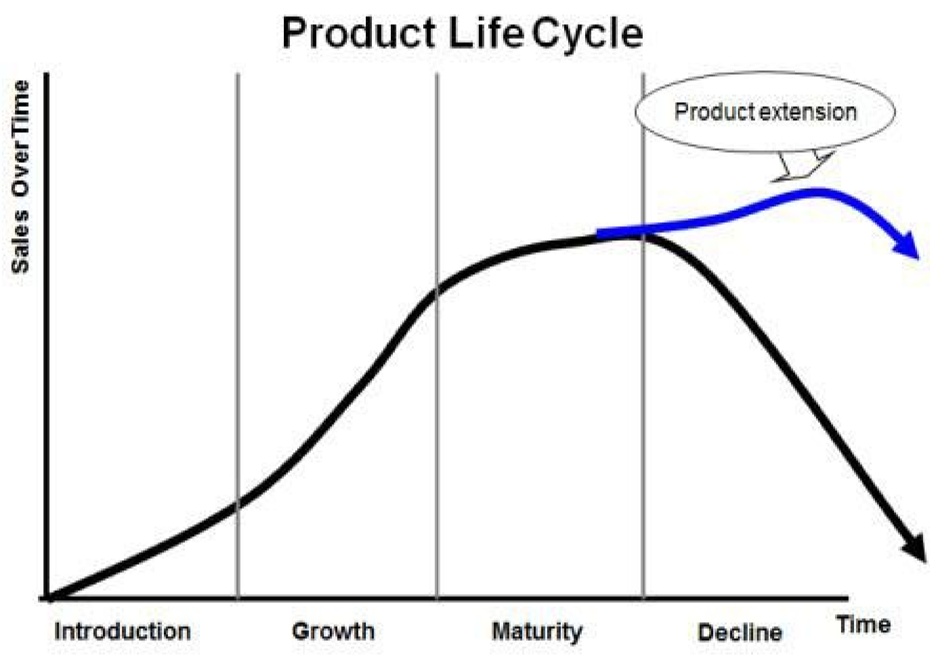
## 13.1 INTRODUCTION

The product life cycle reflects the sales and profit of a product over a period of time. Generally, most products follow an established path and the product life cycle curve in their case is S- shaped**.** PLC of any product consists of mainly of four phases: introduction, growth, maturity and decline. A new product is any product that is perceived by the customer as being new. The newness may perceived when the product has been either offered at a lower price or some modification has been made on it, or even offered in a new packaging. Factors contributing to new product development are primarily changes in a firm's marketing environment as also the organization mission and long term goals.

## 13.2 PRODUCT LIFE CYCLE

The **product life cycle** is an important concept in marketing. It describes the stages a **product** goes through from when it was first thought of until it finally is removed from the market. Not all **products** reach this final stage. Some continue to grow and others rise and fall.

The theory of a product life cycle was first introduced in the 1950s to explain the expected life cycle of a typical product from design to obsolescence, a period divided into the phases of product introduction, product growth, maturity, and decline. The goal of managing a product's life cycle is to maximize its value and profitability at each stage. Life cycle is primarily associated with marketing theory.




As consumers, we buy millions of products every year. And just like us, these products have a life cycle. Older, long-established products eventually become less popular, while in contrast, the demand for new, more modern goods usually increases quite rapidly after they are launched.

Because most companies understand the different product life cycle stages, and that the products they sell all have a limited lifespan, the majority of them will invest heavily in new product development in order to make sure that their businesses continue to grow.

Product Life Cycle Stages Explained

The product life cycle has 4 very clearly defined stages, each with its own characteristics that mean different things for business that are trying to manage the life cycle of their particular products.

**Introduction Stage** – This stage of the cycle could be the most expensive for a company launching a new product. The size of the market for the product is small, which means sales are low, although they will be increasing. On the other hand, the cost of things like research and development, consumer testing, and the marketing needed to launch the product can be very high, especially if it's a competitive sector.

**Growth Stage** – The growth stage is typically characterized by a strong growth in sales and profits, and because the company can start to benefit from economies of scale in production, the profit margins, as well as the overall amount of profit, will increase. This makes it possible for businesses to invest more money in the promotional activity to maximize the potential of this growth stage.

**Maturity Stage** – During the maturity stage, the product is established and the aim for the manufacturer is now to maintain the market share they have built up. This is probably the most competitive time for most products and businesses need to invest wisely in any marketing they undertake. They also need to consider any product modifications or improvements to the production process which might give them a competitive advantage.

**Decline Stage** – Eventually, the market for a product will start to shrink, and this is what's known as the decline stage. This shrinkage could be due to the market becoming saturated (i.e. all the customers who will buy the product have already purchased it), or because the consumers are switching to a different type of product. While this decline may be inevitable, it may still be possible for companies to make some profit by switching to less-expensive production methods and cheaper markets.

Product Life Cycle Examples

It's possible to provide examples of various products to illustrate the different stages of the product life cycle more clearly. Here is the example of watching recorded television and the various stages of each method:

1. Introduction – 3D TVs
2. Growth – Blueray discs/DVR
3. Maturity – DVD
4. Decline – Video cassette

The idea of the product life cycle has been around for some time, and it is an important principle manufacturers need to understand in order to make a profit and stay in business.

However, the key to successful manufacturing does not just understand this life cycle, but also proactively managing products throughout their lifetime, applying the appropriate resources and sales and marketing strategies, depending on what stage products are at in the cycle.

## 13.3 PROBLEMS WITH THE PRODUCT LIFE CYCLE THEORY

While the product life cycle theory is widely accepted, it does have critics who say that the theory has so many exceptions and so few rules that it is meaningless. Among the holes in the theory that these critics highlight:

- There is no set amount of time that a product must stay in any stage; each product is different and moves through the stages at different times. Also, the four stages are not the same time period in length, which is often overlooked.
- There is no real proof that all products must die. Some products have been seen to go from maturity back to a period of rapid growth thanks to some improvement or redesign. Some argue that by saying in advance that a product must reach the end of life stage, it becomes a self-fulfilling prophecy that companies subscribe to. Critics say that some businesses interpret the first downturn in sales to mean that a product has reached decline and should be killed, thus terminating some still-viable products prematurely.
- The theory can lead to an over-emphasis on new product releases at the expense of mature products, when in fact the greater profits could possibly be derived from the mature product if a little work was done on revamping the product.
- The theory emphasizes individual products instead of taking larger brands into account.
- The theory does not adequately account for product redesign and/or reinvention.

## 13.4 NEW PRODUCT DEVELOPMENT

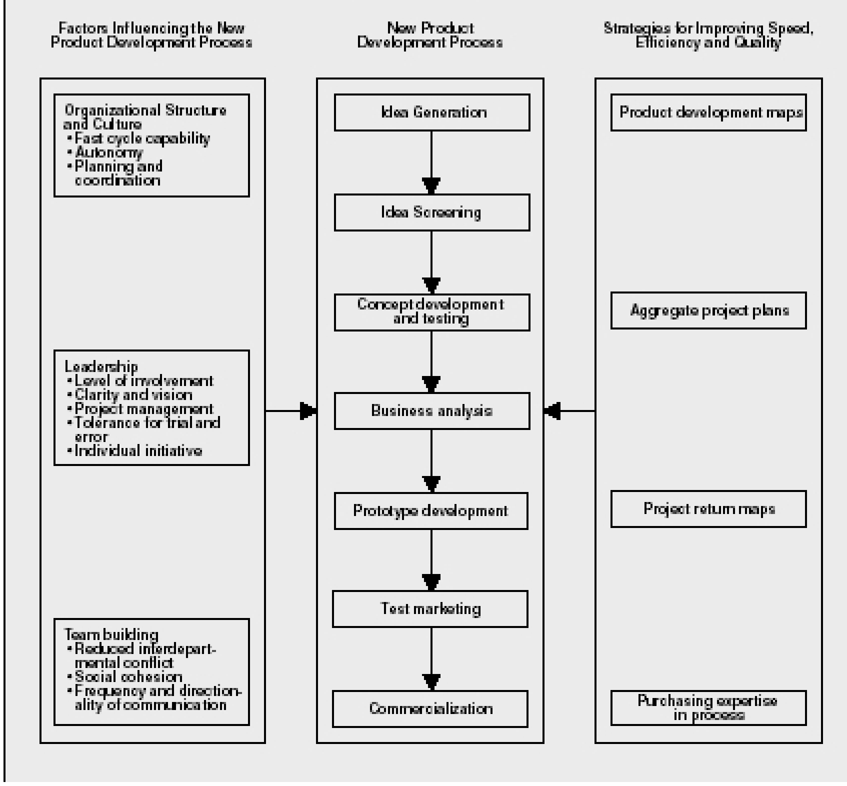
New product development is a task taken by the company to introduce newer products in the market. Regularly there will arise a need in the business for new product development. Your existing products may be technologically outdated, you have different segments to target or you want to cannibalize an existing product. In such cases, New product development is the answer for the company. There are 7 stages of new product development and they are as follows.

- **Idea generation** – in this you are basically involved in the systematic search for new product Ideas. A company has to generate many ideas in order to find one that is worth pursuing. The Major sources of new product ideas include internal sources, customers, competitors, distributors and suppliers. Almost 55% of all new product ideas come from internal sources according to one study. Companies like 3M and Toyota have put in special incentive programs or their employees to come up with workable ideas.

  Almost 28% of new product ideas come from watching and listening to customers. Customers: even create new products on their own, and companies can benefit by finding these products and putting them on the market like Pillsbury gets promising new products from its annual Bake-off. One of Pillsbury's four cake mix lines and several variations of another came directly from Bake-Off winners' recipes.

Figure 1

New Product Development Process, Factors and Strategies




- **Idea Screening :** The second step in New product development is Idea screening. The purpose of idea generation is to create a large pool of ideas. The purpose of this stage is to pare these down to those that are genuinely worth pursuing. Companies have different methods for doing this from product review committees to formal market research. It is helpful at this stage to have a checklist that can be used to rate each idea based on the factors required for successfully launching the product in the marketplace and their relative importance. Against these, management can assess how well the idea fits with the company's marketing skills and experience and other capabilities. Finally, the management can obtain an overall rating of the company's ability to launch the product successfully.

- **Concept Development and Testing –** The third step in New product development is Concept Development and Testing**.** An attractive idea has to be developed into a Product concept. As opposed to a product idea that is an idea for a product that the company can see itself marketing to customers, a product concept is a detailed version of the idea stated in meaningful consumer terms. This is different again from a product image, which is the consumers' perception of an actual or potential product. Once the concepts are developed, these need to be tested with consumers either symbolically or physically. For some concept tests, a word or a picture may be sufficient, however, a physical presentation will increase the reliability of the concept test. After being exposed to the concept, consumers are asked to respond to it by answering a set of questions designed to help the company decide which concept has the strongest appeal. The company can then project these findings to the full market to estimate sales volume.

- **Marketing Strategy Development –** This is the next step in new product development. The strategy statement consists of three parts: the first part describes the target market, the planned product positioning and the sales, market share and profit goals for the first few years. The second part outlines the product's planned price, distribution, and marketing budget for the first year. The third part of the marketing strategy statement describes the planned long-run sales, profit goals,
sales, costs and profits to find out whether they satisfy a company's objectives. If they do, the product can move to the product development stage.

- **Product Development –** Here, R&D or engineering develops the product concept into a physical product. This step calls for a large investment. It will show whether the product idea can be developed into a full- fledged workable product. First, R&D will develop prototypes that will satisfy and excite customers and that can be produced quickly and at budgeted costs. When the prototypes are ready, they must be tested. Functional tests are then conducted under laboratory and field conditions to ascertain whether the product performs safely and effectively.

- **Test Marketing –** If the product passes the functional tests, the next step is test marketing: the stage at which the product and the marketing program are introduced to a more realistic market settings. Test marketing gives the marketer an opportunity to tweak the marketing mix before the going into the expense of a product launch. The amount of test marketing varies with the type of product. Costs of test marketing can be enormous and it can also allow competitors to launch a "me-too" product or even sabotage the testing so that the marketer gets skewed results. Hence, at times, management may decide to do away with this stage and proceed straight to the next one:

- **Commercialization** – The final step in new product development is Commercialization. Introducing the product to the market-it will face high costs for manufacturing and advertising and promotion. The company will have to decide on the timing of the launch (seasonality) and the location (whether regional, national or international). This depends a lot on the ability of the company to bear risk and the reach of its distribution network.

Today, in order to increase speed to market, many companies are dropping this sequential approach to development and are adopting the faster, more flexible, simultaneous development approach. Under this approach, many company departments work closely together, overlapping the steps in the product development process to save time and increase effectiveness.

## 13.5 MARKETING STRATEGIES AT VARIOUS STAGES OF PRODUCT LIFE CYCLE

Product passes through four stages of its life cycle- introduction, growth, maturity and decline. Every stage poses different opportunities and challenges to the marketer. Each of stages demands the unique or distinguished set of marketing strategies. A marketer should watch on its sales and Product and Branding Decisions market situations to identify the stage in which the product is passing through, and accordingly, he should design appropriate marketing strategies. Here, strategy basically involves four elements – product, price, promotion, and distribution.

By appropriate combination of these four elements, the strategy can be formulated for each stage of the PLC. Every stage gives varying importance to these elements of marketing mix. Let us analyze basic strategies used in each of the stages of the PLC, as described by Philip Kotler.

**Marketing Strategies for Introduction Stage:**

Introduction stage is marked with slow growth in sales and a very little or no profit. Note that product has been newly introduced, and a sales volume is limited; product and distribution are not given more emphasis. Basic constituents of marketing strategies for the stage include price and promotion. Price, promotion or both may be kept high or low depending upon market situation and management approach. Observe fig.

**Following are the possible strategies during the first stage:**

**promotion**

| | | **High** | **Low** |
|---|---|---|---|
| **Price** | **High** | **Rapid Skimming Strategy** | **Slow Skimming Strategy** |
| | **Low** | **Rapid Penetration strategy** | **Slow Penetration strategy** |

**Fig. Marketing Strategies for Introduction Stage**

1. **Rapid Skimming Strategy:**

   This strategy consists of introducing a new product at high price and high promotional expenses. The purpose of high price is to recover profit per unit as much as possible. The high promotional expenses are aimed at convincing the market the product merits even at a high price. High promotion accelerates the rate of market penetration, in all; the strategy is preferred to skim the cream (high profits) from market.

   This strategy makes a sense in following assumptions:

   - Major part of market is not aware of the product.
   - Customers are ready to pay the asking price.
   - There possibility of competition and the firm wants to build up the brand preference.
   - Market is limited in size.

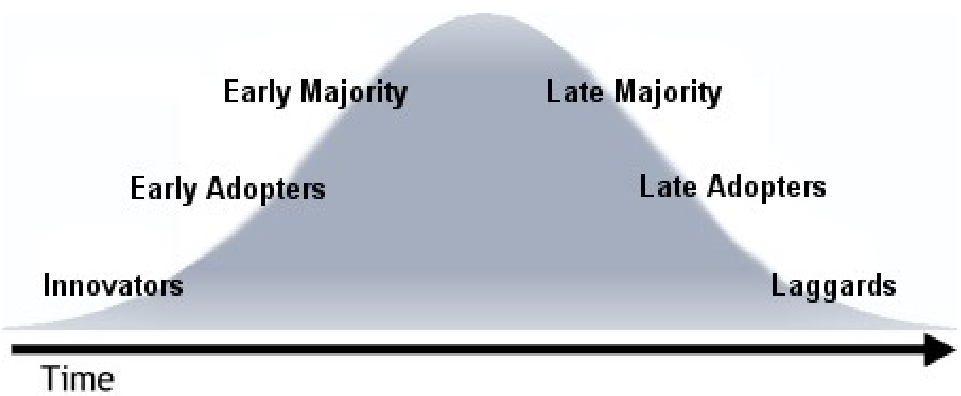
2. **Slow Skimming Strategy :**

   This strategy involves launching a product at a high price and low promotion. The purpose of high price is to recover as much as gross profit as possible. And, low promotion keeps marketing expenses low. This combination enables to skim the maximum profit from the market.

   This strategy can be used under following assumptions:

doctors adopt a new treatment technique, how farmers accept a new farming idea, and many other examples of the process of groups of people absorbing innovation.

Most of these studies show a common pattern in adoption of new ideas. They are accepted first by the innovators, who seldom make up more than 2-3 percent of the larger group. The innovators prove the idea works, but they have relatively little influence on the group as a whole. The idea takes off when it is taken up by the early adopters (who tend to be the opinion leaders) who are a second group of roughly 13 percent of the larger group. These are people smart enough to see what those innovators are doing, and influential enough to spread that idea into the next group, the early majority, which comprises approximately 24 percent of the larger group. This pattern continues through the remaining groups, as the bell chart shows below, with the percentages in reverse as the number of people reached increases.




When you're forecasting your market, particularly if you are looking at a new product and a new idea, the idea adoption model can help you improve your educated guessing. It's not magic, not even strictly mathematical, but it can help.

**Adoption Model-Examples**

Calculate what percent penetration your market has at present, how long the market has taken to get there, and extrapolate based on the adoption model to calculate the rest of the curve.

**Example:** If the Internet took six months to spread to three percent of the market (Innovators), you might expect it to reach 16 percent of the market in another six months (Innovators and Early Adopters), and 50 percent of the market in another six months (Innovators, Early Adopters, and Early Majority). That would be an extremely fast ramp-up, but it still might be valuable to help you estimate.

**Another example :** Look at another technology that took a long time to spread. If only three percent of the potential market is using it after 10 years, then it might take another 10 years to reach 16 percent of the market.

You have to be careful how you apply the basic idea to your market. If you define your potential market as 12 million people and after five years only 200,000 own this new type of product, then the product doesn't appeal to nearly as many people as you imagined, and you may have overestimated the potential market.

**The Diffusion Model**

You can model the spread of a product or idea on the spread of a disease, passed from one person to another. This is called diffusion. It can help you forecast a market.

Diffusion models were first used by health organizations to understand and predict the spread of contagious diseases. Market forecasters use them to simulate the spread of ideas, products, and techniques through groups of people.

**Diffusion Model-Examples**

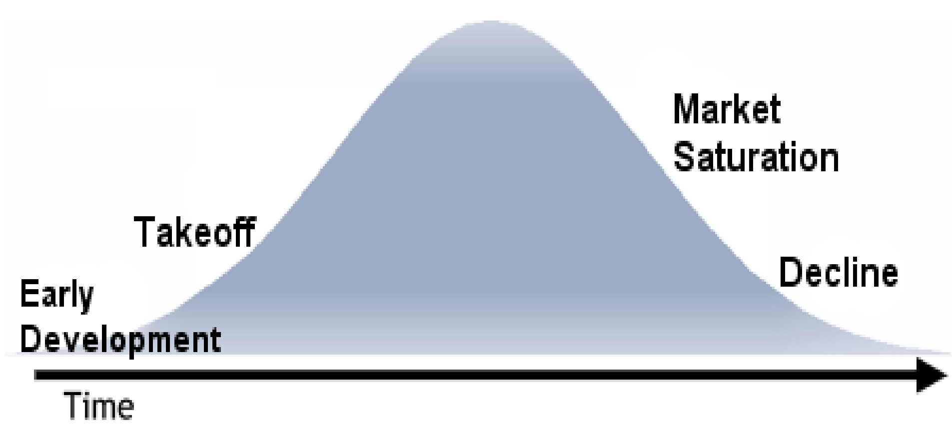
In the early 1980s I headed a consulting group asked by Apple Computer to analyze the spread of personal computers into the Latin American market. We used a diffusion model to do it. This is a good example of practical use of diffusion calculations.

Our analysis started with estimates of the U.S. population of knowledge workers. Apple had contracted an earlier study on this and had given us the estimate of 50 million. Using standard idea adoption research, as outlined earlier, we redefined our total population into the classifications of 1) Innovators, 2) Early Adopters, 3) Early Majority, and 4) Late Majority.

**Product Life Cycle**

Most products go through different stages of development, and those stages are reflected in the different growth rates expected at different stages. The important points are the takeoff point and the market saturation point.

The normal model of the product life cycle looks a lot like the same curve we use for tracking idea adoption, or the S-curve produced by the diffusion model.



In the early development stage, growth rates may be high, but very few units are involved. This is a new market just beginning to reach its potential consumers' minds and is even further from their pocketbooks. At this point, a few magazine articles begin to address this new technology. As Innovators begin to look for the product, the channels of distribution are set up.

Takeoff is when the market turns upward. Pioneer buyers have spread the word and the general public begins to buy. This is what happened when, for example, mall merchandisers began to sell a lot of home computers in 1982, or when color television sets took off in the 1960s. This is the stage all those people who invested in the early market are waiting for. Growth rates are still attractive, and volume has skyrocketed.

Growth rates decline when the market approaches saturation. At this point, most of the buyers who want the product have it. The market turns into a low-growth and replacement market, just as the markets for stoves and refrigerators did.

**Using the Life Cycle in Forecasts**

There are three keys to remember in using the product life cycle in your market forecasts:

1. Takeoff resembles a snowball, as it rolls down the hill gaining momentum, and the situation changes enormously.
2. Once markets get going, saturation will occur.
3. Each product has a different life cycle, some fast, some slow, and some unlike the normal pattern.

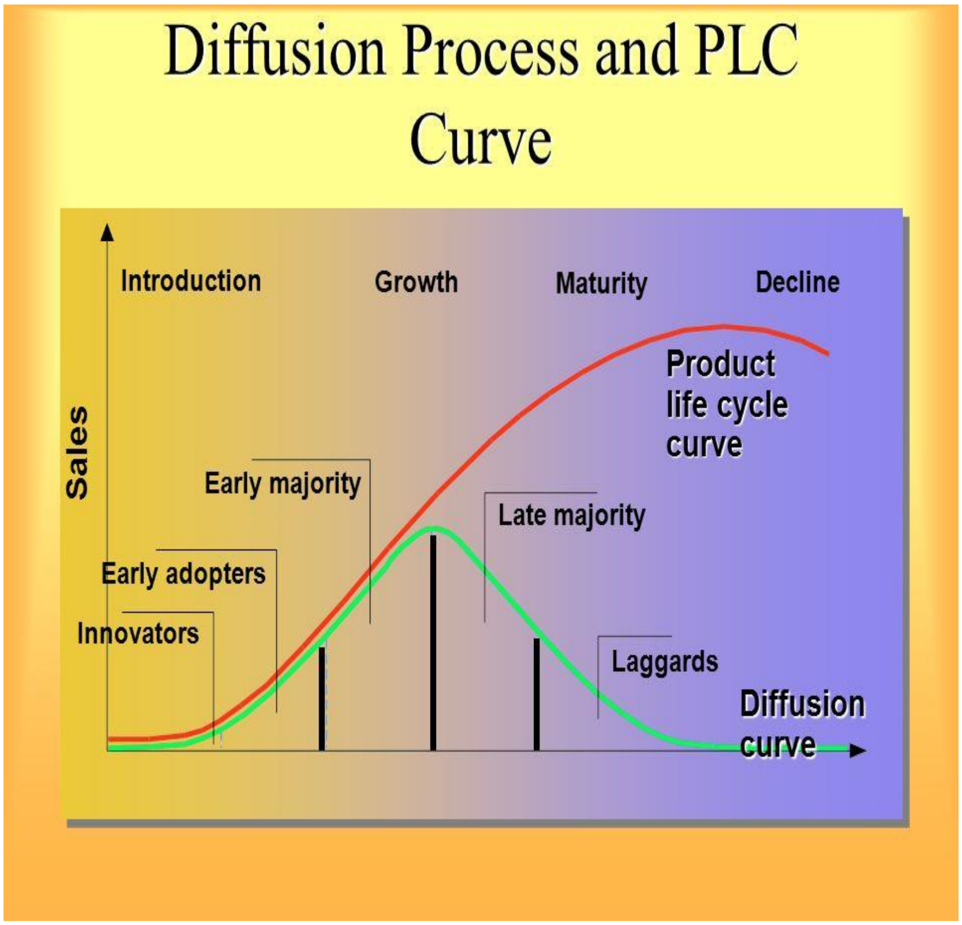
Takeoff is the trickiest stage. There are markets that never take off at all. Some companies spend years waiting for the snowballing affect to get started, and it never does. There are also markets that take off at odd moments, at times you would not normally expect, or after long periods of apparent smoldering. For example, the home computer boom was predicted as early as 1978, but didn't happen until 1982. Some companies went broke waiting for it. Others left this market and were not participating when the boom finally happened.

After takeoff, it's too easy to forget that market growth rates will eventually approach saturation and decline. Some of the color television people projected increasing growth through the 1970s and were caught off guard when the market moved up to about 10-15 million units per year and then stopped. The video market drew a crowd of new entrants in 1982 and then virtually stopped growing.

The speed of a life cycle is also hard to predict. The video game industry boomed and faded like a typical fad. The home computer industry will probably last longer before saturating its market; then it will become a replacement market. Much depends on what the product does for its buyers and on who those buyers are. Sometimes the standard idea adaptation research will help.

**Product and Branding Decisions**

Mature markets are by far the easiest to forecast. These have slow growth rates and little change from year to year. In these markets, the old-fashioned forecasting methods – such as taking the average growth rate of the last five years and projecting it into the next five years – work reasonably well.




## 13.7 SUMMARY

New product does not necessarily mean technological breakthroughs only. A product is new as long as customer perceives it to be so. In highly competitive market, new product strategy is one of the internal growth strategies. To make new product successful, the marketer should understand the process of new product development and also that of diffusion of new product, ideas or innovation in a given market. Cultural and social background, costs, risks, and perceived benefits go a long way in determining whether a new product will succeed. To communicate differentiation of a new product from competitors, a firm has to be competitively position them. Most products go through different stages of development, and those stages are reflected in the different growth rates expected at different stages. The important points are the takeoff point and the market saturation point. Most companies understand the different product life cycle stages, and that the products they sell all have a limited lifespan, the majority of them will invest heavily in new product development in order to make sure that their businesses continue to grow.

## 13.8 KEY WORDS

**Product development :** A strategy for company growth by offering modified or new prodcuts to current market segments. Developing the product concept into a physical product in order to ensure that the product idea can be turned into a workable product.

**Product life cycle :** The product 's stages of development, which consist of introductory, growth, maturity and decline stage.

**Demand curve :** A curve that specifies the quantities demanded at various prices at a given time.

**Experience curve :** A curve reflecting the fact that the costs of doing something tend to decrease as the organisation gains experience doing it.

**Life cycle extension :** The process of finding new uses for the same product by the same users.

**Decline stage :** A stage in which total demand decreases, leading to a further dropout of competitors until only a few remain.

## 13.9 SELF ASSESSMENT QUESTIONS

1. What factors contributes to the success or failure of a new product?
2. What is new product? Outline various stages of new product development?
3. Describe product life cycle?
4. Explain elements of marketing mix?
5. How diffusion method differ from the product life cycle?

## 13.10 BIBLIOGRAPHY

Rogers, Everett M., *Diffusion of innovation*, Third edition, New York: Free Press, 1993.

*Business World: The Marketing Whitebook*, 2003-04; 2005, New Delhi.

McDonald, William J., *Direct Marketing: An integrated Approach*, McGraw-Hill, 1998.

Nash, Edward, *Database Marketing: The Ultimate Marketing Tool*, New York: McGraw-Hill, 1992.

Guilitian, Joseph P. and Gordon W. Paul, *Marketing Management Strategies and Programmes*, fifth ed., New York: McGraw-Hill, 1994.

Levitt, Theodore, *Marketing Success through Differentiation of Anything', Strategic Marketing Management,* ed. Robert J. Dolan, Harvard Business School, 1994.

Kotler, Philip, *Marketing Management*, Prentice-Hall of India, eleventh, ed., p. 148.

Prahlad, C. K., *The Fortune at the Bottom of the Pyramid*, Wharton School Publishing, 2004.

Ranjan Saxena, *Marketing Management*, 3rd edition, McGraw-Hill, 2006.

Rai Chaudhari, Anjan, ' *Building Relationships*', A&M, September 30, 1994, pp. 29-31.

Johnson, Engene M., david L. Kurtz, and Eberhand E. Scheving, *Sales Management: Concepts, Practice and Cases,* Singapore; McGraw-Hill, 1987.

Lele, Milind M., *'Change Channels in Your Product's Life Cycle', Business Marketing,* December 1986, p. 64.

Stern, Louis W. and Frederick D. Sturdivant, *'Customer Driven Distribution System' in Strategic Marketing Management* editor, Dolan, Robert J., Harvard Business School Publications, 1991.

Pradhan Swapna: *Retailing Management*, 2004, Tata McGraw-Hill Publishing Company, New Delhi.

Rajagopal, *Marketing: Concept and Cases*, (New Delhi: New Age International, 2000).

# UNIT-14 BRANDING AND PACKAGING DECISION

## Objective

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

- The meaning of brand name and trade mark
- Advantages and disadvantages of branding
- Branding strategies
- The concept of packaging and its functions

## Structure



## 14.1 INTRODUCTION

Branding is one of the most effective and competitive tools in market. Therefore, it is important for the marketer to nurture it, to avoid any disasters. There has been a growing interest in the area of branding because brand represents the goodwill of the firm. Brand is a powerful differentiator in a highly competitive market place. It provides the company the power to deflect competitive moves. For example, Colgate the world's most valued brands; a strong brand rings trust, confidence, comfort, and reliability in the customer's mind. Brand, therefore, is an integral part of consumer life. To the company, a strong brand provides credibility and respect among its peers. A strong brand means higher market share, and hence higher shareholder value. Its even creates a positive motivational climate in the organization as employees take pride in remaining associated with it. Companies with strong brands attract the best talent among industry professionals.

## 14.2 BRAND NAME AND TRADE MARK

Brand names and trademarks are valuable assets to a business. Often a brand or trademark becomes synonymous with the product. For example, Xerox (R) is often used to mean copy. Because of this, many companies want to protect their brands from others who may try to copy or misrepresent the name.

A brand name identifies a specific product or name of a company. When a brand name is doing its job, it evokes positive images or emotions in consumers, which is why brand can be so valuable. And in some cases, the brand name becomes part of the everyday vernacular such as Kleenex (R) to mean tissue. Because of a brand name's importance, many companies want to protect it through trademark. A trademark is a registered brand or trade name. It can include any combination of a name, slogan, logo, sounds or colors that identify the company or its products or services. For example, the Nike Swoosh is a registered trademark.

The terms trade name and trademark sometimes confuse business owners and consumers because they sound similar, and a company may use its trade name in its trademark. Coca-Cola, for example, is famous for using its trade name in its trademark. Business owners or someone looking to start a business should know the difference between trade name and trademark because the law draws a distinction between them, and you could face a lawsuit if your trade name is sufficiently close to an already registered trademark.

**Purpose**

The goal of a brand name is to provide an easy to recognize and remember name that evokes a positive response in consumers. For example, many shoppers prefer to buy "brand name" products as opposed to the generic kind because of their perceived value. A trademark provides legal protection of the brand name. Through registration, the company is able to seek legal action against others who copy or use the brand without permission.

**Function**

Companies use trademarks to differentiate their goods from the products of their competitors, so consumers can instantly recognize the brand and develop brand loyalty. Trade names have a mostly administrative function, such as for filing a corporate tax return or for billing. You can, however, use a trade name in your trademark, according to the U.S. Small Business Administration.

**Difference between brand name and trade mark**

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

1. **Registration**

   Any name, word, letter, symbol, design or any sign composed by combining them is called brand. If the same sign is legally registered in the concerned government office, it called trademark.

2. **Legal Protection**

   Trademark is provided legal protection, No other company or firm can use this trademark except the producer or seller, which has got it registered. But brand or any symbol, sign can be used by other firms or competing companies. No legal action can be taken even if any company imitated a brand used by other company.

3. **Scope**

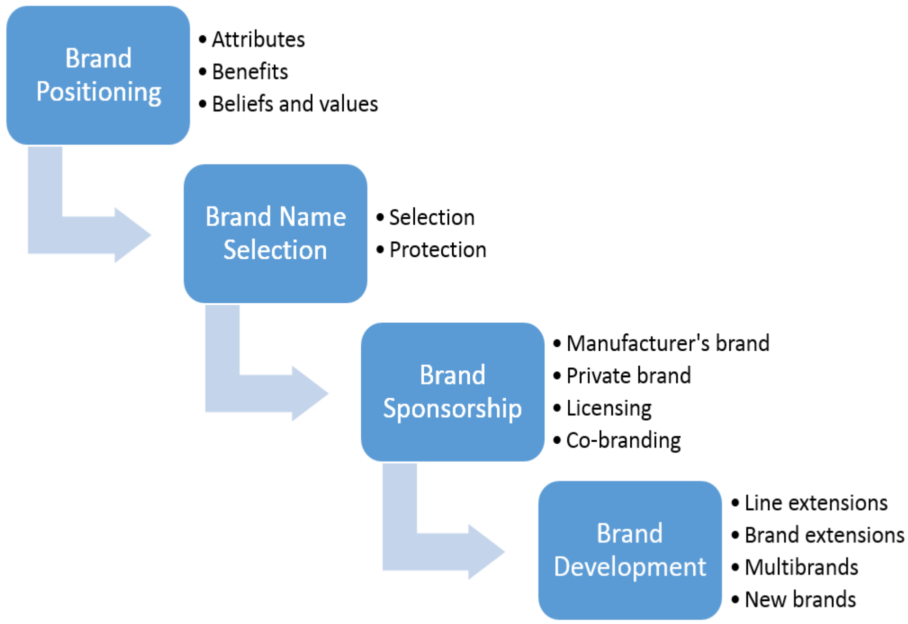
   All trademark includes in brand but all brands may not be trademarks. So, all trademarks are brands, but all brands are not trademarks.

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

## 14.3 BRANDING DECISION

Branding consists of a set of complex branding decisions. Major brand strategy decisions involve brand positioning, brand name selection, brand sponsorship and brand development.

Before going into the four branding decisions, also called brand strategy decisions, we should clarify what a brand actually is. A brand is a company's promise to deliver a specific set of features, benefits, services and experiences consistently to buyers. However, a brand should rather be understood as a set of perceptions a consumer has about the products of a particular firm. Therefore, all branding decisions focus on the consumer. There are four types of branding decisions:




**Brand Positioning**

A brand must be positioned clearly in target customers' minds. Brand positioning can be done at any of three levels:

- on product attributes
- on benefits
- on beliefs and values.

At the lowest level, marketers can position a brand on *product attributes*. Marketing for a car brand may focus on attributes such as large engines, fancy colours and sportive design. However, attributes are generally the least desirable level for brand positioning. The reason is that competitors can easily copy these attributes, taking away the uniqueness of the brand. Also, customers are not interested in attributes as such. Rather, they are interested in what these attributes will do for them. That leads us to the next level: *Benefits*.

A brand can be better positioned on basis of a desirable *benefit*. The car brand could go beyond the technical product attributes and promote the resulting benefits for the customer: quick transportation, lifestyle and so further.

Yet, the strongest brands go beyond product attributes and benefits. They are positioned on *beliefs and values*. Successful brands engage customers on a deep, emotional level. Examples include brands such as Mini and Aston Martin. These brands rely less on products' tangible attributes, but more on creating passion, surprise and excitement surrounding the brand. They have become "cool" brands.

Brand positioning lays the foundation for the three other branding decisions. Therefore, brand positioning should also involve establishing a mission for the brand and a vision of what the brand should be and do. The brand's promise must be simple and honest.

**Brand Name Selection**

When talking about branding decisions, the brand name decision may be the most obvious one. The name of the brand is maybe what you think of first when imagining a brand – it is the base of the brand. Therefore, the brand name selection belongs to the most important branding decisions. However, it is also quite a difficult task.

We have to start with a careful review of the product and its benefits, the target market and proposed marketing strategies. Having that in mind, we have to find a brand name matching these things. Naming a brand is part science, part art, and certainly a measure of instinct.

Although finding the right name for a brand can be a challenging task, there are some guidelines to make it easier. Desirable qualities for a brand name include:

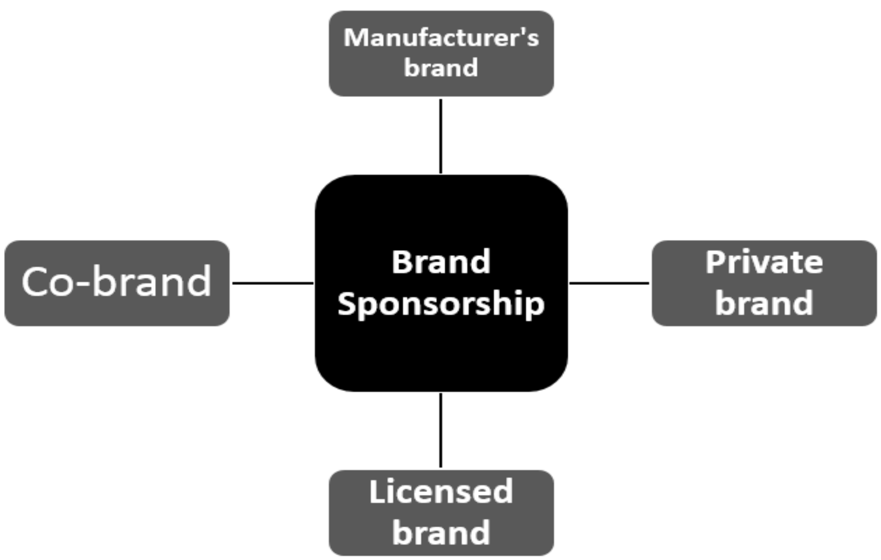
- It should **suggest something about a product's benefits and qualities**. Think of the wadding polish "Never Dull". The brand name indicates the benefit of using this product: the treated metal will never be dull.
- It should be **easy to pronounce, recognize, and remember**. iPod and Nike are certainly better than "Troglodyte Homunculus" – a clothing brand.
- The brand name should be **distinctive**, so that consumers don't confuse it with other brands. Rolex and Bugatti are good examples.
- It should also be **extendable**. Think of Amazon.com, which began as an online bookseller but chose a name that would allow expansion into other categories. If Amazon.com had chosen a different name, such as books.com, it could not have extended its business that easily.
- The brand name should **translate easily** into foreign languages. The Ford Pinto line had some struggles in Brazil, seeing as it translated into "tiny male genitals". Or the Mitsubishi Pajero, which means in Spanish "man who plays with himself and enjoys it a bit too much". More famous: Coca-Cola reads in Chinese as "female horse stuffed with wax".
- It should be capable of **registration and legal protection**. In other words, it must not infringe on existing brand names.

Worthy of note is the fact that brand name preferences are changing continuously. After a decade of choosing quirky names (such as Yahoo!, Google) or fictional names, today's style is to build brands around names that carry real meaning. For instance, names such as Blackboard, a school software, make sense. However, with more and more brand names and trademark applications, available new names can be hard to find.

Choosing a brand name is not enough. It also needs to be protected. Many firms attempt to build a brand name that will eventually become identified with a product category. Examples for these names include Kleenex, Tip-ex and Jeep. However, their success can also quickly threaten the company's rights to the name. Once a trademark becomes part of the normal language (called "genericization"), it is not protected anymore. For that reason many originally protected brand names, such as aspirin, Walkman (by Sony) and many other names are not protected anymore.

**Brand Sponsorship**

Branding decisions go beyond deciding upon brand positioning and brand name. The third of our four branding decisions is the brand sponsorship. A manufacturer has four brand sponsorship options.




**Brand Sponsorship Options**

A product may be launched as a **manufacturer's brand**. This is also called national brand. Examples include Kellogg selling its output under the own brand name (Kellog's Frosties, for instance) or Sony (Sony Bravia HDTV).

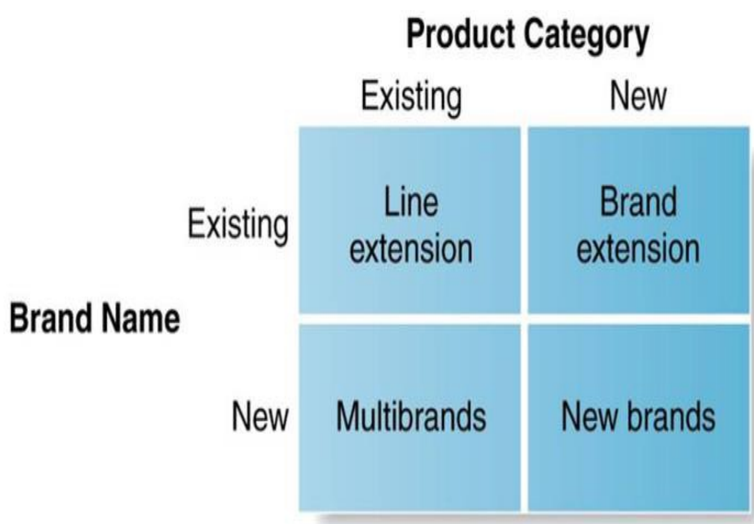
The manufacturer could also sell to resellers who give the product a **private brand**. This is also called a store brand, a distributor brand or an own-label. Recent tougher economic times have created a real store-brand boom. As consumers become more price-conscious, they also become less brand-conscious, and are willing to choose private brands instead of established and often more expensive manufacturer's brands.

Also, manufacturers can choose **licensed brands**. Instead of spending millions to create own brand names, some companies license names or symbols previously created by other manufacturers. This can also involve names of well-known celebrities or characters from popular movies and books. For a fee, they can provide an instant and proven brand name. For example, sellers of children's products often attach character names to clothing, toys and so on. These licensed character names include Disney, Star Wars, Hello Kitty and many more.

Finally, two companies can join forces and **co-brand** a product. Co-branding is the practice of using the established brand names of two different companies on the same product. This can offer many advantages, such as the fact that the combined brands create broader consumer appeal and larger brand equity. For instance, Nestlé uses co-branding for its Nespresso coffee machines, which carry the brand names of well-known kitchen equipment manufacturers such as Krups, DeLonghi and Siemens.

**Brand Development – Branding Decisions**

Branding decisions finally include brand development. For developing brands, a company has four choices: line extensions, brand extensions, multi-brands or new brands.




**Brand Development Options**

**Line extension** refers to extending an existing brand name to new forms, sizes, colours, ingredients or flavours of an existing product category. This is a low-cost, low-risk way to introduce new products. However, there are the risks that the brand name becomes overextended and loses its specific meaning. This may confuse consumers. An example for line extension is when Coca-Cola introduces a new flavour, such as diet cola with vanilla, under the existing brand name.

**Brand extension** also assumes an existing brand name, but combines it with a new product category. Thus, an existing brand name is extended to a new product category. This gives the new product instant recognition and faster acceptance and can save substantial advertising costs for establishing a new brand. However, the risk that the extension may confuse the image of the main brand should be kept in mind. Also, if the extension fails, it may harm consumer attitudes toward other products carrying the same brand name. For this reason, a brand extension such as Heinz pet food cannot survive. But other brand extensions work well. For instance, Kellogg's has extended its Special K healthy breakfast cereal brand into a complete line of cereals plus a line of biscuits, snacks and nutrition bars.

**Multi-brands** mean marketing many different brands in a given product category. P&G (Procter

& Gamble) and Unilever are the best examples for this. In the USA, P&G sells six brands of laundry detergent, five brands of shampoo and four brands of dishwashing detergent. Why? Multi-branding offers a way to establish distinct features that appeal to different customer segments. Thereby, the company can capture a larger market share. However, each brand might obtain only a very small market share and none may be very profitable.

**New brands** are needed when the power of existing brand names is waning. Also, a new brand name is appropriate when the company enters a new product category for which none of its current brand names are appropriate.

These four branding decisions are all interrelated. In order to build strong brands, brand positioning, brand name, brand sponsorship and brand development have to be in line with each other.

## 14.4 ADVANTAGES AND DISADVANTAGES OF BRANDING

Perhaps the most distinctive skill of professional marketers in their ability to create, maintains, produce and enhance brands of its products and service. A brand is a name, term, sign, symbol or design, or a combination of these that identifies the maker or seller of a product or service. Consumers view a brand as on important part of a product and branding can add value to a product. For example, most consumers would perceive a bottle for white linen perfume is a high- quality, expensive product. But the same perfume in an unmarked bottle would likely be viewed as lower in quality, even if the fragrance were identical.

Branding becomes so strong that today hardly anything goes unbranded. Salt is packed in branded container; common nuts and bolts are packed with a distributor's label, and automobile parts-spark plugs, tires, filters-bear brand names that differ from those of the auto markers. Even fruits and vegetables are branded- Sunkist orange, potato, apples, etc.

Branding helps buyers in many ways. Brand names help consumers identify product that might benefit them. Brands also tell the buyer something about product quality. Buyers who always by the same brand know that they will get the same features, benefits, and quality each time they buy. Branding also gives the seller several advantages. The brand name becomes the basis on which a whole story can be built about a product's special qualities. The seller's brand name and trademark provide legal protection for unique products feature that otherwise might be copied by competitors.

**Disadvantages of Branding:**

1. **Cost :** If you wish to create and maintain a strong brand presence, it can involve a lot of design and marketing costs. A strong brand is memorable, but people still need to be exposed to it, this often requires a lot of advertising and PR over a long period of time, which can be very costly.

   There are also costs involved with the creating of a brand image or logo (Paying for a designer, printing new letterheads/business cards etc.), and although most of these are only one off costs, they are still relatively large for most small businesses.

   The exposure of your brand can be left to word of mouth, this will save you money, but will also greatly slow down the exposure your brand receives.

2. **Impersonal :** One of the main problems with many branded businesses is that they lose their personal image. The ability to deal on a personal basis with customers is one of the biggest advantages small business have, and poorly designed branding could give customers the impression that your business is losing its personal touch.

3. **Fixed Image :** Every brand has a certain image to potential customers, and part of that image is about what products or services you sell. If you are known for selling just one product, and you want to sell another product, will you be able to do so effectively?

   If you sell computers, would your brand name be suitable for selling vacuum cleaners? If your brand is focused too strongly on one product, it can limit your ability to sell other products.

4. **Timescale :** The process of creating a brand will usually take a long period of time. As well as creating a brand and updating your signs and equipment (E.g.: Stationary, vehicles etc…), you need to expose it to your potential customers.

It is commonly shown that people need to see an advert at least three times before they absorb it, which means you will need to advertise and promote the brand for a considerable amount of time before it will become well known.

**Advantages of Branding:**

Branding is very important for a company to distinct its products and services from others. Branding is not only important to the owner but also important to consumers and retailers.

According to Brassington & Pettitt (2006) the benefits of branding are following,

**To the consumers;**

- Consumer can easily identify the products as they are distinctive. For example, a G Star Jeans is easily distinguishable from H&M, Next or Zara's Jeans because G Star puts their sign or name (96, G Star) on the pocket.
- It gives some feelings to the consumers when they shop branded products. For example, if someone buys an Armani watch he/she feels prestige.
- It reduces risk in purchasing because consumer knows the quality, features and other benefits of products without using it.
- Helps to have quick buying decision because brand attracts consumers.

**To the owners;**

- Companies can charge premium price. For example, Next plc, Armani, Lactose, Harrods etc charges premium price because they have strong brand name.
- It gives opportunity to the company for line extension through building on the consumer's perception of the values and character represented by the brand name.
- It helps owners to create consumer loyalty as it gives value to the consumers what they pay for.

**To the intermediaries;**

- Branded items make easier for the suppliers to process the orders and track down problems.
- Retailers are happy to sell branded products because they are good seller. In terms of Jobber and Fahy (2006) branding helps to enhance,
- Company's value.
- Consumer preference and loyalty.

- Barrier to competition.

**Company's value**

Jobber & Fahy (2006) said that strong brands can enhance the financial value of companies. For example, Nestle paid £2.5bn for Rowntree (a UK confectionary manufacturer). As a result, the acquisition gave Nestle access to Rowntree's stable of brands including Kit Kat, Quality Street they added.

Solid brand name increases company's value because it differentiates the products or services from competitors.

**Consumer preference and loyalty**

It's very hard to have customer loyalty in such competitive market where everyone is trying to lock in customers by giving loyalty cards. When consumers get satisfied with products or services what they pay for, they become brand loyal and stick to the same brand. For example, Tesco recorded a 5.9% rise in sales to £21.8bn in the UK and 5% profit increase to £1.2bn for the six months ending 28$^{th}$ August 2010 (Baker 2010). It clearly shows that Tesco has been able to create the customer loyalty with their strong brand name.

**Barrier to competition**

Company can create barriers for competitors by its brand if the brand is powerful. For example, Apple has been able to set bars over its competitors Nokia, Samsung, Motorola etc by its innovative technology and brand strength. When Apple launched ipad2, Britain's most popular magazine Fortune said that Apple is the world's most admired company and the company's blistering pace of new product releases has continued to set the bar high for tech companies across the board (Fortune 2011). It has been so easy for Apple to be the world's most admired company for its great innovations and established brand.

## 14.5 PACKAGING

**Packaging** is the technology of enclosing or protecting products for distribution, storage, sale, and use. Packaging also refers to the process of designing, evaluating, and producing packages. Packaging can be described as a coordinated system of preparing goods for transport, warehousing, logistics, sale, and end use. Packaging contains, protects, preserves, transports, informs, and sells. In many countries it is fully integrated into government, business, institutional, industrial, and personal use.

**Package labeling** (American English) or **labelling** (British English) is any written, electronic, or graphic communication on the package or on a separate but associated label.

**Purpose of Packaging:** Packaging and package labeling have several objectives

- ***Physical protection* –** The objects enclosed in the package may require protection from, among other things, mechanical shock, vibration, electrostatic discharge, compression, temperature, etc.

- ***Barrier protection* –** A barrier to oxygen, water vapor, dust, etc., is often required. Permeation is a critical factor in design. Some packages contain desiccantsor oxygen absorbers to help extend shelf life. Modified atmospheres or controlled atmospheres are also maintained in some food packages. Keeping the contents clean, fresh, sterile and safe for the duration of the intended shelf life is a primary function. A barrier is also implemented in cases where segregation of two materials prior to end use is required, as in the case of special paints, glues, medical fluids, etc. At the consumer end, the packaging barrier is broken or measured amounts of material are removed for mixing and subsequent end use.

- ***Containment or agglomeration* –** Small objects are typically grouped together in one package for reasons of storage and selling efficiency. For example, a single box of 1000 pencils requires less physical handling than 1000 single pencils. Liquids, powders, and granular materials need containment.

- ***Information transmission* –** Packages and labels communicate how to use, transport, recycle, or dispose of the package or product. With pharmaceuticals, food, medical, and chemical products, some types of information are required by government legislation. Some packages and labels also are used for track and trace purposes. Most items include their serial and lot numbers on the packaging, and in the case of food products, medicine, and some chemicals the packaging often contains an expiry/best-before date, usually in a shorthand form. Packages may indicate their construction material with a symbol.

- ***Marketing* –** Packaging and labels can be used by marketers to encourage potential buyers to purchase a product. Package graphic design and physical design have been important and constantly evolving phenomena for several decades. Marketing communications and graphic design are applied to the surface of the package and often to the point of sale display. Most packaging is designed to reflect the brand's message and identity.

- ***Security* –** Packaging can play an important role in reducing the security risks of shipment. Packages can be made with improved tamper resistance to deter manipulation and they can also have tamper-evident features indicating that tampering has taken place. Packages can be engineered to help reduce the risks of package pilferage or the theft and resale of products: Some package constructions are more resistant to pilferage than other types, and some have pilfer- indicating seals. Counterfeit consumer goods, unauthorized sales (diversion), material substitution and tampering can all be minimized or prevented with such anti-counterfeiting technologies. Packages may include authentication seals and use security printing to help indicate that the package and contents are not counterfeit. Packages also can include anti-theft devices such as dye-packs, RFID tags, or electronic article surveillance tags that can be activated or detected by devices at exit points and require specialized tools to deactivate. Using packaging in this way is a means of retail loss prevention.

- ***Convenience* –** Packages can have features that add convenience in distribution, handling, stacking, display, sale, opening, reclosing, using, dispensing, reusing, recycling, and ease of disposal

- ***Portion control* –** Single serving or single dosage packaging has a precise amount of contents to control usage. Bulk commodities (such as salt) can be divided into packages that are a more suitable size for individual households. It also aids the control of inventory: selling sealed one- liter bottles of milk, rather than having people bring their own bottles to fill themselves.

**Packaging types**

Packaging may be of several different types. For example, a **transport package** or **distribution package** can be the shipping container used to ship, store, and handle the product or inner packages. Some identify a **consumer package** as one which is directed toward a consumer or household.

Packaging may be described in relation to the type of product being packaged: medical device packaging, bulk chemical packaging, over-the-counter drug packaging, retail food packaging, military material packaging, pharmaceutical packaging, etc.

It is sometimes convenient to categorize packages by layer or function: "primary", "secondary", etc.

- Primary packaging is the material that first envelops the product and holds it. This usually is the smallest unit of distribution or use and is the package which is in direct contact with the contents.

- Secondary packaging is outside the primary packaging, and may be used to prevent pilferage or to group primary packages together.

- Tertiary packaging is used for bulk handling, warehouse storage and transport shipping. The most common form is a palletized unit load that packs tightly into containers.

These broad categories can be somewhat arbitrary. For example, depending on the use, a shrink wrap can be primary packaging when applied directly to the product, secondary packaging when used to combine smaller packages, or tertiary packaging when used to facilitate some types of distribution, such as to affix a number of cartons on a pallet.

**Technical Consideration**

**C**haracteristics of a good package from a technical viewpoint include:

- Compatibility with the product, processing and storage conditions, product protection from chemical, physical and biological sources of deterioration suitability for the intended final use of the product (eg. microwavable) ability to withstand the stresses of distribution (eg. won't degrade or break). In choosing packaging materials you must first consider what product protection is needed, (eg. light, crushing, dehydration, oxygen). The protection offered by a package is determined by the nature of the packaging material and the package construction. Packages may be flexible (paper, foil, plastics) and rigid or semi-rigid (eg. cans, glass, some plastic containers).

**Packaging for Consumer Appeal**

Characteristics of a package which make its use consumer friendly include:

1. environmentally friendly (reusable, recyclable, minimal packaging)
2. tamper evident or tamper proof
3. easy to open
4. convenient (sizes, resalable, etc)

Check with local, provincial and federal departments of environment to identify any packaging restrictions which may pertain to your product.

The following table compares the advantages and disadvantages of several packaging materials.

| | Advantages | Disadvantages |
|---|---|---|
| **Paper** | -generally low cost and readily available<br>-can be coated or laminated to improve impermeability to liquids, gases and vapors<br>-can provide rigid outer wraps or boxes<br>-opaque and excludes light<br>-printable | -not resistant to water, oil, grease |
| **Glass** | -does not react with food<br>-can be transparent or colored to protect from light | -brittle<br>-transparent<br>-heavy |
| **Plastic** | -strong<br>-can be heat processed<br>-range of materials with a variety of properties (eg. oxygen transmission, moisture barrier, opaque or transparent) | -printing not common (expensive), requires labels to be applied<br>safety of product (due to breakage)<br>-when laminated, or co-extruded to give special properties may not be recyclable - printability depends on material used<br>heat seal ability depends on material used |
| **Metal** | **tin, steel or aluminum cans**<br>-can be coated to prevent reactions with the food<br>-can be heat processed<br>-can be hermetically sealed<br>-can be lithographed<br>**flexible foils**<br>-can be plastic coated for strength and heat sealing ability<br>-good gas and moisture barrier in the absence of pinholes<br>-may be printable | **tin steel or aluminum cans**<br>-expensive and require expensive sealing equipment<br>-lithograph printing expensive, usually need additional label<br>**flexible foils**<br>-may have microscopic pinholes allowing gas exchange with environment |

## 14.6 PACKAGING INDUSTRY

Apart from the huge value addition and employment involved in these activities, packaging has served the Indian economy by helping preservation of the quality and lengthening the shelf life of innumerable products - ranging from milk and biscuits, to drugs and medicines, processed and semi-processed foods, fruits and vegetables, edible oils, electronic goods etc., besides domestic appliances and industrial machinery and other hardware needing transportation. With water becoming a consumer product, polymer material-based bottles are becoming a universal presence. Heightened competition in all product sectors within the country as also the increasing need to look for export markets have contributed to the rising demand for appropriate, and at the same time cost-effective, packaging material and technologies.

The packaging industry's growth has led to greater specialization and sophistication from the point of view of health (in the case of packaged foods and medicines) and environment friendliness of packing material. The demands on the packaging industry are challenging, given the increasing environmental awareness among communities.

I. Classifications ~ Packing Industry in India:

a. Functions of Packages:

| | |
|---|---|
| **Protective Function**<br>Shock, Drop, Pressure, Vibration Heat,<br>Water or Moisture | **Convenient Function**<br>Transportation,<br>Stocking (User, Ware House), Image, Design, Size Protection, After Re-Use Productivity |
| **Graphic Design**<br>Design<br>Colour<br>Size | **Psychological Function**<br>Attraction |

b. Classification of Packaging:

1. By Shape (Form or Size)

| | |
|---|---|
| Heavy Packaging (Large) Container<br>Wooden Packs | |
| Medium Packaging (Middle)<br>Carton Box<br>Woven Bag<br>Can, Barrel, Tub | Light Packaging (Small)<br>Flexible Packaging<br>Bottles, Can (Small)<br>Paper Container |

2. By Methods (Way of Packing)

| | |
|---|---|
| Vacuum Packaging<br>Aseptic Packaging<br>Retort able Packaging<br>Shrink Packaging<br>Strip Packaging | Gas Flush Packaging<br>Moisture – Proof Packaging<br>Blister Packaging<br>Skin Packaging |
| Others | |

3. By Contents

| | |
|---|---|
| Food Packaging<br>Cosmetics Packaging<br>Powder Packaging<br>Toiletry Packaging | Drug Packaging<br>Liquid Packaging<br>Clothing Packaging<br>Dangerous Packaging |
| Others | |

4. By Materials

| | |
|---|---|
| Rigid Packaging<br>Bottle, Metal Can<br>Wooden Box<br>Metal Box, etc | |
| Semi Rigid Packaging<br>Carton Box<br>Plastic Bottle | Flexible Packaging<br>Paper, Plastic<br>Film, Alu- Foil<br>Cellophane |

II. Indian Packaging Industry Market:

- The Indian packaging industry itself is growing at 14-15% annually. This growth rate is expected to double in the next two years.
- According to the Indian Packaging Institute, Indian Packaging industry is USD 14 billion and growing at more than 15% p.a. These figures indicate towards a change in the industrial and consumer set up.

The growth in the packaging industry in India is mainly driven by the food and the pharmaceutical packaging sectors. The large and growing Indian middle class, along with the growth in organized retailing in the country are fueling growth in the packaging industry. Another factor, which has provided substantial stimulus to the packaging machinery industry, is the rapid growth of exports, which requires superior packaging standards for the international market. With this the need for adopting better packaging methods, materials and machinery to ensure quality has become very important for Indian businesses.

**Product and Branding Decisions**

The Indian packaging industry is dominated by plastic flexible packaging. The traditional rigid packaging users have also been seen to shift to flexible packaging in recent times. According to industry sources, the main reasons for this are that flexible packages are found aesthetically attractive, cost-effective and sturdy. Consumer preference for the use of convenient packaging and packaged products in affordable quantities in laminates is also one of the main reasons that have contributed to the growth of flexible packaging in India. The food-processing sector is the largest user of flexible packaging, accounting for more than 50 percent of the total demand. The flexible packaging segment is estimated to be growing at over 35 percent annually. Major players in the flexible packaging sector are Paper Products Ltd. and Flex Industries.

The packaging industry in India is a mix of both organized medium to large players as well as very small players with a localized presence. The industry is comprised of a large number of manufacturers of basic materials, converted packages, machinery and ancillary materials. Domestic demand for packaging has been anticipated to grow rapidly within the next five years. Recognizing this trend, the industry is gearing itself to adopt scientific and functional packaging.

Three specific segments can be identified for opportunities in packaging equipment in the Indian market. The unorganized sector represents the larger opportunity, given the increasing quality- consciousness of end customers. The cost of equipment and upgrades hold the key to success in this segment. Large companies, primarily the multinational corporations (MNCs), which comprise another segment, would be guided for the choice of such equipment by the global policies and standardization of their parent company. The organized segment, which caters to the major food and pharma companies are conscious about quality and the ability to produce various packaging products, thereby enabling them to address a larger market.

**Some important Packaging sub-sectors:**

**I. Corrugated Packaging & Situation in India:**

- A flourishing organised retail have raised the expectations that consumption of corrugated packaging will begin to expand again as the number and volume of goods packaged in corrugated increases. MNCs are demanding corrugated boxes of international standards and the pattern of buying the packaging is changing.
- Prices of corrugated sheet and converted boxes have remained low due to the over-capacity, manual operations and low productivity. Besides, transport constraints and high freight costs have meant that small to medium sized corrugated box plants are located near the customers.
- The over 4,000 corrugated board and sheet plants are highly labour-intensive, employing over half a million people – both directly and indirectly. The industry is converting about 2 million tons of Kraft paper into corrugated boxes. Factories are spread out in all parts of India, even in the remote industrially backward areas.
- This present scenario is already being challenged by the sweeping changes that are beginning to take shape. More and more in-line automatic plants are being set up, as corrugated box makers gear up to meet the new demands for high precision boxes with attractive graphics and large integrated production capacities.
- Inline Automatic Board and Box making plants will ease out the present semi automatic production processes.
- Deployment of Folder Gluers, Rotary Die cutters will be on the increase.
- Use of corrugated for display/promotional packs, POPs and dispensers.
- Advances in multicolour, flexo printing will facilitate in-house flexo printing and do away with screen printing, contract printing on offset presses.



**II. Pharmaceutical Packaging & Situation in India**

Pharmaceutical packaging occupies a considerable portion of the overall drugs and pharmaceutical market in India and is growing steadily with the same pace of the industry. Pharmaceutical packaging consists of various types of glass, pet bottles, strip and blister packs, injectibles, ampoules, bulk packs, etc.

The Indian pharmaceutical packaging industry is witnessing a spurt in growth. Today, the packaging industry in India is considered a sunrise industry and its linkages are extensive and highly employment creating. On one side, it involves manufacture (and sometimes import) of a wide range of packing material - paper, paperboard, cardboard, a range of polymer products including rigid and flexible packaging material, aluminium foil, tin and good old wood and steel. Other backward linkages of packaging including printing, labeling and binding/adhesive tapes etc. Of course, machinery for making/processing these products and for packing/packaging is another segment closely linked to this industry.

Growth will follow upward trends in global medication consumption, which will expand at a strong pace as aging demographic patterns lead to an increasing number of diseases and disorders. Pharmaceuticals will assume an expanding role in worldwide health care delivery based on new product introductions and economical advantages over other forms of patient treatment.

Besides upward trends in medication consumption, the adoption of stricter regulations and standards governing the production, storage, distribution and labelling of pharmaceuticals will boost global growth opportunities for packaging products and accessories. Historically, pharmaceutical packaging requirements focused exclusively on preserving the quality of enclosed medication. These requirements are now being extended to cover such criteria as the prevention of product tampering and counterfeiting, the assurance of product dispensing accuracy and the promotion of patient compliance with product dosage schedules.

## III. Factors Affecting Growth of Packaging Industry in India

### 1. Urbanization

Modern technology is now an integral part of nation's society today with high-end package usage increasing rapidly. As consumerism is rising, rural India is also slowly changing into more of an urban society. The liberalization of the Indian economy, coupled with globalisation and the influx of the multi-nationals, has improved the quality of all types of primary and secondary packaging. Also industrialization and expected emergence of the organized retail industry is fuelling the growth of packaging industry.

**2. Increasing Health Consciousness**

As people are becoming more health conscious, there is a growing trend towards wellpacked, branded products rather than the loose and unpackaged formats. Today even a common man is conscious about the food intake he consumes in day-to-day life.

**3. Low Purchasing Power resulting in Purchase of Small Packets**

India being a growing country, purchasing power capacity of Indian consumers is lower; the consumer goods come in small, affordable packages. Apart from the normal products packed in flexible packaging, the use of flexible in India includes some novel applications not usually seen in the developed world. Products like toothpaste, toothpowder, and fairness creams in laminated pouches are highly innovative and are not used elsewhere. Another typical example of such applications is tobacco and betel nut-based intoxicants and mouth fresheners catering to unique Indian taste.

**4. Indian Economy Experiencing Good Growth Prospects**

The Indian economy is growing at a promising rate, with growth of outputs in agriculture, industry and tertiary sectors. Overall economic growth has proved to be beneficial for the consumer goods market, with more and more products becoming affordable to a larger section of the population.

**5. Changing Food Habits amongst Indians**

Changing lifestyles and lesser time to spend in kitchens are resulting in more incidence of eating away from homes resulting in explosive growth of restaurants and fast food outlets all over the country. Indians are trying out newer cuisines and also purchasing similar food items for their homes. Therefore, the review period has seen new products like pasta, soups, and noodles being launched in India, fuelling the growth of packaging industry in India.

**6. Personal health consciousness amongst Indians:**

With growing awareness towards contagious diseases like AIDS and other STDs, awareness towards usage of contraceptives and disposables syringes have increased the demand for packaging required for the same.

7. **Rural Marketing Pushing Demand for Sachets**

India comprises of a big rural market and there has been growing focus on rural marketing, whereby manufacturers are introducing low-priced goods in smaller pack sizes. Low priced sachets have proved to be extremely popular in smaller towns and villages, where people do not prefer to buy larger packs due to financial constraints.

8. **Other Prospects**

Packaging machines such as automatic form-filling and sealing machines, tetra pack aseptic packaging machines for sterilized filling and packing of liquids, and testing instruments offer considerable business opportunities. The Indian packaging machinery manufacturers in the unorganized sector mostly fabricate general-purpose equipment to serve the basic needs of the industry.

One area that has been identified as having good market potential is equipment for manufacturing aluminum beverage cans. Machinery for cleaning and drying containers; automatic high speed labeling machines and capping machines; sealing machines for cans, boxes, and other containers; machinery for filling, and closing bottles and cans; packing/wrapping machines; and moulding machines also offer good prospects.

## 14.7 BRANDING STRATEGIES

A branding strategy helps establish a product within the market and to build a brand that will grow and mature in a saturated marketplace. Making smart branding decisions up front is crucial since a company may have to live with the decision for a long time. The following are commonly used branding strategies:

1. **Company Name**

In this case a strong brand name (or company name) is made the vehicle for a range of products

(for example, Mercedes Benz or Black & Decker) or a range of subsidiary brands (such as Cadbury Dairy Milk or Cadbury Fingers in the United States).

2. **Individual Branding**

Each brand has a separate name, putting it into a de facto competition against other brands from the same company (for example, Kool-Aid and Tang are both owned by Kraft Foods). Individual brand names naturally allow greater flexibility by permitting a variety of different products, of differing quality, to be sold without confusing the consumer's perception of what business the company is in or diluting higher quality products.

### 3. Attitude Branding and Iconic Brands

This is the choice to represent a larger feeling, which is not necessarily connected with the product or consumption of the product at all. Companies that use attitude branding include: Nike, Starbucks, The Body Shop, and Apple, Inc. Iconic brands are defined as having aspects that contribute to the consumer's self-expression and personal identity.

Brands whose value to consumers comes primarily from having identity value are said to be "identity brands. " Some brands have such a strong identity that they become "iconic brands" such as Apple, Nike, and Harley Davidson.

### 4. "No-brand" Branding

Recently a number of companies have successfully pursued "no-brand" strategies by creating packaging that imitates generic brand simplicity. "No brand" branding may be construed as a type of branding as the product is made conspicuous through the absence of a brand name. "Tapa Amarillo" or "Yellow Cap" in Venezuela during the 1980s is a prime example of no-brand strategy. It was simply recognized by the color of the cap of this cleaning products company.

### 5. Derived Brands

Some suppliers of key components may wish to guarantee its own position by promoting that component as a brand in its own right. For example, Intel, positions itself in the PC market with the slogan (and sticker) "Intel Inside. "

### 6. Brand Extension and Brand Dilution

The existing strong brand name can be used as a vehicle for new or modified products. For example, many fashion and designer companies extended brands into fragrances, shoes and accessories, furniture, and hotels. Frequently, the product is no different than what is already on the market, except it has a brand name marking. The risk of over-extension is brand dilution, which is when the brand loses its brand associations with a market segment, product area, or quality, price, or cachet.

### 7. Multi-brands Strategy

Alternatively, in a very saturated market, a supplier can deliberately launch totally new brands in apparent competition with its own existing strong brand (and often with identical product characteristics) to soak up some of the share of the market. The rationale is that having 3 out of 12 brands in such a market will give a greater overall share than having 1 out of 10. Procter & Gamble is a leading exponent of this philosophy, running as many as ten detergent brands in the US market. In the hotel business, Marriott uses the name Fairfield Inns for its budget chain.

Cannibalization is a particular problem of a multi-brands strategy approach, in which the new brand takes business away from an established one which the organization also owns. This may be acceptable (indeed to be expected) if there is a net gain overall.

**8. Private Labels**

Also, called own brands, or store brands, these have become increasingly popular. Where the retailer has a particularly strong identity this "own brand" may be able to compete against even the strongest brand leaders, and may outperform those products that are not otherwise strongly branded.

**9. Individual and Organizational Brands**

These are types of branding that treat individuals and organizations as the products to be branded. Personal branding treats persons and their careers as brands. Faith branding treats religious figures and organizations as brands.

**10. Crowd sourcing Branding**

These are brands that are created by the people for the business, which is opposite to the traditional method where the business creates a brand. This type of method minimizes the risk of brand failure, since the people that might reject the brand in the traditional method are the ones who are participating in the branding process.

**11. Nation Branding**

This is a field of theory and practice which aims to measure, build, and manage the reputation of countries (closely related to place branding). Some approaches applied, such as an increasing importance on the symbolic value of products, have led countries to emphasise their distinctive characteristics. The branding and image of a nation-state "and the successful transference of this image to its exports – is just as important as what they actually produce and sell."

**12. Destination branding**

Destination branding is the work of cities, states, and other localities to promote to themselves. This work is designed to promote the location to tourists and drive additional revenues into a tax base. These activities are often undertaken by governments, but can also result from the work of community associations. The Destination Marketing Association International is the industry leading organization.

13. **Personalized branding**

Many businesses have started to use elements of personalization in their branding strategies, offering the client or consumer the ability to choose from various brand options or have direct control over the brand. Examples of this include the share a Coke campaign by Coca-Cola which printed people's names and place names on their bottles encouraging people.

## 14.8 SUMMARY

Brand is the most important asset of the firm. Branding is very important for a company to distinct its products and services from others. Branding is not only important to the owner but also important to consumers and retailers. The brand assets can be categorized in five groups as band loyalty, brand name, brand awareness; brand’s perceived quality and brand association and other proprietary brand assets like, patents, trade-marks, and channel relationships and so on.

A branding strategy helps establish a product within the market and to build a brand that will grow and mature in a saturated marketplace.

Packaging and labels can be used by marketers to encourage potential buyers to purchase a product. Package graphic design and physical design have been important and constantly evolving phenomena for several decades.

## 14.9 KEY WORDS

**Brand :** A name, term, symbol, or design or a combination of them that is intended to identify the goods or services of one seller or group of sellers and to differentiate them from products of competitors.

**Brand loyalty:** Preferences by a consumer for a particular brand that results in continual purchase of it

**Brand equity:** The value of a brand, based on the extent to which it has high brand loyalty, name awareness, perceived quality, strong brand associations, and other assets such as patents, trademarks, and channel relationships.

**Trademark :** A brand or part of a brand that is given legal protection because it is capable of exclusive appropriation.

**Packaging:** The activities of designing and producing the container or wrapper for a product.

## 14.10 SELF-ASSESSMENT QUESTIONS

**1.** Differentiate between brand name and trade mark?

**2.** What are the advantages and disadvantages of branding?

**3.** Why packaging is required? Give various types of packaging?

**4.** Describe branding strategy?

## 14.11 BIBLIOGRAPHY


1. Aaker, David A, *Managing Brand Equity*, The Free Press, 1991.
2. Aaker, David A., Rajeev Batra, and John G., Myers, *Advertising Management*, New Jersey, Prentice-Hall 1992.
3. *Advertising and Marketing*, May 1990.
4. *Far Eastern Economic Review*, December 1999-January 2000.
5. '*India's most Trusted Brands*', Economic Times, 18 July, 2001.
6. *'India's Top Brands*', A&M, November 30, 1999.
7. *Excellence,* London: Gulf Publication Company, 1984.
8. *Business World: The Marketing Whitebook,* 2003-04; 2005, New Delhi.

9. *The Economic Times: Changing Gears- Retailing in India*-(CD)

10. *'Competing on the Internet: The case of Amazon.com', European Management Journal*, 16, No. 2, April, 1998.

11. *'Customer Rapport', Direct Marketing*, January 1994, p. 46.

12. McDonald, William J., *Direct Marketing: An integrated Approach*, McGraw-Hill, 1998.

13. Nash, Edward, *Database Marketing: The Ultimate Marketing Tool*, New York: McGraw-Hill, 1992.

14. Guilitian, Joseph P. and Gordon W. Paul, *Marketing Management Strategies and Programmes*, fifth ed., New York: McGraw-Hill, 1994.

15. *Business Today* January 7-12, 1995.

16. Levitt, Theodore, *Marketing Success through Differentiation of Anything', Strategic Marketing Management*, ed. Robert J. Dolan, Harvard Business School, 1994.

17. Kotler, Philip, *Marketing Management*, PHI, eleventh, ed., p. 148.

18. Prahlad, C. K., *The Fortune at the Bottom of the Pyramid*, Wharton School Publishing, 2004.

19. Ranjan Saxena, *Marketing Management*, 3rd edition, McGraw-Hill, 2006.

20. Rai Chaudhari, Anjan, ' *Building Relationships*',A&M, Sept 30, 1994, pp. 29-31.

21. Johnson, Engene M., david L. Kurtz, and Eberhand E. Scheving, *Sales Management: Concepts, Practice and Cases*, Singapore; McGraw-Hill, 1987.

22. Still, Richard R., W. Edward Cundiff, and Norman A. P. Govoni, *Sales Management*, fifth edition, New Delhi: Prentice-Hall of India.

23. Stern, Louis W. and Frederick D. Sturdivant, *'Customer Driven Distribution System' in Strategic Marketing Management* editor, Dolan, Robert J., Harvard Business School Publications, 1991.

24. Pradhan Swapna: *Retailing Management*, 2004, Tata McGraw-Hill Publishing Company, New Delhi.

25. Rajagopal, *Marketing: Concept and Cases*, (New Delhi: New Age International, 2000).

# UNIT-15 PRICING POLICY AND PRACTICES

## Objective

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

- The meaning and significance of price in marketing decisions
- How to determine the price
- The pricing objectives of different firms
- The pricing methods and procedures
- The pricing strategies and policies used across different products and product life cycles
- Price and non-price competition

## Structure

## 15.1 INTRODUCTION

Pricing is one of the most important elements of marketing mix. Price represents the quantity of money or goods and services in a barter system received by the firm or seller for its products. To a customer price always represents the product's value. For a marketer, it is important that products are priced correctly. The major challenge to the marketer is to assess the customer's perception of the future value of his other product. This can be again met by taking correct pricing decisions at the right time. To arrive at a good price strategy, the marketer should be able to decide on the price objectives. Thus, price decision and management of the price variable is a crucial task that confronts a marketer. In order to take correct decisions, it is important that he understands the concept and influences on pricing decisions.

## 15.2 DETERMINANTS OF PRICING

Most Commonly Pursued Price Determinants in Industrial Market are:

1. Survival 2. Return on Investment 3. Market Stabilization 4. Maintenance and Improvement of Market Position 5. Meeting or Following Competition 6. Pricing to Reflect Product Differentiation 7. Preventing New Entry.

1. **Survival:**

   Survival is arguably the most fundamental pricing determinant and comes into play when the conditions facing the organization are proving to be extremely difficult. Thus, prices are reduced often to levels far below cost simply to maintain a sufficient flow of cash for working capital.

   Also, if the factory production capacity is underutilized to a large extent or unsold finished products have piled up due to intense competition, a firm is unable to sell its products. To keep the factory going and to convert the inventory to sales, an industrial firm reduces prices.

2. **Return on Investment:**

   Prices are set partly to satisfy the needs of the customers, but more importantly to achieve a predetermined level of return on the capital investment involved.

3. **Market Stabilisation:**

   Having identified the leader in each market, the firm determines its prices in such a way that the likelihood of the leader relating is minimised. In this way, the status quo is maintained and market stability ensured.

4. **Maintenance and Improvement of Market Position:**

   Recognizing that price is often an effective way of improving market share. The firm uses price partly as a means of defending its current position and partly as a basis for gradually increasing its share in those parts of the market where gains are most likely to be made and least likely to result in competitive action.

**5. Meeting or Following Competition:**

Having entered a market in which competitors are finally entrenched, the firm may decide quite simply to take its lead in pricing from others until it has built up sufficient experience and established a firm's reputation on which it can subsequently build.

**6. Pricing to Reflect Product Differentiation:**

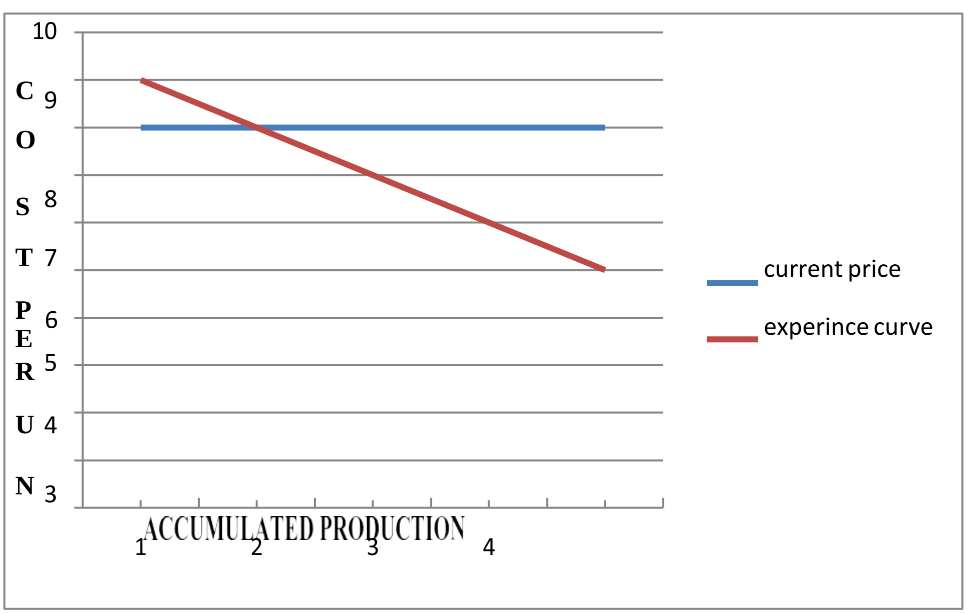
For a firm with a broad product range, differences between the products can often be made most apparent by means of price variations related to each market segment. The differences in price are not necessarily linked to the costs of the product, but are instead designed to create the different perceptions of their product's value and indirectly increase profits.

**7. Preventing New Entry:**

Because of the potentially powerful role that price can play, a low price may have the effect of preventing others from entering the market as they recognize the low returns available and the dangers of becoming involved in a price war.

In this way, the firm may be able to minimize the amount of competition, while recognizing that the returns may be relatively unattractive procurement costs are cut and so on. The result in fig. shows is that average cost tends to fall with accumulated production experience.

The decline in the average cost with accumulated production experience is called the experience curve or learning curve.




**Pricing Curve**

The experience curve or the learning curve has a greater strategic significance. In the 1960s, evidence emerged to suggest that phenomenon was limited not just to labour costs, but applied also to all total value-added costs including administration, sales, marketing, and distribution and so on.

A series of studies by BCG (Boston Consultancy Group) then found evidence of the learning curve effect which is applicable to a wide variety of industries ranging from high-technology to low technology products, service to manufacturing, new to mature products and process to assembly plants.

Each time cumulative volume of a product doubled, total value added costs fell by a constant and predictable percentage. In addition, the cost of purchased items usually fell as supplies reduced prices and their costs fell, also due to the experience effect. The relationship between costs and experience was called the learning curve.

The strategic implications of the experience curve are potentially significant, since by pursuing a strategy to gain experience faster than competitors, an organization lowers its cost base and has a greater scope of adopting an aggressive and offensive pricing strategy.

The learning curve is of potentially enormous strategic value and has considerable implications for the development of a long-term pricing strategy.

## 15.3 ROLE OF COST IN PRICING

Costs should never determine price, but costs do play a critical role in formulating a pricing strategy. Pricing decisions are inexorably tied to decisions about sales levels, and sales involve costs of production, marketing, and administration. It is true that how much buyers will pay is unrelated to the seller's cost, but it is also true that a seller's decisions about which products to produce and in what quantities depend critically on their cost of production.

The mistake that cost-plus pricers make is not that they consider costs in their pricing, but that they select the quantities they will sell and the buyers they will serve before identifying the prices they can charge. They then try to impose cost-based prices that may be either more or less than what buyers will pay. In contrast, effective pricers make their decisions in exactly the opposite order. They first evaluate what buyers can be convinced to pay and only then choose quantities to produce and markets to serve.

Firms that price effectively decide what to produce and to whom to sell it by comparing the prices they can charge with the costs they must incur. Consequently, costs do affect the prices they charge. A low-cost producer can charge lower prices and sell more because it can profitably use low prices to attract more price-sensitive buyers. A higher-cost producer, on the other hand, cannot afford to underbid low-cost producers for the patronage of more price-sensitive buyers; it must target those buyers willing to pay a premium price. Similarly, changes in costs should cause producers to change their prices, not because that changes what buyers will pay, but because it changes the quantities that the firm can profitably supply and the buyers it can profitably serve. When the cost of jet fuel rises, most airlines are not naive enough to try passing on the fuel cost through a cost-plus formula while maintaining their previous schedules. But some airlines do raise their average revenue per mile. They do so by reducing the number of flights they offer in order to fill the remaining planes with more full-fare passengers. To make room for those passengers, they eliminate or reduce discount fares. Thus, the cost increase for jet fuel affects the mix of prices offered, increasing the average price charged. However, that is the result of a strategic decision to reduce the number of flights and change the mix of passengers served, not the result of an attempt to charge higher prices for the same service to the same people.

Such decisions about quantities to sell and buyers to serve are an important part of pricing strategy for all firms and the most important part for many. In this chapter, we discuss how a proper understanding of costs enables one to make those decisions correctly. First, however, a word of encouragement: understanding costs is probably the most challenging aspect of pricing. You will probably not master these concepts on first reading this chapter. Your goal should be simply to understand the issues involved and the techniques for dealing with them. Mastery of the techniques will come with practice.

A pricing policy is a standing answer to recurring question. A systematic approach to pricing requires the decision that an individual pricing situation be generalized and codified into policy coverage of all the principal pricing problems. Policies can and should be tailored to various competitive situations. A policy approach which is becoming normal for sales activities is comparatively rare in pricing.

Most well managed manufacturing enterprises have a clear-cut advertising policy, product customer policy and distribution-channel policy. But pricing decision remains a patchwork of ad hoc decisions. In many, otherwise well managed firms, price policy have been dealt with on a crisis basis. This kind of price management by catastrophe discourages the kind of systematic analysis needed for clear cut pricing policies.

## 15.4 PRICING POLICIES

### 1. Considerations Involved in Formulating the Pricing Policy:

The following considerations involve in formulating the pricing policy:

**(i) Competitive Situation:**

Pricing policy is to be set in the light of competitive situation in the market. We have to know whether the firm is facing perfect competition or imperfect competition. In perfect competition, the producers have no control over the price. Pricing policy has special significance only under imperfect competition.

**(ii) Goal of Profit and Sales:**

The businessmen use the pricing device for the purpose of maximizing profits. They should also stimulate profitable combination sales. In any case, the sales should bring more profit to the firm.

**(iii) Long Range Welfare of the Firm:**

Generally, businessmen are reluctant to charge a high price for the product because this might result in bringing more producers into the industry. In real life, firms want to prevent the entry of rivals. Pricing should take care of the long run welfare of the company.

**(iv) Flexibility:**

Pricing policies should be flexible enough to meet changes in economic conditions of various customer industries. If a firm is selling its product in a highly competitive market, it will have little scope for pricing discretion. Prices should also be flexible to take care of cyclical variations.

**(v) Government Policy:**

The government may prevent the firms in forming combinations to set a high price. Often the government prefers to control the prices of essential commodities with a view to prevent the exploitation of the consumers. The entry of the government into the pricing process tends to inject politics into price fixation.

**(vi) Overall Goals of Business:**

Pricing is not an end in itself but a means to an end. The fundamental guides to pricing, therefore, are the firm's overall goals. The broadest of them is survival. On a more specific level, objectives relate to rate of growth, market share, maintenance of control and finally profit. The various objectives may not always be compatible. A pricing policy should never be established without consideration as to its impact on the other policies and practices.

**(vii) Price Sensitivity:**

The various factors which may generate insensitivity to price changes are variability in consumer behaviour, variation in the effectiveness of marketing effort, nature of the product. Importance of service after sales, etc. Businessmen often tend to exaggerate the importance of price sensitivity and ignore many identifiable factors which tend to minimize it.

**(viii) Routinisation of Pricing:**

A firm may have to take many pricing decisions. If the data on demand and cost are highly conjectural, the firm has to rely on some mechanical formula. If a firm is selling its product in a highly competitive market, it will have little scope for price discretion. This will have the way for routinized pricing.

**2. Objectives of Pricing Policy:**

The pricing policy of the firm may vary from firm to firm depending on its objective. In practice, we find many prices for a product of a firm such as wholesale price, retail price, published price, quoted price, actual price and so on. Special discounts, special offers, methods of payment, amounts bought and transportation charges, trade-in values, etc., are some sources of variations in the price of the product.

For pricing decision, one has to define the price of the product very carefully. Pricing decision of a firm in general will have considerable repercussions on its marketing strategies. This implies that when the firm makes a decision about the price, it has to consider its entire marketing efforts. Pricing decisions are usually considered a part of the general strategy for achieving a broadly defined goal.

**While setting the price, the firm may aim at the following objectives:**

**(i) Price-Profit Satisfaction:**

The firms are interested in keeping their prices stable within certain period of time irrespective of changes in demand and costs, so that they may get the expected profit.

**(ii) Sales Maximisation and Growth :**

A firm has to set a price which assures maximum sales of the product. Firms set a price which would enhance the sale of the entire product line. It is only then, it can achieve growth.

**(iii) Making Money :**

Some firms want to use their special position in the industry by selling product at a premium and make quick profit as much as possible.

**(iv) Preventing Competition :**

Unrestricted competition and lack of planning can result in wasteful duplication of resources. The price system in a competitive economy might not reflect society's real needs. By adopting a suitable price policy the firm can restrict the entry of rivals.

**(v) Market Share :**

The firm wants to secure a large share in the market by following a suitable price policy. It wants to acquire a dominating leadership position in the market. Many managers believe that revenue maximisation will lead to long run profit maximisation and market share growth.

**(vi) Survival :**

In these days of severe competition and business uncertainties, the firm must set a price which would safeguard the welfare of the firm. A firm is always in its survival stage. For the sake of its continued existence, it must tolerate all kinds of obstacles and challenges from the rivals.

**(vii) Market Penetration :**

Some companies want to maximise unit sales. They believe that a higher sales volume will lead to lower unit costs and higher long run profit. They set the lowest price, assuming the market is price sensitive. This is called market penetration pricing.

**(viii) Marketing Skimming :**

Many companies favour setting high prices to 'skim' the market. DuPont is a prime practitioner of market skimming pricing. With each innovation, it estimates the highest price it can charge given the comparative benefits of its new product versus the available substitutes.

**(ix) Early Cash Recovery :**

Some firms set a price which will create a mad rush for the product and recover cash early. They may also set a low price as a caution against uncertainty of the future.

**(x) Satisfactory Rate of Return:**

Many companies try to set the price that will maximise current profits. To estimate the demand and costs associated with alternative prices, they choose the price that produces maximum current profit, cash flow or rate of return on investment.

**3. Factors involved in pricing Policy:**

**The pricing of the product involves consideration of the following factors:**

(i) Cost Data

(ii) Demand Factor

(iii) Consumer Psychology

(iv) Competition

(v) Profit

(vi) Government Policy

**(i) Cost Data in Pricing:**

Cost data occupy an important place in the price setting processes. There are different types of costs incurred in the production and marketing of the product. There are production costs, promotional expenses like advertising or personal selling as well as taxation, etc. They may necessitate an upward fixing of price. For example, the prices of petrol and gas are rising due to rise in the cost of raw materials, such as crude transportation, refining, etc.

If costs go up, price rise can be quite justified. However, their relevance to the pricing decision must neither be underestimated nor exaggerated. For setting prices apart from costs, a number of other factors have to be taken into consideration. They are demand and competition.

Costs are of two types: fixed costs and variable costs. In the short period, that is, the period in which a firm wants to establish itself, the firm may not cover the fixed costs but it must cover the variable cost. But in the long run, all costs must be covered. If the entire costs are not covered the producer stops production. Subsequently, the supply is reduced which, in turn, may lead to higher prices.

If costs are not covered, the producer stops production. Subsequently, the supply is reduced which in turn, may lead to higher prices. If costs were to determine prices why do so many companies report losses. There are marked differences in costs as between one producer and another. Yet the fact remains that the prices are very close for a somewhat similar product. This is the very best evidence of the fact that costs are not the determining factors in pricing.

In fact, pricing is like a tripod. It has three legs. In addition to costs, there are two other legs of market demand and competition. It is no more possible to say that one or another of these factors determines price than it is to assert that one leg rather than either of the other two supports a tripod.

Price decisions cannot be based merely on cost accounting data which only contribute to history while prices have to work in the future. Again it is very difficult to measure costs accurately. Costs are affected by volume, and volume is affected by price.

The management has to assume some desired price-volume relationship for determining costs. That is why costs play even a less important role in connection with new products than with the older ones. Until the market is decided and some idea is obtained about volume, it is not possible to determine costs.

Regarding the role of costs in pricing, Nickerson observes that the cost may be regarded only as an indicator of demand and price. He further says that the cost at any given time represents a resistance point to the lowering of price. Again, costs determine profit margins at various levels of output.

Cost calculation may also help in determining whether the product whose price is determined by its demand, is to be included in the product line or not. What costs determine is not the price, but whether the production can be profitably produced or not is very important.

***Relevant Costs:***

The question naturally arises: “What then are the relevant costs for pricing decision’? Though in the long run, all costs have to be covered, for managerial decisions in the short run, direct costs are relevant. In a single product firm, the management would try to cover all the costs.

In a multi-product firm, problems are more complex. For pricing decision, relevant costs are those costs that are directly traceable to an individual product. Ordinarily, the selling price must cover a direct cost that are attributable to a product. In addition, it must contribute to the common cost and to the realization of profit. If the price, in the short run, is lower than the cost, the question arises, whether this price covers the variable cost. If it covers the variable cost, the low price can be accepted.

But in the long run, the firm cannot sell at a price lower than the cost. Product pricing decision should be lower than the cost. Product pricing decision should, therefore, be made with a view to maximise company’s profits in the long run.

***(ii) Demand Factor in Pricing:***

In pricing of a product, demand occupies a very important place. In fact, demand is more impor- tant for effective sales. The elasticity of demand is to be recognised in determining the price of the product. If the demand for the product is inelastic, the firm can fix a high price. On the other hand, it the demand is elastic, it has to fix a lower price.

In the very short term, the chief influence on price is normally demand. Manufacturers of durable goods always set a high price, even though sales are affected. If the price is too high, it may also affect the demand for the product. They wait for arrival of a rival product with competitive price. Therefore, demand for product is very' sensitive to price changes.

***(iii) Consumer Psychology in Pricing:***

Demand for the product depends upon the psychology of the consumers. Sensitivity to price change will vary from consumer to consumer. In a particular situation, the behaviour of one individual may not be the same as that of the other. In fact, the pricing decision ought to rest on a more incisive rationale than simple elasticity.

There are consumers who buy a product provided its quality is high. Generally, product quality, product image, customer service and promotion activity influence many consumers more than the price. These factors are qualitative and ambiguous. From the point of view of consumers, prices are quantitative and unambiguous.

Price constitutes a barrier to demand when is too low, just as much as where it is too high. Above a particular price, the product is regarded as too expensive and below another price, as constituting a risk of not giving adequate value. If the price is too low, consumers will tend to think that a product of inferior quality is being offered.

With an improvement in incomes, the average consumer becomes quality conscious. This may lead to an increase in the demand for durable goods. People of high incomes buy products even though their prices are high. In the affluent societies, price is the indicator of quality.

Advertisement and sales promotion also contribute very much in increasing the demand for advertised products. Because he consumer thinks that the advertised products are of good quality. The income of the consumer, the standard of living and the price factor influence the demand for various products in the society.

***(iv) Competition Factor in Pricing:***

Market situation plays an effective role in pricing. Pricing policy has some managerial discretion where there is a considerable degree of imperfection in competition. In perfect competition, the individual producers have no discretion in pricing. They have to accept the price fixed by demand and supply.

In monopoly, the producer fixes a high price for his product. In other market situations like oligopoly and monopolistic competition, the individual producers take the prices of the rival products in determining their price. If the primary determinant of price changes in the competitive condition is the market place, the pricing policy can least be categorised as competition based pricing.

***(v) Profit Factor in Pricing:***

In fixing the price for products, the producers consider mainly the profit aspect. Each producer has his aim of profit maximisation. If the objective is profit maximisation, the critical rule is to select the price at which MR = MC. Generally, the pricing policy is based on the goal of obtaining a reasonable profit. Most of the businessmen want to hold the price at constant level. They do not desire frequent price fluctuation.

The profit maximisation approach to price setting is logical because it forces decision makers to focus their attention on the changes in production, cost, revenue and profit associated with any contemplated change in price. The price rigidity is the practice of many producers. Rigidity does not mean inflexibility. It means that prices are stable over a given period.

***(vi) Government Policy in Pricing:***

In market economy, the government generally does not interfere in the economic decisions of the economy. It is only in planned economies, the government’s interference is very much. According to conventional economic theory, the buyers and sellers only determine the price. In reality, certain other parties are also involved in the pricing process. They are the competition and the government. The government s practical regulatory price techniques are ceiling on prices, minimum prices and dual pricing.

In a mixed economy like India, the government resorts to price control. The business establish- ments have to adopt the government’s price policies to control relative prices to achieve certain targets, to prevent inflationary price rise and to prevent abnormal increase in prices.

## 15.5 PRICING METHODS

The Pricing Methods are the ways in which the price of goods and services can be calculated by considering all the factors such as the product/service, competition, target audience, product's life cycle, firm's vision of expansion, etc. influencing the pricing strategy as a whole.

The pricing methods can be broadly classified into two parts:

1. Cost Oriented Pricing Method
2. Market Oriented Pricing Method


1. **Cost-Oriented Pricing Method**: Many firms consider the **Cost of Production** as a base for calculating the price of the finished goods. Cost-oriented pricing method covers the following ways of pricing :

   - **A. Cost-Plus Pricing:** It is one of the simplest pricing method wherein the manufacturer calculates the cost of production incurred and add a certain percentage of markup to it to realize the selling price. The markup is the percentage of profit calculated on total cost i.e. fixed and variable cost.

     **E.g.** If the Cost of Production of product-A is Rs 500 with a markup of 25% on total cost, the selling price will be calculated as

*Selling Price= cost of production + Cost of Production x Markup Percentage/100 SellingPrice=500+500 x 0.25= 625*

*Thus, a firm earns a profit of Rs 125 (Profit=Selling price-Cost price)*

- **B. Markup pricing-** This pricing method is the variation of cost plus pricing wherein the percentage of markup is calculated on the selling price.
- **E.g.** If the unit cost of a chocolate is Rs 16 and producer wants to earn the markup of 20% on sales then mark up price will be:

*Markup Price= Unit Cost/ 1-desired return on sales Markup Price= 16/1-0.20 = 20*

*Thus, the producer will charge Rs 20 for one chocolate and will earn a profit of Rs 4 per unit.*

- **C. Target-Return pricing–** In this kind of pricing method the firm set the price to yield a required Rate of Return on Investment (ROI) from the sale of goods and services.
- **E.g.** If soap manufacturer invested Rs 1,00,000 in the business and expects 20% ROI i.e. Rs 20,000, the target return price is given by:

*Target return price= Unit Cost + (Desired Return x capital invested)/ unit sales Target Return Price=16 + (0.20 x 100000)/5000Target Return Price= Rs 20*

Thus, Manufacturer will earn 20% ROI provided that unit cost and sale unit is accurate. In case the sales do not reach 50,000 units then the manufacturer should prepare the break-even chart wherein different ROI's can be calculated at different sales unit.

2. **Market-Oriented Pricing Method:** Under this method price is calculated on the basis of market conditions. Following are the methods under this group:

- **A. Perceived-Value Pricing:** In this pricing method, the manufacturer decides the price on the basis of customer's perception of the goods and services taking into consideration all the elements such as advertising, promotional tools, additional benefits, product quality, the channel of distribution, etc. that influence the customer's perception.

**E.g.** Customer buy Sony products despite less price products available in the market, this is because Sony company follows the perceived pricing policy wherein the customer is willing to pay extra for better quality and durability of the product.

- **B. Value Pricing**: Under this pricing method companies design the low priced products and maintain the high-quality offering. Here the prices are not kept low, but the product is re- engineered to reduce the cost of production and maintain the quality simultaneously.

  **E.g.** Tata Nano is the best example of value pricing, despite several Tata cars, the company designed a car with necessary features at a low price and lived up to its quality.

- **C. Going-Rate Pricing-** In this pricing method, the firms consider the competitor's price as a base in determining the price of its own offerings. Generally, the prices are more or less same as that of the competitor and the price war gets over among the firms.

  **E.g**. In Oligopolistic Industry such as steel, paper, fertilizer, etc. the price charged is same.

- **D. Auction Type pricing**: This type of pricing method is growing popular with the more usage of internet. Several online sites such as eBay, Quikr, OLX, etc. provides a platform to customers where they buy or sell the commodities. *There are three types of auctions:*

***1.*** ***English Auctions***-There is one seller and many buyers. The seller puts the item on sites such as Yahoo and bidders raise the price until the top best price is reached.

**2.** ***Dutch Auctions***– There may be one seller and many buyers or one buyer and many sellers. In the first case, the top best price is announced and then slowly it comes down that suit the bidder whereas in the second kind buyer announces the product he wants to buy then potential sellers competes by offering the lowest price.

**3.** ***Sealed-Bid Auctions***: This kind of method is very common in the case of Government or industrial purchases, wherein tenders are floated in the market, and potential suppliers submit their bids in a closed envelope, not disclosing the bid to anyone.

- **E. Differential Pricing**: This pricing method is adopted when different prices have to be charged from the different group of customers. The prices can also vary with respect to time, area, and product form.

**E.g**. The best example of differential pricing is Mineral Water. The price of Mineral Water varies in hotels, railway stations, retail stores.

Thus, the companies can adopt either of these pricing methods depending on the type of a product it is offering and the ultimate objective for which the pricing is being do.

## 15.6 PRICING INDUSTRIAL GOODS

Pricing strategies that an industrial organization are as follows:

1. Market Skimming Strategy 2. Market Penetration Strategy 3. Pricing across Product Life- Cycle.

The pricing strategies must be in tandem with the organisational objectives as well as the marketing objectives.

The industrial organisation also needs to balance the long-run strategies and the short run objectives of profit and survival. Maintaining profitability is essential for a long-term survival of the firm, since it is those profits that finance the growth and improvement of the organisation.

There are many strategies available for an organisation to achieve profitability.

For example, the suppliers of thermocol to Mire Electronics (the owners of television brand Onida) were located in Pune whereas Mire is based in Mumbai. This transport cost was added to the price.

They moved from Pune to Wada and thus reducing the delivery time from 6 hours to 15 minutes. This cost cutting not only improved the profit margins but also satisfied the customers. It translated into lower inventory cost for Misc and helped meet the sudden rise in market demand.

There are no hard and fast rules for a strategy. It needs to be adapted according to the internal as well as external environment. A diversified firm with multiple product lines can have several pricing strategies in operation at one time. The only condition is that all these strategies must be consistent with the company's overall objectives.

The following are some pricing strategies that an industrial organisation can follow:

1. **Market Skimming Strategy:**

When a new product is introduced into a market this strategy can be used. A lot of effort would have been put into developing any technological superior product or a new application. In India, today, any technology can soon be caught up and hence it becomes necessary to take advantage of the fact that the firm is a pioneer.

The price is high so as to skim the market. If a genuine need exists and the company has adopted the right promotional methods and tools so as to make the customers aware, then the customers would certainly be willing to pay for the benefit the product provides.

At this point, the profit margins will be high and soon the learning curve principle will be applied and the cost of producing/ manufacturing will also decline, hence providing an advantage to the market leader.

Due to high profit margins, more competitors will be attracted and soon other pricing strategies have to be adopted and the prices have to be gradually reduced over time.

**2. Market Penetration Strategy:**

This strategy can be adopted by the industrial organisation when the market is price sensitive. As the term indicates the organisation deliberately prices its product very low. This strategy makes sense when the market is large and there is strong potential competition. The organisation's unit manufacturing cost must fall with the company's scale of production and accumulated manufacturing experience i.e., the firm depends on the economies of scale.

The low price will encourage rapid product acceptance and hence the firm aspires for a large market share. But on the other hand, at the beginning of the operations costs are high but the margins low. Only in the long run the economies of scale and learning curve play a vital role to increase the margins. Hence, short-term profits must be sacrificed to gain market share and long- run profits.

The company therefore works with this strategy assuming that the firm's primary goal is significant market share; the product has hidden benefits that will become obvious only after use and potential competitors exist.

**3. Pricing across Product Life-Cycle:**

As we have previously discussed, one of the key price determinants is the stage of product life cycle in which the product is presently in. Depending on the stage, the pricing strategies need to be developed.

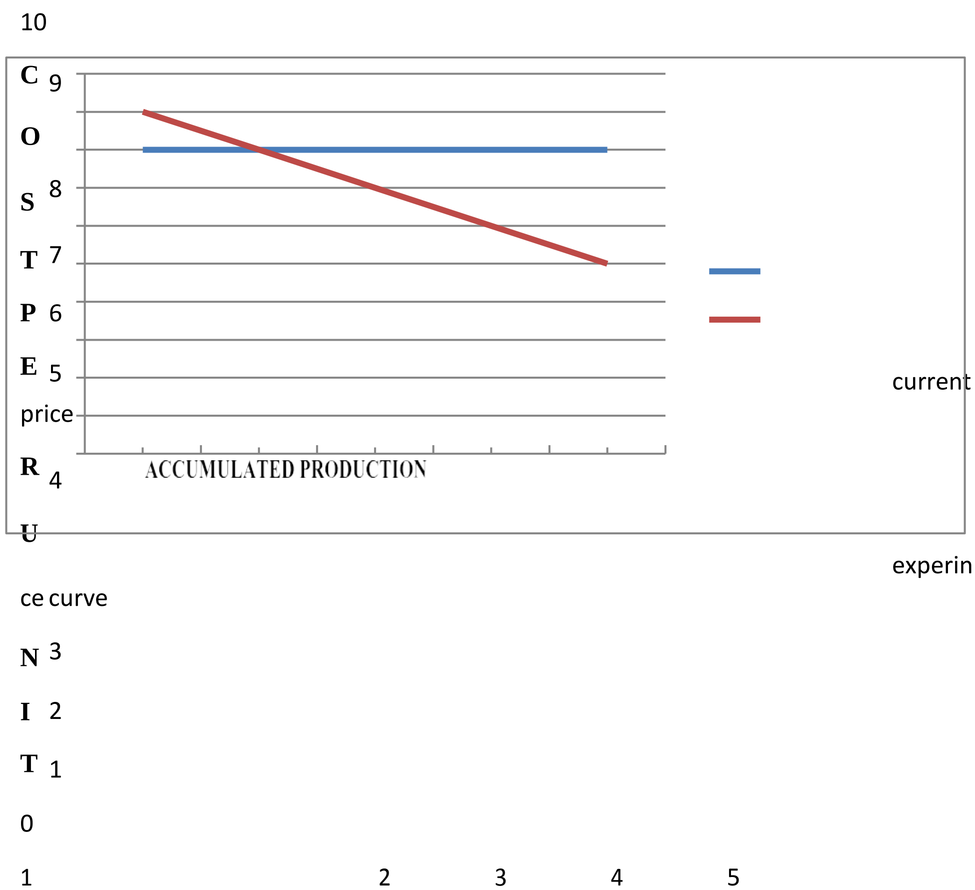
In the introduction stage, there can basically be two types of strategies. They are (i) skimming strategy and (ii) penetration strategy.

In the growth stage, more than one supplier enters the market and hence the prices need to be cut to remain competitive.

In the maturity stage, the market is aggressive and due to large number of suppliers existing, each one has to cut into the competitor's market share. Hence, matching the competitor's price is the challenge in this stage.

There are numerous strategies available for the industrial organisation in the decline phase. Cost cutting becomes a major exercise. As regards the price, if the firm has a reputation of one that adheres to quality, then it is not necessary to cut prices. Or else, prices can be decreased to certain segments and the rest left untouched.

The specific implications of the PLC for pricing are spelled out in Figure i.e. it provides service and maintenance. If there is a need even technological up gradation is performed.




**Pricing Curve**

## 15.7 PRICING OVER PRODUCT LIFE CYCLE

All products go through five stages of the product life cycle: Development, introduction, growth, maturity and decline. The consumer is only aware of four of these stages, because the product has not been introduced during the development stage. Some PLC diagrams even include a sixth stage called the withdrawal stage, when the product is removed from the market. However, price strategies only affect four stages of the product life cycle.

**Significance**

When the product is introduced, a company will use a price skimming or market penetration strategy, according to the article titled "The Product Life Cycle" at netmba.com, a reputable online business reference site. If the company is the bellwether or first entrant in the market, it may use price skimming to recapture product development and advertising costs. Price skimming entails introducing the product at a high price. Some customers will likely buy the product at the high price because no one else offers it. Contrarily, a company may want to capture a large share of the market early on, before competitors have a chance to introduce their products. Consequently, company marketing managers may decide to start with an extremely low price to get a lot of initial orders.

**Identification**

If the product is successful, it will enter into a period of exceptional growth. Sales will be extremely high, plus more consumers will become aware of the product through advertising and promotions. The lead company, often still relatively small in size if introducing their first product, will usually continue with the same price strategy. If the company started out with a high price, it will probably continue selling their product at that price to increase their profit margin. Moreover, a company that is attempting to build market share will likely keep its price low.

**Function**

There will come a time when product sales will continue to increase, but grow at a slower pace. This product life cycle stage is called the maturity stage. Profits will likely be higher during the maturity stage than any other stage, but competition will make it difficult to acquire many new users. As a result, the lead company may need to lower its prices in line with the competition. Increasing market share becomes the priority during the maturity stage, which normally requires discounting.

**Effects**

At some point, sales for a particular product will start declining, after reaching a saturation point. A company has several choices during this stage: Maintain the product, harvest or stop marketing it, or discontinue the product. A lead company will likely continue selling the product, but at a reduced price. The customer will not likely pay top dollar anymore. Some customers may be purchasing a product with new technology. Companies will also start eliminating unprofitable channels of distribution during the decline stage, according to netmba.com.

**Considerations**

Weaker competitors may decide to withdrawal from the market during the decline stage. This may help the lead company extend its product life cycle, particularly if the technology or product is not outmoded. A company can also extend the product life cycle by finding new uses or markets for their products. For example, a small consumer products soap manufacturer may discover that its unique formula is highly effective among automotive workers.

## 15.8 PRICING DISCOUNT

Discounts, loyalty offers and bulk buy pricing is common business practice and can help you to move stock, attract new customers, or reach sales targets during a slow sales period.

Before you start cutting your sales price in half in the hope of drumming up sales, it's good to do some planning to make sure you're still making a profit for the extra orders coming in.

It is important to:

- know your current profit margin, markup and breakeven point
- calculate the best discount price to still make a profit
- prepare a marketing plan to encourage new customers and bring inactive customers back
- find out what your competitors are offering and their current pricing
- review other options for promoting sales offers without reducing the price
- decide how long the sales price will be offered
- review your accounts for any regular times of the week, month or year your business has a sales dip.

**Special offers and pricing deals**

If discounting isn't working to drive sales in your business, there are other options you can offer your customers.

Example: if a five percent sales discount did not encourage more orders, offering free gift wrapping or shipping might be a more successful promotion. It is important to understand your customers and what offers they will be attracted to.

1. Package or bundle stock

This type of upsell opportunity encourages customers to order more stock or services and are rewarded with a bundled pricing. Bundling works when the customer can see the benefit of complimentary products or services and buying them together at the discounted price.

Example: within a beauty salon bundled offers could include a discount for buying shampoo and conditioner at the same time, or having a manicure and a pedicure.

2. Quantity discounts

   Offer a percentage discount or 'get one free' when customers buy a set number of items. This increases the size and value of customer orders and helps to move stock which may be needed for clearance items. It is also a good idea when your supplier offers discounts for larger order volumes and you can purchase stock at a reduced price.

   Example: grocery shops and clothing retailers regularly encourage shoppers to buy one get- one-free, buy five get-one-free, or buy one and get the second item at a reduced price.

3. Value added offers

   Without discounting the price you can offer your customers an added value to their purchases. Most value add offers are a priceless item that is of benefit to the customer. It is important to remember that although some of these offers are free of cost it may require your time to provide the service. These offers are a good way to identify any services you offer which your competitor doesn't.

   Example: a computer hardware supplier could provide an installation guide, or free installation support with purchase. A hairdresser can offer a free treatment or blow wave with haircut.

4. Seasonal or periodic discounts

   There are times of the year, month week or day when some goods and services have less demand than at other times. This is true for seasonal clothing, festive merchandise, travel bookings and restaurants.

   By analysing your sales cycles and highlighting these periods you can offer discounts for customers who buy merchandise or services out-of-season.

   Example: mid-week specials for restaurants, surf shops offering sales of last season's stock over winter, and ski shops offering the same discounts over summer.

**Benefits of discounting**

Along with increased order numbers and more money, discounting benefits include:

- attracting new customers without a large marketing campaign. You can also take the opportunity to sign new customers up to your newsletter
- encouraging undecided customers to purchase goods, especially if the discount has a limited time offer
- clearing last season's stock, or outdated models
- free advertising on sales websites
- new sales from inactive customers.

## 15.9 PRODUCT POSITIONING

The goal of product positioning is to keep your product on top of your customers' mind when they're considering a purchase. Product positioning is an important element of a marketing plan. Product positioning is the process marketers use to determine how to best communicate their products' attributes to their target customers based on customer needs, competitive pressures, available communication channels and carefully crafted key messages. Effective product positioning ensures that marketing messages resonate with target consumers and compel them to take action.

The word "positioning" took on a new meaning for business in 1972. The concept was first popularized by Al Ries and Jack Trout in their bestseller book Positioning - a battle for your mind. According to them, positioning is a game people play in todays me-too market place. The key to positioning, Trout says, is owning one word in your customer's mind.

Product positioning principles

According to Daniel Levis there are four different methods of product positioning

1. Unique Selling Proposition
2. Risk Reversal
3. Inordinate Value
4. Clear, Complete, & Concise Customer Education

Positioning concepts

More generally, there are three types of positioning concepts:

1) Functional positions

a) Solve problems

b) Provide benefits to customers

c) Get favorable perception by investors and lenders

**2)** Symbolic positions

a) Self-image enhancement

b) Ego identification

c) Belongingness and social meaningfulness

d) Affective fulfillment

**3)** Experiential positions

a) Provide sensory stimulation

b) Provide cognitive stimulation

**Effective product positioning is a key to success and even more when you are marketing a new product.**

**Steps to product Positioning**

Marketers with the positioning process try to create a unique identity of a product amongst the customers. There are five steps to smoothen product positioning process:

**1. Know your target audience well**

It is essential for the marketers to first identify the target audience and then understand their needs and preferences. Every individual has varied interests, needs and preferences. No two individuals can think on the same lines. You should know about your audience, but if you don't know what they need to hear, you would be squandering your time and would be barking up the wrong tree with your right message. Knowing your target audience involves knowing the specific needs of the audience as well. Know what your customers expect out of you.

The products must fulfill the demands of the individuals.

**2. Identify the product features**

The marketers themselves must be well aware of the features and benefits of the products. It is rightly said you can’t sell something unless and until you yourself are convinced of it.

It is very important for the marketers that they themselves are aware of the features and benefits of the products. It is well said that you really can’t sell something unless and until you yourself are convinced of it. A marketer selling a smart phone should himself also use the same smart phone handset for the customers to believe him.

A marketer selling Nokia phones should himself also use a Nokia handset for the customers to believe him.

**3. Unique Selling Propositions**

Every product should have USPs; at least some features which are unique. The organizations must create USPs of their brands and effectively communicate the same to the target audience.

The marketers must themselves know what best their product can do. Find out how the products can be useful to the end-users ?

Why do people use "Anti Dandruff Shampoo?"

Anti Dandruff Shampoos are meant to get rid of dandruff. This is how the product is positioned in the minds of the individuals.

Individuals purchase "Dabur Chyawanprash "to strengthen their body's internal defense mechanism and fight against germs, infections and stress. That's the image of Dabur Chyawanprash in the minds of consumers.

USP of a Nokia Handset - Better battery backup. USP of Horlicks Foodles - Healthy snack

Communicate the USPs to the target audience through effective ways of advertising. Use banners, slogans, inserts and hoardings.

Let individuals know what your brand offers for them to decide what is best for them.

**4. Know your competitors**

- A marketer must be aware of the competitor's offerings. Let the individuals know how your product is better than the competitors?
- Never underestimate your competitors.
- Let the target audience know how your product is better than others.
- The marketers must always strive hard to have an edge over their competitors.

**5. Ways to promote brands**

- Choose the right theme for the advertisement.
- Use catchy taglines.
- The advertisement must not confuse people.
- The marketer must highlight the benefits of the products.

6. **Maintain the position of the brand**

- For an effective positioning it is essential for the marketers to continue to live up to the expectations of the end - users.
- Never compromise on quality.
- Don’t drastically reduce the price of your products.
- A Mercedes car would not be the same if its price is reduced below a certain level.
- A Rado watch would lose its charm if its price is equal to a Sonata or a Maxima Watch.

## 15.10 PRICE COMPETITION & NON-PRICE COMPETITION

**A) Price Competition**

Exists when marketers complete on the basis of price. In price competition, the marketers develop different price strategies to beat the competition. They generally set a same or low price of a product than that of the competitors to gain the market share.

Generally, the prices are changed to cover the costs or increase the demand. For instance, Coca- Cola and Pepsi are close competitors, thus, they often engage in price wars. The major disadvantage of price competition is that the competitors have flexibility to change the prices of products.

**B) Non-price Competition**

Focuses on the factors other than the price of the product. In non-price competition, customers cannot be easily lured by lower prices as their preferences are focused on various factors, such as features, quality, service, and promotion.

Thus, the marketers focus on these factors to increase the sale of products. For instance, customers prefer buying expensive luxury products for gaining status in the society. The demand for these products does not shift even if their prices increase. Thus, in case of non-price competition, the marketers try to promote the product by exhibiting its distinguishing features. However, a marketer who is competing on non-price basis cannot ignore the prices set by the competitors as price remains a significant marketing element.

| Price Competition | Non- price competition |
|---|---|
| Majorly Uses a penetration price strategy | Uses a differentiated marketing strategy |
| Mostly uses "Me too" types and late entrants in the market | Mostly have the first mover advantage |
| Price is the most competitive advantage for such firms | Technology and design is the best competitive adv such firms |
| Sales volumes are high but margins are low. Bottom line might be high, but per product margin is low. | Sales volume is low but margins are high. Tota might be low because it is not a mass product. B too. |
| A large product portfolio is common | A small product portfolio is sufficient but differentiated for |
| Always in a fighting stage and plotted as Stars in BCG matrix. Because of the penetrative strategy competition keeps | Many a times the differentiated and non price com are cash cows. The competition is less and hence t their market. |
| Quality of product may or may not be low to achieve price advantage | Quality of product is always high because of the matrix. |
| Would have various similar brands in the market with which they compete | Would have very few competitors and a higher mar |
| Focus is on distribution – The more the volumes, the more the bottom line | Distribution is niche and prestigious, determined b policy of the brand. |
| Market communication focuses on the price tag of the product. | Market communication focuses on the features of how it is different. |
| Entry barrier is low because everyone tries to enter the market with price advantage (Example – the rise of China) | Entry barrier is high because differentiation and created over a period of time and not easily beaten Apple) |
| Price competition commonly uses the demographic and geographic segmentation because it targets the complete market | Non- price competition uses the psychographic, b segmentation to make a difference in the market. |

## 15.11 SUMMARY

Price is the most important variables in the marketing mix. Its importance has increased substantially over the years because of the environmental factors like recession, intensity of inter-firm rivalry, and the customer becoming more aware of alternatives. Firms also have to educate customers on what to look for in the product and many buyers today use sophisticated methods of collecting information on suppliers, who also do the same. In order to arrive at the most acceptable level, the marketer needs to have information on the three C's- Customers, competition and the firm's Cost structure. It should be able to use this information to achieve its goals.

## 15.12 KEY WORDS

**Price:** Both the value that buyers place on what is exchanged and the marketers' estimates of that value

**Experience curve (learning curve):** The drop in the average per-unit production cost that comes with accumulated production experience

**Demand curve :** A curve that shows the number of units the market will buy in a given time period at different prices that might be charged

**Discounts:** The reduction from the list price to be paid by consumers which represents the revenue source for intermediaries.

## 15.13 SELF ASSESSMENT QUESTIONS

**1.** What is price and what is the role of cost in pricing?

**2.** Describe various considerations and factors involved in making pricing policies?

**3.** Explain different pricing methods?

**4.** Explain Product Life Cycle for pricing with the help of pricing curve?

**5.** What is discount? Give its Uses?

## 15.14 BIBLIOGRAPHY

1. Bawa, Kapil and Robert Shoemaker, '*Analysing incremental sales from direct mail coupon promotion*', *Journal of Marketing,* July 1989, pp. 66-78.

2. Buskirk, Richard H., and Bruce D., Buskrik, *Selling Principles and Practices,* 13th edition, Singapore, McGraw-Hill, 1992.

3. *The Economic Times: Changing Gears- Retailing in India*-(CD)

4. *'Competing on the Internet: The case of Amazon.com', European Management Journal*, 16, No. 2, April, 1998.

5. *'Customer Rapport', Direct Marketing*, January 1994, p. 46.

6. McDonald, William J., *Direct Marketing: An integrated Approach*, McGraw-Hill, 1998.

7. Nash, Edward, *Database Marketing: The Ultimate Marketing Tool*, New York: McGraw- Hill, 1992.

8. Guilitian, Joseph P. and Gordon W. Paul, *Marketing Management Strategies and Programmes*, fifth ed., New York: McGraw-Hill, 1994.

9. *Business Today* January 7-12, 1995.

10. Levitt, Theodore, *Marketing Success through Differentiation of Anything', Strategic Marketing Management*, ed. Robert J. Dolan, Harvard Business School, 1994.

11. Kotler, Philip, *Marketing Management*, Prentice-Hall of India, eleventh, ed., p. 148.

12. Prahlad, C. K., *The Fortune at the Bottom of the Pyramid*, Wharton School Publishing, 2004.

13. Ranjan Saxena, *Marketing Management*, 3rd edition, McGraw-Hill, 2006.

14. Rai Chaudhari, Anjan, ' *Building Relationships*', A&M, September 30, 1994, pp. 29-31.

15. Johnson, Engene M., david L. Kurtz, and Eberhand E. Scheving, *Sales Management: Concepts, Practice and Cases*, Singapore; McGraw-Hill, 1987.

16. Still, Richard R., W. Edward Cundiff, and Norman A. P. Govoni, *Sales Management*, fifth edition, New Delhi: Prentice-Hall of India.

17. Lele, Milind M., *'Change Channels in Your Product's Life Cycle', Business Marketing*, December 1986, p. 64.

18. Stern, Louis W. and Frederick D. Sturdivant, *'Customer Driven Distribution System' in Strategic Marketing Management* editor, Dolan, Robert J., Harvard Business School Publications, 1991.

19. Pradhan Swapna: *Retailing Management*, 2004, Tata McGraw-Hill Publishing Company, New Delhi.

20. Rajagopal, *Marketing: Concept and Cases*, (New Delhi: New Age International, 2000).

# UNIT-16 SALES FORECASTING

## Objectives

After reading this unit, you should able to understand:

- The meaning, approaches, status and method of sales forecasting
- What is sales budget and how it is prepared?
- The concept of profit planning

## Structure



## 16.1 INTROCUDTION

At the most basic level, sales forecasting is the process of estimating future revenue generated by your sales team for your business. Sales forecasting are becoming most important to businesses. Objectivity is a key ingredient. Understanding forecasting techniques is a necessity to ensure that s proper base is established for planning. In most organizations, it is the responsibility of the sales manager or sales VP to project and monitor the sales forecast for each selling period. They are responsible for understanding how sales will perform in future and informing business leaders. While most sales leaders understand the crucial aspects of sales forecasting, very few of them achieve reliable forecasts. In fact, recent industry survey suggests that only 40% of all forecasted opportunities ever turn into deals. As a sales leader, one want precise and meaningful sales forecast for better visibility, planning, budgeting and risk management.

## 16.2 SALES FORECAST

Sales forecasting is the process of estimating future sales. Accurate sales forecasts enable companies to make informed business decisions and predict short-term and long-term performance. Companies can base their forecasts on past sales data, industry-wide comparisons, and economic trends.

It is easier for established companies to predict future sales based on years of past business data. Newly founded companies have to base their forecasts on less-verified information, such as market research and competitive intelligence to forecast their future business.

Sales forecasting gives insight into how a company should manage its workforce, cash flow, and resources. In addition to helping a company allocate its internal resources effectively, predictive sales data is important for businesses when looking to acquire investment capital.

Forecasting is one of the important aspects of administration. The comer-stone of successful marketing planning is the measurement and forecasting to market demand. According to American Marketing Association, “Sales forecast is an estimate of Sales, in monetary or physical units, for a specified future period under a proposed business plan or programme and under an assumed set of economic and other forces outside the unit for which the forecast is made.”

A sales forecast is an estimation of sales volume that a company can expect to attain within the plan period. A sales forecast is not just a sales predicting. It is the act of matching opportunities with the marketing efforts. Sales forecasting is the determination of a firm’s share in the market under a specified future. Thus, sales forecasting shows the probable volume of sales.

“Sales forecast is an estimate of sales during a specified future period, whose estimate is tied to a proposed marketing plan and which assumes a particular state of uncontrollable and competitive forces.” — Cundiff and Still

**Factors influencing a Sales Forecasting:**

A sales manager should consider all the factors affecting the sales, while predicting the firm's sales in the market.

**An accurate sales forecast can be made, if the following factors are considered carefully:**

1. **General Economic Condition :**

   It is essential to consider all economic conditions relating to the firm and the consumers. The forecaster must see the general economic trend-inflation or deflation, which affect the business favourably or adversely. A thorough knowledge of the economic, political and the general trend of the business facilitate to build a forecast more accurately. Past behaviour of market, national income, disposable personal income, consuming habits of the customers etc., affect the estimation to a great extent.

2. **Consumers :**

   Products like, wearing apparel, luxurious goods, furniture, vehicles; the size of population by its composition-customers by age, sex, type, economic condition etc., have an important role. And trend of fashions, religious habits, social group influences etc., also carry weights.

3. **Industrial Behaviours :**

   Markets are full of similar products manufactured by different firms, which compete among themselves to increase the sales. As such, the pricing policy, design, advanced technological improvements, promotional activities etc., of similar industries must be carefully observed. A new firm may come up with products to the markets and naturally affect the market share of the existing firms. Unstable conditions—industrial unrest, government control through rules and regulations, improper availability of raw materials etc., directly affect the production, sales and profits.

4. **Changes within Firm:**

   Future sales are greatly affected by the changes in pricing, advertising policy, quality of products etc. A careful study in relation to the changes on the sales volume may be studied carefully. Sales can be increased by price cut, enhancing advertising policies, increased sales promotions, concessions to customers etc.

5. **Period :**

   The required information must be collected on the basis of period—short run, medium run or long run forecasts.

**Importance of Sales Forecasting:**

1. Supply and demand for the products can easily be adjusted, by overcoming temporary demand, in the light of the anticipated estimate; and regular supply is facilitated.

2. A good inventory control is advantageously benefited by avoiding the weakness of under stocking and overstocking.

3. Allocation and reallocation of sales territories are facilitated.

4. It is a forward planner as all other requirements of raw materials, labour, plant layout, financial needs, warehousing, transport facility etc., depend in accordance with the sales volume expected in advance.

5. Sales opportunities are searched out on the basis of forecast; mid thus discovery of selling success is made.

6. It is a gear, by which all other activities are controlled as a basis of forecasting.

7. Advertisement programmes are beneficially adjusted with full advantage to the firm.

8. It is an indicator to the department of finance as to how much and when finance is needed; and it helps to overcome difficult situations.

9. It is a measuring rod by which the efficiency of the sales personnel or the sales department, as a whole, can be measured.

10. Sales personnel and sales quotas are also regularized-increasing or decreasing-by knowing the sales volume, in advance.

11. It regularizes productions through the vision of sales forecast and avoids overtime at high premium rates. It also reduces idle time in manufacturing.

12. As is the sales forecast, so is the progress of the firm. The master plan or budget of a firm is based on forecasts. "The act of forecasting is of great benefit to all who take part in the process, and is the best means of ensuring adaptability to changing circumstances. The collaboration of all concerned leads to a unified front, an understanding of the reasons for decisions, and a broadened outlook."

## 16.3 TYPES OF SALES FORECASTING

**The Economic Forecast:**



This type of forecast is important to understand the general economic trend through a careful study of Five Year Plans, Gross national products. National income, Government expenditure, Unemployment, Consumer spending habits etc. This is in order to have an accurate forecast. Big companies, in India, adopt this method.

The Industry Forecast:

The future market demand is calculated through industrial forecast or market forecast. The expected sales forecasts of all the industries, in the same line of business are combined. Market demand may be affected by controllable-price, distribution, promotion, etc., and uncontrollable- demographic, economic, political, technological development, cultural activities etc. The executive must take into account all these conditions while forecasting.

**The Company Forecast:**

The third step goes to the firm concerned to look into the market share, for which forecast is to be made. By considering both controllable and uncontrollable, based on chosen marketing plans within the firm, with that of other industries, steps are taken in formulating forecasts.

**There are three classes of sales forecasts:**

1. **Short-run Forecast:**

   It is also known as operating forecast, covering a maximum of one year or it may be half-yearly, quarterly, monthly and even weekly. This type of forecasting can be advantageously utilized for estimating stock requirements, providing working capital, establishing sales quotas, fast moving factors. It facilitates the management to improve and co-ordinate the policies and practice of marketing-production, inventory, purchasing, financing etc. Short-run forecast is preferred to all types and brings more benefits than other types.

2. **Medium-run Forecast:**

   This type of forecast may cover from more than one year to two or four years. This helps the management to estimate probable profit and control over budgets, expenditure, production etc. Factors-price trend, tax policies, institutional credit etc., are specially considered for a good forecast.

3. **Long-run Forecast:**

   This type of forecast may cover one year to five years, depending on the nature of the firm. Seasonal changes are not considered. The forecaster takes into account the population changes, competition changes, economic depression or boom, inventions etc. This type is good for adding new products and dropping old ones.

## 16.4 LIMITATIONS OF SALES FORECAST

In certain cases, forecast may become inaccurate. The failure may be due to the following factors:

1. **Fashion:**

   Changes are throughout. Present style may change any time. It is difficult to say as to when a new fashion will be adopted by the consumers and how long it will be accepted by the buyers. If our product is similar to the fashion and is popular, we are able to have the best result; and if our products are not in accordance with the fashion, then sales will be affected.

2. **Lack of Sales History:**

   A sales history or past records are essential for a sound forecast plan. If the past data are not available, then forecast is made on guess-work, without a base. Mainly a new product has no sales history and forecast made on guess may be a failure.

3. **Psychological Factors:**

   Consumers' attitude may change at any time. The forecaster may not be able to predict exactly the behaviour of consumers. Certain market environments are quick in action. Even rumors can affect market variables. For instance, when we use a particular brand of soap, it may generate itching feeling on a few people and if the news spread among the public, sales will be seriously affected.

4. **Other Reasons:**

   It is possible that the growth may not remain uniform. It may decline or be stationary. The economic condition of a country may not be favourable to the business activities-policies of the government, imposition of controls etc. It may affect the sales.

The methods of forecasting discussed above have respective merits and demerits. No single method may be suitable. Therefore, a combination method is suitable and may give a good result. The forecaster must be cautious while drawing decisions on sales forecast. Periodical review and revision of sales forecast may be done, in the light of performance. A method which is quick, less costly and more accurate may be adopted.

## 16.5 METHOD OF SALES FORECASTING

**The following are the various methods of sales forecasting:**

1. Jury of Executive Opinion.
2. Sales Force Opinion.

3. Test Marketing Result.
4. Consumer's Buying Plan.
5. Market Factor Analysis.
6. Expert Opinion.
7. Econometric Model Building.
8. Past Sales (Historical Method).
9. Statistical Methods.

**1. Jury of Executive Opinion:**

This method of sales forecasting is the oldest. One or more of the executives, who are experienced and have good knowledge of the market factors make out the expected sales. The executives are responsible while forecasting sales figures through estimates and experiences. All the factors-internal and external—are taken into account. This is a type of committee approach. This method is simple as experiences and judgement are pooled together in taking a sales forecast figure. If there are many executives, their estimates are averaged in drawing the sales forecast.

**Merits:**

(a) This method is simple and quick.

(b) Detailed data are not needed.

(c) There is economy.

**Demerits:**

(a) It is not based on factual data.

(b) It is difficult to draw a final decision.

Product and Branding Decisions

(c) More or less, the method rests on guess-work, and may lead to wrong forecasts.

(d) It is difficult to break down the forecasts into products, markets, etc.

**2. Sales Force Opinion:**

Under this method, salesmen, or intermediaries are required to make out an estimate sales in their respective territories for a given period. Salesmen are in close touch with the consumers and possess good knowledge about the future demand trend. Thus all the sales force estimates are processed, integrated, modified, and a sales volume estimate formed for the whole market, for the given period.

**Merits:**

(a) Specialized knowledge is utilized.

(b) Salesmen are confident and responsible to meet the quota fixed.

(c) This method facilitates to break down in terms of products, territories, customers, salesmen etc.

**Demerits:**

(a) Success depends upon the competency of salesmen.

(b) A broad outlook is absent.

(c) The estimation may be unattainable or may to too low for the forecasts as the salesmen may be optimistic or pessimistic.

**3. Test Marketing Result:**

Under the market test method, products are introduced in a limited geographical area and the result is studied. Taking this result as a base, sales forecast is made. This test is conducted as a sample on pre-test basis in order to understand the market response.

**Merits:**

(a) The system is reliable as forecast is based on actual result.

(b) Management can understand the defects and take steps to rectify.

(c) It is good for introducing new products, in a new territory etc.

**Demerits:**

(a) All the markets are not homogeneous. But study is made on the basis of a part of a market.

(b) It is a time-consuming process.

(c) It is costly.

**4. Consumers' Buying Plan :**

Consumers, as a source of information, are approached to know their likely purchases during the period under a given set of conditions. This method is suitable when there are few customers. This type of forecasting is generally adopted for industrial goods. It is suitable for industries, which produce costly goods to a limited number of buyers- wholesalers, retailers, potential consumers etc. A survey is conducted on face to face basis or survey method. It is because changes are constant while buyer behaviour and buying decisions change frequently.

**Merits:**

(a) First-hand information is possible.

(b) User's intention is known.

**Demerits:**

(a) Customer's expectation cannot be measured exactly.

(b) It is difficult to identify actual buyers.

(c) It is good when users are few, but not practicable when consumers are many.

(d) Long run forecasting is not possible.

(e) The system is costly.

(f) Buyers may change their buying decisions.

**5. Market Factor Analysis:**

A company's sales may depend on the behaviour of certain market factors. The principal factors which affect the sales may be determined. By studying the behaviours of the factors, forecasting should be made. Correlation is the statistical analysis which analyses the degree of extent to which two variables fluctuate with reference to each other.

The word 'relationship' is of importance and indicates that there is some connection between the variables under observation. In the same way, regression analysis is a statistical device, which helps us to estimate or predict the unknown values of one variable from the known values of another variable.

For instance, you publish a text book on "Banking", affiliated to different universities. The permitted intake capacity of each and the medium through which the students are taught are known. Is it a compulsory or an optional subject? By getting all these details and also by considering the sales activities of promotional work, you may be able to declare the probable copies to be printed.

The key to the successful use of this method lies in the selection of the appropriate market factors. Minimizing the number of market factors is also important. Thus the demand decision makers have to consider price, competitions, advertising, disposal income, buying habits, consumption habits, consumer price index, change in population etc.

**Merits:**

(a) It is a sound method.

(b) Market factor is analysed in detail.

**Demerits:**

(a) It is costly.

(b) It is time-consuming.

(c) It is a short run process.

**6. Expert Opinion :**

Many types of consultancy agencies have entered into the field of sales. The consultancy agency has specialized experts in the respective field. This includes dealers, trade associations etc. They may conduct market researches and possess ready-made statistical data. Firms may make use of the opinions of such experts. These opinions may be carefully analysed by the company and a sound forecasting is made.

**Merits:**

(a) Forecasting is quick and inexpensive.

(b) It will be more accurate.

(c) Specialized knowledge is utilized.

**Demerits:**

(a) It may not be reliable.

(b) The success of forecasting depends upon the competency of experts.

(c) A broad outlook may be lacking.

**7. Econometric Model Building:**

This is a mathematical approach of study and is an ideal way to forecast sales. This method is more useful for marketing durable goods. It is in the form of equations, which represent a set of relationships among different demand determining market factors. By analyzing the market factors (independent variable) and sales (dependent variable), sales are forecast. This system does not entirely depend upon correlation analysis. It has great scope, but adoption of this method depends upon availability of complete information. The market factors which are more accurate, quick and less costly may be selected for a sound forecasting.

**8. Past Sales (Historical method):**

Personal judgement of sales forecasting can be beneficially supplemented by the use of statistical and quantitative methods.

Past sales are a good basis and on this basis future sales can be formulated and forecast. According to Kirkpatrick, today's sales activity flows into tomorrow's sales activities; that is last year's sales extend into this year's sales. This approach is adding or deducting a set of percentage to the sales of previous year(s). For new industries and for new products, this method is not suitable.

**(a) Simple Sales Percentage:**

Under this method, sales forecast is made by adding simply a flat percentage of sales so as to forecast sales as given below:

Next year sales = Present year sales + This year sales/Last year sales or = Present year sales + 10 or 5% of present sale

**(b) Time Series Analysis:**

A time series analysis is a statistical method of studying historical data. It involves the isolation of long time trend, cyclical changes, seasonal variations and irregular fluctuations. Past sales figures are taken as a base, analysed and adjusted to future trends. The past records and reports enable us to interpret the information and forecast future trends and trade cycle too.

**Merits:**

(a) No guess-work creeps in.

(b) The method is simple and inexpensive.

(c) This is an objective method.

**Demerits:**

(a) 'Market is dynamic' is not considered.

(b) No provision is made for upswings and downswings in sales activities.

**9. Statistical Methods:**

Statistical methods are considered to be superior techniques of sales forecasting, because their reliability is higher than that of other techniques.

**They are:**

(i) Trend Method

(ii) Graphical Method

(iii) Time-series Method:

(a) Freehand method

(b) Semi-average method

(c) Moving average method

(d) Method of least square

(iv) Correlation method

(v) Regression method.

**Apart from the above, the following factors may also be considered:**

1. Availability of raw materials
2. Plant capacity
3. Government policies
4. Buying habits of consumers
5. Fashion changes
6. Distribution system
7. Financial capacity
8. Market competition
9. National income movement
10. Sales promotions.

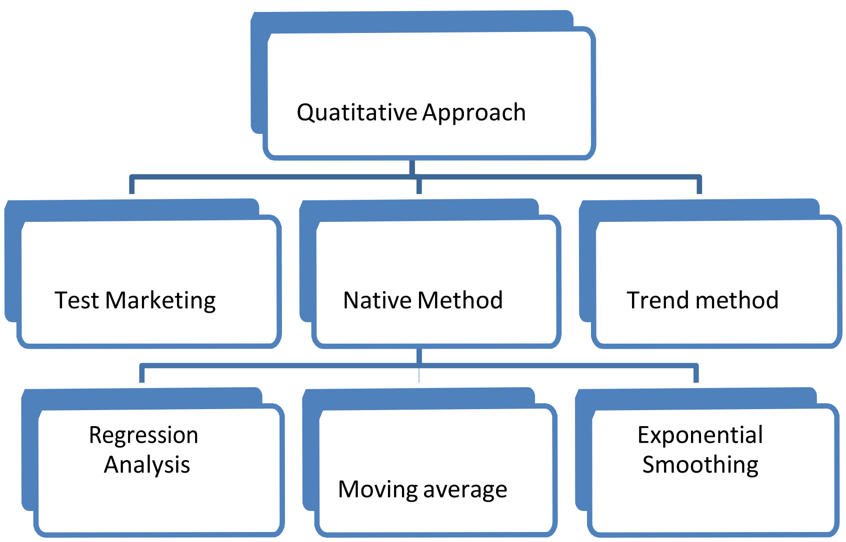
## 16.6 SALES FORECASTING :APPROACHES AND FORECASTING PROCESS

The success of a retail store largely depends on how accurately the sales forecasts has been done because the retail supply chain as well as the value chain management depends on the demand patterns for the category as well as for the demand in the market. A retailer is always interested to know the demands for the categories he is offerings so that merchandise procurement can be channelized as per the market demand and budget available/issued for purchase.

Sales forecasting helps a retailer to estimate its expected future revenues for sales made in a particular period of time. These forecasts may be at departmental level, company level and for individual merchandise classifications. As sales forecasting has always been a critical step for retailers. With the advancement of information technology and technological advancement, large retailers have started using statistical techniques (like Index numbers, time series and multiple regression analysis) or software packages for the purpose of sales forecasting.

The forecasting technique or the software package to be implied, depends upon the store's size, employees' skills, availability of funds and retailers own experience.

**Widely used Forecasting approaches SALES FORECASTING METHOD**


**The Sales Forecasting Process:**

The sales forecasting process is defined as the series of actions taken by a retailer to estimate the future revenues for a particular time period by considering the past information and current forecasting objectives into account. Sales forecasting for merchandise classifications within the departments usually depends on more qualitative techniques, even for large stores.

The easiest way of forecasting sales for narrower categories is to first forecast store's sales on a firm wide basis and by department and then to breakdown these projections into various merchandise classifications. Different firms apply different methods of forecasting, but whatever method is chosen it must carefully predict and take into account external and internal factors.

**List of commonly considered and most widely encountered factors are as follows: 1.Internal Factors:**

(a) Credit policies

(b) Working hours

(c) New store open policy

(d) Promotion policy

(e) Additions and deletion of merchandise category

(f) Remodeling existing stores seasonal variations

**2. External Factors:**

(a) Socio-cultural changes

(b) Competitors' moves

(c) Economic policies

(d) Political system

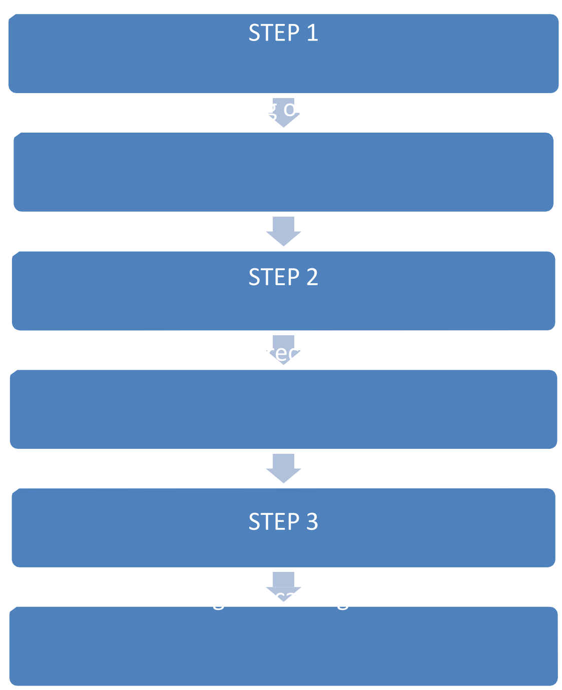
(e) Technological advancements

(f) Climate conditions

(g) New entries

The different methods are being employed by different retailers to develop sales forecasts but most of the retailers follow this process where a series of steps are used

**Sales Forecasting process**




**Value Added Aspect of sales forecasting**

## 16.7 PRODUCT SALES DETERMINANTS

Product sales, generally speaking, depend upon the **market need, price of the product, demand-supply situation, purchasing power available with the customers and their willingness to spend** that on the purchase of the product. The importance of these factors varies according to the type of product sold i.e., consumer non-durable goods, consumer durable goods, and industrial goods. Let us now identify the major determinants of product sales relating to different types of goods.

### Consumer Non-Durable Goods

Three, basic factors determine the sales of relatively low priced, short shelf life and frequently purchased consumer goods. These are: **disposable personal income** (personal income minus direct taxes and other deductions) of the customer; **demographic characteristics** (age, sex, occupation, urban/rural location, etc.) of the population, and **the price level** including competitive structure of the market.

The growth in the disposable income level as well as per capita availability of products provide continuity in the sales of food products, textiles, household articles and similar products.

Price of a product relative to the disposable income of the customer influences the customer choice criteria regarding purchase of complimentaries as well as substitutes. It also affects the quality level (high, average, low) of the products purchased.

Changes in demographic characteristics of the population such as its size, literacy, number of children in a family, etc. help in the selection of preferred market segments and their cultivation with the appropriate marketing mix.

**Consumer Durable Goods**

These goods have a durable (long) life and are generally bought out of savings. Their purchase frequency is thus limited to once or twice in the life of a household. The purchase of such products is influenced by:

a) **Discretionary Income** (disposable income minus essential expenditures on basic necessities and other fixed obligations like debt payments, insurance premiums, etc.) level of the population.

b) **Availability of infrastructural and support** facilities for the product usage in the country such as pucca roads for the usage of scooters and other vehicles; broadcasting stations and transmission centres in the case of radios, transistors and television; and electricity n the case of various electrical appliances including refrigerators and air-conditioners. Availability of repair, spares and maintenance facilities in proximity to the households' location help increase the sale of consumer durable further.

c) Price, credit or hire-purchase facilities available, and

d) Life-style of the households and the role of ego, status and prestige in it.

   The improvements recorded in the levels of discretionary income, extension in infrastructural and support facilities, easy availability of consumer loans and hire-purchase/ instalment schemes as well as changes in urban life-style has opened up the Indian consumer durable market in a big way. The rising sales of transistors, two-in-ones, televisions, scooters and motor-cycles, mixers and cookers, foam mattresses and furniture items, etc. are just a few indications of the same.

**Industrial Goods**

These goods help in the production of other goods which are closer to consumer usage. Their demand, therefore, is linked with the off-take by the ultimate users and so is, popularly called **'derived' demand.** In other words, industrial goods are mainly basic or mother goods, such as machine tools, power equipment, steel, industrial machinery, components, control instruments, lubricants, etc. And, to repeat, the sales of industrial goods is linked with the demand in the user industries e.g., demand of mobile making machinery and components in India is determined by the sale and demand of mobiles in India.

Industrial goods forming part of the industrial infrastructure are greatly influenced by the Government of India's industrial and technology policy, budgetary outlays, developmental plans and the availability of industrial finance through national and international sources. Any policy or allocation change, therefore, affects the working of Industrial goods, firms and often makes them face either a recession or a recovery position in the market.

In short, an industrial products sales forecast is influenced by **(a) company forecast, (b) industry forecast, (c) national economic forecast, and (d) world economic forecast.**

## 16.8 RETAIL SALE FORECASTING

Business owners and managers make use of modern data-gathering techniques to optimize retail delivery of products to the customer base. Forecasting in retail involves utilizing existing data to predict future events and, more specifically, consumer behavior. Existing data and market research varies by the types of products a retailer sells, but the basic means of forecasting in retail follows similar patterns, even across different product lines.

### Identification

Retail forecasting methods anticipate the future purchasing actions of consumers by evaluating past revenue and consumer behavior over the previous months or year to discern patterns and develop forecasts for the upcoming months. Data is adjusted for seasonal trends, and then a plan for ordering and stocking products may follow the analysis. After fulfillment of current and forthcoming customer purchases and orders, an assessment of the results is compared with previous forecasts, and the entire procedure is repeated.

### Function

In retail management, forecasting serves to predict and meet the demands of consumers in retail establishments while controlling pricing and inventory. Holding excess inventory adds to overhead costs for a business. When forecasting helps the retailer to meet the demands of the customer by understanding consumer purchase patterns better, more efficient use of shelf and display space within the retail establishment is the result, in addition to optimal use of inventory space.

### Methods

In creating retail forecasts, analysts consider product price, marketing and promotions to develop and plan for projected consumer reactions at the point of sale. Methods of identifying and understanding past trends in retail sales involve incorporating economic indicators into the data. Unemployment rates, the rate of inflation, levels of household debt, available disposable income, and growth of the national gross domestic product -- the total value of all goods and services produced in the country -- are all part of the information used in forecasting. In addition, current, recent and projected near-future activity in the stock market is taken into consideration to gauge consumer confidence in the economy.

**Benefits**

Accurate forecasts that meet the forthcoming consumption demands of customers help retail business owners and management to maximize and extend profits over the long term. Forecasting permits price adjustments to correspond with the current level of consumer spending patterns. Maintaining and controlling a sufficient but moderate inventory that meets the need without being excessive also adds to long-term profits in the retail industry.

## 16.9 SALES BUDGET

A **sales budget** is a detailed schedule showing the expected sales for the budget period; typically, it is expressed in both dollars and units of production. An accurate sales budget is the key to the entire budgeting in some way. The sales budget will help determine how many units will have to be produced. Thus, the production budget is prepared after the sales budget. The production budget in turn is used to determine the budgets for manufacturing costs including the direct material budget, the direct labor budget and the manufacturing overhead budget. These budgets are then combined with data from the sales budget and the selling and administrative expenses budget to determine the cash budget. In essence, the sales budget triggers a chain reaction that leads to the development of the other budgets. The selling and administrative expenses budget is both dependent on and a determinant of the sales budget. This reciprocal relationship arises because sales will in part be determined by the funds committed for advertising and sales promotion.

The sales budget is the starting point in preparing the master budget. All other items in the master budget including production, purchase, inventories, and expenses, depend on it in some way. The sales budget is constructed by multiplying the budgeted sales in units by the selling price.

**IMPORTANCES OF SALES BUDGETING**

A sales budget is a financial plan depicting how resources should best be allocated to achieve the forecasted sales. The purpose of sales budgeting is to plan for and control the expenditure of resources (money, material, people and facilities) necessary to achieve the desired sales objectives. Sales forecast and sales budget are therefore 1 intimately related as much as that if the sales budget is inadequate, the sales forecast 'I will not be achieved, or if the sales forecast is increased the sales budget must be increased accordingly. Sales budget by relating sales obtained and resources deployed also acts as a means for evaluating sales planning and sales effort. It aims at attaining maximum profits by directing the emphasis on most profitable segments, customers and products.

## PURPOSE OF SALES BUDGETING

1) **A Planning Tool**: In order to achieve goals and objective of the sales department, sales manager must outline essential tasks to be performed and compute the estimated costs required for their performance. Sales budgeting therefore, help in profit planning and provide a guide for action towards achieving the organizational objectives.

2) **An Instrument of Coordination:** As we all know selling is only one of the important functions of marketing. To be effective it needs support from other elements of the marketing mix. The process of developing realistic sales budget draws upon backward and forward linkages of selling with marketing and in turn brings about necessary integration within the various selling and marketing functions, and co- ordination between sales, finance, production and purchase function.

3) **A Tool or Control:** The sales budget on adoption becomes the mark against which actual results are compared. For example, look at the following figure:

**Budget Variance**

| | | | | Variance |
|---|---|---|---|---|
| | Budget | Actual | Favorable | Unfavorable |
| Sales | Rs. 7000 | Rs. 8900 | Rs. 1900 | |
| Expenses | | | | |
| Direct Selling | 2500 | 2375 | 125 | |
| Sales promotion | 1500 | | Rs. 150 | |
| Advertising | 997 | 1075 | | 78 |
| Administrative | 875 | 775 | 100 | |
| Total expenses | Rs. 5872 | Rs. 5875 | | 03 |
| Profit (before tax) | Rs. 1128 | Rs. 3025 | 1897 | |

The above figure is self-explanatory and points out to both the favourable and unfavourable variance. The analysis of the factors causing variance enables the sales manager to quickly spot potential problem areas or better plan for unexpected outcomes such as higher than budget sales. The budget variance analysis approach thus helps in improving insights of sales manager and enables him to refine and develop realistic sales budgets in future with minimal variance.

## 16.10 METHOD OF SALES BUDGETING

A variety of methods ranging from the sales manager's gut feeling to application of management science models are used for determining the sales budgets. The popular methods are as under:

- **What is affordable:** This method is generally used by firms dealing in capital industrial goods. Also, companies giving low emphasis to sales and marketing function or having small size of operation make use of this judgemental method.
- **Rules of Thumb:** Such as a given percentage of sales. Mass selling goods and companies dominated by finance function are major users of this method.
- **Competitive parity:** Large sized companies whose products face tough competitions and need effective marketing to maintain profits make use of this method. The use of this method presumes knowledge of the competitors' activities and resource allocation.
- **Objective and Task Method:** systematic method help in determination of the sales budget by identifying the objective of sales function, and then ascertaining the selling and related tasks required to achieve each objective. Later, the cost of each task/activity is calculated to arrive: It the total budget. The finalization of the budget may require adjustment both in the objectives as well as in the way the task. may be performed
- **Zero based budgeting**: It is relatively a new approach to budgeting. It involves a process in which the sales budget for each year is initiated from Zero base thus justifying all expenditure and discarding the continuation of conventions and rules of thumb. The method suffers from practical limitations which relate to a very elaborate and time consuming process required by it

In practice, companies make use of a combination of the above methods and depending upon the experience gained sales budgeting approach stands refined. The status of the sales and marketing function within the organization determines the extent of sophistication used in the approach to sales budgeting.

## 16.11 PREPARATION OF SALES BUDGET

Preparation of sales budget is one of the most important elements, of the sales planning process. Generally, three basic budgets are developed, the sales budget, the selling expense budget and the sales department administrative budget Mostly sales organisations have their own specified procedures, formats and timetables for developing the sales budget While all sales budgets relate to the sales forecast, the steps taken in systematic preparation of budget can be identified in the following sequence.

**Review and Analysis of Marketing Environment**: Generally, companies prepare, sales budget on the principle of bottom up planning. To prepare a tentative budget of revenue and expenses, depending on the organisational structure of the sales department, each departmental head is asked to predict their sales volume and expenses for the coming period and their contribution of overhead. For example, in a leading tyre company each District sales manager prepares his/her district budget and submits to the Regional or Divisional office, where they are added together and included with divisional / regional budget. In turn these divisional budgets are submitted to the sales manager for the particular product or market groups. At the end of this chain of subordinates' budgets, the top executives in the sales department scan and prepare a final sales budget for the company. Now the marketing budget is combined with the budgets of the sales department and the staff marketing departments, to give a total of sales revenues and of selling and other marketing expenses for the company. Some of the common items in each sales budget include the following:

- Salaries, sales persons, administrative support etc.
- Direct selling expenses -travel, lodging, food, and entertainment.
- Commissions on sales, Bonus.
- Benefits packages covering medical insurance, gratuity and retirement contribution
- Office expenses mailing, telephone, office supplies and other miscellaneous costs.
- -Advertising and promotional materials. Selling aids, contest awards, product samples catalogues, price-lists etc.

This review of past budget performance helps the sales manager to minimize variances in the coming period.

**Communicating Overall Objectives**: Sales executives at the top level must communicate their sales goals and objectives to the marketing department and argue effectively for an equitable share of funds. The chief sales executive of the firm should encourage participation of all superiors and managers in the budgets process so that, as a part of its development, they will accept responsibility for it and later enthusiastically implement it

**Setting a Preliminary Plan for Allocation of Resources and Selling Efforts to Different Activities :**Particularly products, customers and territories so that revisions can be made in this initial sales budget. The sales manager must emphasize that the budgets should be as realistic as possible at each stages of its development, so that it can maximise its favourable impact on the firm. When budget goals are achieved through a co-operative team effort, a strong feeling of organisational confidence is created. In case of failure to stay within budgets, sales manager should stress on rewards and public commendations to encourage positive attitudes towards budget goals and pride in their achievement

**Selling the Sales Budget to Top Management:** The top sales and marketing executive must visualize that every budget proposal they are presenting to the top management must remain in competition with proposal submitted by the heads of other divisions. Each and every division usually demands for an increased allocation of funds. Unless sales managers rationally justify each item in their budgets on the basis of profit contribution, the item may not get due consideration by the top management.

## 16.12 FLEXIBILITY IN BUDGETING

Flexible sales budget is an alternative to overcome the rigidity of the traditional sales budget, which makes the sales manager merely an analyzer of the financial performance of the company. Flexible budgets make use of standard costs (based on past records or managerial judgment) for different revenue forecasts. It allows the sales manager to continuously monitor financial performance in terms of standard cost ratios. For example, the standard cost for promotion materials (brochure, display samples etc. might be Rs.5 for every Rs.100 sales or a ratio of 0.05. After nine months Rs. 400 has been spent on promotional materials while Rs. 2400 worth of revenue has been generated. The sales manager observed that the ratio has risen to 0.166. In this case expenditure on promotional materials need to cut back reasonably. In the past use of flexible budgeting was limited to large sized companies, but now small companies also are adopting flexible budgeting technique.

There is one more dimension of flexibility in sales budget and this arises out of the very nature of sales budget As we all know that a sales budget is an estimation relating to the future period under assumed market conditions. In the event of change in market conditions necessitating a change in the firm's expenditure of efforts the sales budget should carry flexibility of inter-item reallocation of expenses and other resources e.g. sales allowance to additional sales persons to display contest to fast cargo movement to cash discount etc.

## HOW TO PREPARE BUDGET

A sales budget is an important first step in structuring an overall budget for your small business. With an accurate projection of future sales, a small business owner makes well-informed decisions, keeps expenses in line and protects his company from failing. Use a sales budget to structure your company in a way that maximizes profit. If you have been in business for a few years, you can usually make an accurate sales budget. If you are just starting a business, you may have to turn to outside sources to generate a reasonable sales budget.

**Step 1**

Select a period for your sales budget. While it is common to use an annual sales budget, some companies have quarterly or even monthly sales budgets.

**Step 2**

Collect historical sales data for your company. If you run an existing business, you should be able to consult past sales records. If you are making a sales budget for anything but an annual period, use sales data for the same period as the current budget you are preparing. For example, if you are working on a budget for your upcoming spring quarter, use data from a previous spring quarter to minimize the effect of seasonal factors on your sales.

**Step 3**

Locate sales and industry information from outside sources if you are a new company. Search for information on companies similar to yours. You can get actual sales data from the annual and quarterly reports of public companies, but that information is typically only available for large companies. The U.S. Bureau of Labor Statistics can provide you with industry growth estimates and other important financial data about your industry. Your local chamber of commerce can provide information on local companies and put you in touch with colleagues in your industry.

**Step 4**

Count the number of salespeople working for your company and compare it with past sales periods. If the number of salespeople in your company has risen or fallen, increase or decrease your estimated sales figures accordingly. Ask your salespeople for their own personal projections for the upcoming sales period, as their first-hand knowledge and experience can help you make accurate projections.

**Step 5**

Research current market trends. While past sales provide a good starting point for your budget, past performance does not always predict future results. If market trends are changing, they will most likely affect your company's fortunes as well. For example, if you make plastic cases for CDs and CD sales are falling, you may have to revise your sales estimates downward as well.

**Step 6**

Speak with your customers. Their intentions to buy your products are solid indicators of future sales. If your customers tend to buy at certain times during the year, factor this typical buying trend into your sales forecast.

**Step 7**

Create the forecast. Based on a combination of previous sales, the current state of the market, the strength of your sales force and customer intentions, make your best estimate as to sales during the next budget period.

**Step 8**

Compare actual results with the sales forecast. After the projected sales period concludes, see how close your projection was to your actual sales. Any variance you uncover can help you prepare future budgets more accurately.

## 16.13 PROFIT PLANNING

**Profit planning** can be defined as the set of steps that are taken by firms to achieve the desired level of profit. Planning is accomplished through the preparation of a number of budgets, which, when brought through, from an integrated business plan known as master budget. The master budget is an essential management tool that communicates management’s plan throughout the organization, allocates resources, and coordinates activities.

**BUDGETING:**

A budget is a detailed plan for acquiring and using financial and other resources over a specified period of time. It represents a plan for the future expressed in formal quantitative terms. The act of preparing a budget is called **budgeting**. The use of budgeting to control a firm’s activities is called **budgetary control**. Master budget is a summary of a company’s plan that sets specific targets for sales, production, distribution, and financing activities. It generally culminates in cash budget, a budgeted income statements, and a budgeted balance sheet. In short, it represents a comprehensive expression of management’s plans for the future and how these plans are to be accomplished.

## DIFFERENCE BETWEEN PLANNING AND CONTROL:

The term **planning and control** are often confused, and occasionally these terms are used in such a way as to suggest that they mean the same thing. Actually, planning and control are two quite different concepts. **Planning** involves developing objects and preparing various budgets to achieve those budgets. Control involves the steps taken by management to increase the likelihood that the objectives set down at the planning stage are attained and that all parts of the organization are working together toward that goal. To be completely effective, a good budgeting system must provide for both planning a control. Good planning without control is time wasting.

## ADVANTAGES AND DISADVANTAGES OF BUDGETING:

**Companies realize many advantages / Benefits from a budgeting program. Among these benefits are the following:**

1. Budgets provide a means of communicating management's plans through the organization.

2. Budgets force managers to think about and plan for the future. In the absence of the necessity to prepare a budget, many mangers would spend all of their time dealing with daily emergencies.

3. The **budgeting process** provides a means of allocating resources to those parts of the organization where they can be used most effectively

4. The budgeting process can uncover many potential bottlenecks before they occur .

5. Budgets coordinates the activities of the entire organization by integrating the plans of the various parts of the organization. Budgeting helps to ensure that everyone in the organization is pulling in the same direction.

6. Budgets provide goals and objectives that can serve as benchmark for evaluating subsequent performance.

**Disadvantages / Limitations of Budgeting:** Whilst budgets may be an essential part of any marketing activity they do have a number of disadvantages, particularly in perception terms.

Budgets can be seen as pressure devices imposed by management, thus resulting in:

(a) bad labor relations

(b) inaccurate record-keeping.

Departmental conflict arises due to:

(a) disputes over resource allocation

(b) departments blaming each other if targets are not attained.

It is difficult to reconcile personal/individual and corporate goals. Waste may arise as managers adopt the view, “we had better spend it or we will lose it”. This is often coupled with “empire building” in order to enhance the prestige of a department. Responsibility versus controlling, i.e. some costs are under the influence of more than one person, e.g. power costs. Managers may overestimate costs so that they will not be blamed in the future should they overspend.

**RESPONSIBILITY ACCOUNTING:**

The concept of responsibility accounting is very important in profit planning. The basic idea behind responsibility accounting is that a manager should be responsible for those items that the managers can actually control to a significant extent. Each line item (i.e., revenue or cost) in the budget is made the responsibility of a manager, and that manager is held responsible for subsequent deviations between budgeted goals and actual results. Someone must be held responsible for each cost or else no one will be responsible, and the cost will inevitably grow out of control. Being held responsible for costs does not mean that the manager is penalized if the actual results do not measure up to the budgeted goals. However, the manager should take the initiative to correct any unfavorable discrepancies, should understand the source of significant favorable or unfavorable discrepancies, and should be prepared to explain the reasons for discrepancies to higher management. The point of an effective responsibility system is to make sure that nothing “falls through the cracks” that the organization reacts quickly and appropriately to deviations from its plans, and that the organization learns from the feedback it gets by comparing budgeted goals to actual results. The point is not to penalize individuals for missing targets.

**BASICS OF PROFIT PLANNING**

Profit planning is a vital part of any business plan structure for a small or medium business. The goals of small business owners include ensuring that the business makes profits year-on-year, and that it is sustained over a period of time for growth. The business plan includes a forecast that tries to anticipate the business growth and determine the revenue that could be generated in that particular year. Here’s a look at the basics of profit planning for your business:

1. **Evaluate your business operations:** Profit planning and forecasting enables a comparison between projected costs and spends, and the actual costs that your business is incurring. This can help your team decide on improving cost efficiency and

closing up the gaps. It also enables better decision-making like which resources to invest in or cut costs from. Proper profit planning will ensure that the business does not spend more than is necessary or end up not investing enough in resources that are required.

2. **Forecast marketing strategies:** Marketing is one of the highest areas of expense for small businesses because marketing efforts are directly related to getting leads for the business. The company's marketing efforts are categorized into various areas, and each of these need to be evaluated for the employees and resources required to fulfill them. If the marketing costs are not estimated properly it could affect profits, and the company will unnecessarily spend more on marketing. Profit planning helps avoid this scenario.

3. **Anticipate financial planning:** Planning funds to allocate across departments and procedures needs to begin well in advance. Profit planning anticipates the company's financial ability to make the maximum use of resources, with efficiency in costs and finally high profit-making potential.

4. **Carve out hiring requirements:** After the entire financial projection is made and the business plan structure is ready, the company needs to evaluate if they have enough staff to carry out all the operations. Profit planning also estimates the number of personnel required, vis-à-vis the work they generate which has a bearing on the company's revenue and profits. Planning costs for hiring requirements is also an important part of this.

Profit planning is a crucial business activity that prepares the company for the coming year, helps spread out company resources efficiently and motivates the major stakeholders of the company to strive towards year-on-year growth. Profit planning needs to be an activity that is carried out every year. After the end of the year, there also needs to be an audit that compares the projection to the actual profits. This can guarantee that the company is prepared and has a well thought-out strategy to improve every time and maximize profits and performance.

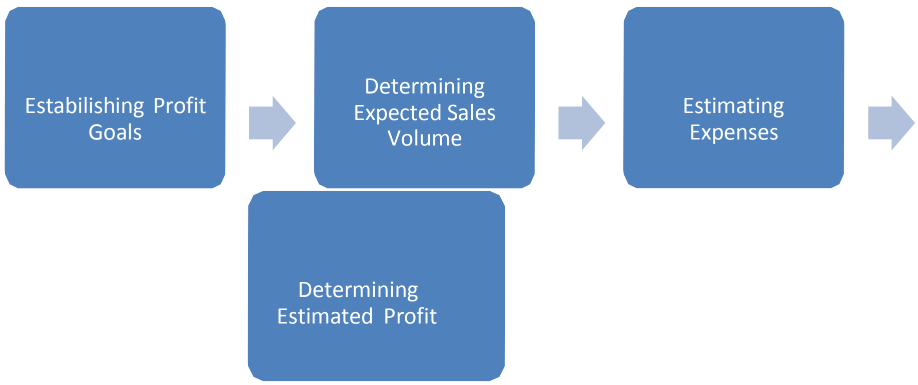
## PROCESS OF PROFIT PLANNING AND CONTROL

Profit is considered as a significant element of a business activity. According to Peter Drucker, "profit is a condition of survival.

It is the cost of the future, the cost of staying in a business." Thus, profit should be planned and managed properly.

An organization should plan profits by taking into consideration its capabilities and resources. Profit planning lays foundation for the future income statement of the organization. The profit planning process begins with the forecasting of Les and estimating the desired level of profit taking in view the market conditions.

**Process of Profit Planning**




**The steps involved in profit planning process (as shown in Figure-6) are explained as follows:**

1. **Establishing profit goals:**

   Implies that profit goals should be set in alignment with the strategic plans of the organization. Moreover, the profit goals of an organization should be realistic in nature based on the capabilities and resources of the organization.

2. **Determining expected sales volume:**

   Constitutes the most important step of the profit planning process. An organization needs to forecast its sales volume so that it can achieve its profit goals. The sales volume can be anticipated by taking into account the market and industry trends and performing competitive analysis.

3. **Estimating expenses:**

   Requires that an organization needs to estimate its expenses for the planned sales volume. Expenses can be determined from the past data. If an organization is new, then the data of similar organization in same industry can be taken. The expense forecasts should be adjusted to the economic conditions of the country.

4. **Determining profit:**

   Helps in estimating the exact value of sales.

**It is calculated as:**

Estimated Profit = Projected Sales Income – Expected Expenses

After planning profit successfully, an organization needs to control profit. Profit control involves measuring the gap between the estimated level and actual level of profit achieved by an organization. If there is any deviation, the necessary actions are taken by the organization.

**Profit control involves two steps, which are as follows:**

1. **Comparing estimates with the goal:**

   Involves comparing the estimated profit with the expected profit. If there is a large gap between the estimated profits and the expected profits, the measures should be taken.

2. **Using alternatives to achieve the desired profit: Includes the following:**

   a. Making changes in planned sales volume by increasing sales promotion, improving product quality, providing better service, and providing after sales support to customers.

   b. Reducing planned expenses by minimizing losses, implementing better control systems, improving product quality, and increasing the productivity of human resource and machines.

## 16.14 SUMMARY

Sales forecasting is the process of estimating what your business's sales are going to be in the future. A sales forecast period can be monthly, quarterly, half-yearly or annually. Sales forecasting is an integral part of the business management. Without a solid idea of what your future sales are going to be, you can't manage your inventory or cash flow or plan for growth. The purpose of sales forecasting is to provide information that you can use to make intelligent business decisions.

## 16.15 KEY WORDS

**Forecasting :** The prediction of what buyers in a target market are likely to do under a given set of conditions, such as the prediction of how much of a product will be purchased by a particular market segment given a particular price of the product.

**Retailing :** All activities involved in selling goods or services directly to final consumers for their personal, nonbusiness use.

## 16.16 SELF ASSESSMENT QUESTIONS

1. Describe meaning and limitations of sales forecasting?
2. What are the qualitative and quantitative approaches of sale forecasting?
3. What is sales budget? How budget is prepared?
4. What is budgeting? Give its advantages and disadvantages?

## 16.17 BIBLIOGRAPHY


1. Aaker, David A., Rajeev Batra, and John G., Myers, *Advertising Management,* New Jersey, Prentice-Hall 1992.
2. *Advertising and Marketing*, May 1990.
3. Bawa, Kapil and Robert Shoemaker, *'Analysing incremental sales from direct mail coupon promotion', Journal of Marketing,* July 1989, pp. 66-78.
4. Buskirk, Richard H., and Bruce D., Buskrik, *Selling Principles and Practices,* 13th edition, Singapore, McGraw-Hill, 1992.
5. Blake, Robert R. and S. Mouton, *Managerial Grid III*, *The Key to Leadership Excellence,* London: Gulf Publication Company, 1984.
6. *Business World: The Marketing Whitebook,* 2003-04; 2005, New Delhi.
7. *The Economic Times: Changing Gears- Retailing in India*-(CD)
8. Guilitian, Joseph P. and Gordon W. Paul, *Marketing Management Strategies and Programmes*, fifth ed., New York: McGraw-Hill, 1994.
9. *Business Today* January 7-12, 1995.
10. Levitt, Theodore, *Marketing Success through Differentiation of Anything'*, *Strategic Marketing Management*, ed. Robert J. Dolan, Harvard Business School, 1994.
11. Prahlad, C. K., *The Fortune at the Bottom of the Pyramid,* Wharton School Publishing, 2004.
12. Ranjan Saxena, *Marketing Management*, 3rd edition, McGraw-Hill, 2006.
13. Rai Chaudhari, Anjan, ' *Building Relationships*', A&M, September 30, 1994, pp. 29-31.
14. Johnson, Engene M., david L. Kurtz, and Eberhand E. Scheving, *Sales Management: Concepts, Practice and Cases*,

Singapore; McGraw-Hill, 1987.

15. Still, Richard R., W. Edward Cundiff, and Norman A. P. Govoni, *Sales Management*, fifth edition, New Delhi: Prentice-Hall of India.

16. Pradhan Swapna: *Retailing Management,* 2004, Tata McGraw-Hill Publishing Company, New Delhi.

17. Rajagopal, *Marketing: Concept and Cases*, (New Delhi: New Age International, 2000).

Uttar Pradesh Rajarshi Tandon Open University

# Master of Business Administration

# M.COM-204

## Marketing Management

## BLOCK

# 3

### MARKETING PROMOTION AND COMMUNICATION

---

**UNIT-17**

**Marketing Communication and Advertising**

---

**UNIT-18**

**Personal Selling and Sales Promotion**

---

**UNIT-19**

**Distribution Strategy**

---

**UNIT-20**

**Marketing and Public Policy**

---

परिशिष्ट–4
आन्तरिक कवर–दो का प्ररूप
**Format of the II Inner Covers**

**विशेषज्ञ समिति**

**1.** Dr. Omji Gupta, Director SoMS UPRTOU Allahabad.

**2.** Prof. Arvind Kumar, Professor, Department of Commerce, Lucknow University, Lucknow.

**3.** Prof. Geetika, HOD, SoMS, MNNIT Allahabad

**4.** Prof. H.K. Singh, Professor, Department of Commerce, BHU Varanasi

**5.** Dr. Gyan Prakash Yadav, Asst. Professor, UPRTOU

**6.** Dr. Devesh Ranjan Tripathi, Asst. Professor, SoMS, UPRTOU

**7.** Dr. Gaurav Sankalp SoMS, UPRTOU

---


**लेखक** Dr. K.K. Pandey, Associate Professor, School of Business Management, IFTM University Moradabad

**सम्पादक** Prof. P.B. Singh, Deptt. Of Business Administration, MJP Rohilkhand University, Bareilly (U.P.)

**परिमापक**


---

**अनुवाद की स्थिति में**

| | |
|---|---|
| **मूल लेखक** | **अनुवाद** |
| **मूल सम्पादक** | **भाषा सम्पादक** |
| **मूल परिमापक** | **परिमापक** |

---

**सहयोगी टीम**

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

**प्रूफ रीडर**

---


**©UPRTOU, Prayagraj-2020**
**ISBN : 978-93-83328-52-9**

# UNIT-17 MARKETING COMMUNICATION AND ADVERTISING



## 17.1 INTRODUCTION

The aim of this chapter is to demonstrate recent transformations affecting marketing, particularly in the area of marketing communication, as well as suggesting possible approaches that suitably lend themselves for the implementation of marketing under the postmodern condition. Some of which had revolutionary effects on the field; most significantly the advances in information and communication technology, which has influenced every aspect of contemporary society. This includes contributing to the increasing power of the customer and giving rise to new and alternative methods of marketing communication. Organizations must adapt their marketing strategies to remain relevant and competitive in today's continuously evolving landscape.

**Defining Marketing**

Marketing definitions have adjusted over time, as a result of different influences that have affected the discipline through its history. It is a broad discipline and as such has numerous definitions.

***"Marketing can be described as all activities designed to generate and facilitate any exchange intended to satisfy human needs or wants".***

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

In the words of **'Philip Kotler';**

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

These definitions share some commonalities. They focus on customers; the provision of suitable offerings to meet customers' needs; appropriate benefits to the organization; and the relationship between the customer and the organization on the basis of value exchange.

## 17.1.1 PROCESS OF MARKETING COMMUNICATION

Marketing communications are the means by which firms attempt to inform, persuade, and remind customers directly or indirectly about the products and brands that they sell.

Marketing communications is essentially a part of the marketing mix. The marketing mix defines the 4Ps of marketing and Promotion is what marketing communications is all about. It is the message your organization is going to convey to your market. You need to be very particular about different messages you are going to convey through different mediums.

Traditionally printed marketing was the whole sole method of conveying the messages to the consumers. However, in recent times, emails, sms, blogs, television and company websites have become the trendy way of conveying the organization's message to the consumers. It is important though that the message you give in one medium should tally with the message provided in other medium. For example, you should use the same logo in on your website as the one you use in your email messages. Similarly, your television messages should convey the same message as your blogs and websites.

For the above reason, people controlling the marketing communication process are very important for the company. These executives make it an integrated marketing communication process. You would now understand why it has to be 'integrated'. The reason is that the messages to be conveyed through different mediums should be the same.

Let us now look at the marketing communication process. It is very important to have a process in place because then your advertising will reap proper benefits. There is an old advertising joke ***"I know my advertising works, I don't know which half."*** That's why if the marketing communication process puts a tab on advertising because companies cannot bear to lose dollars on wrong type of advertising. Things have to be well-defined and integrated to get maximum revenues. Your marketing communication process would look like:

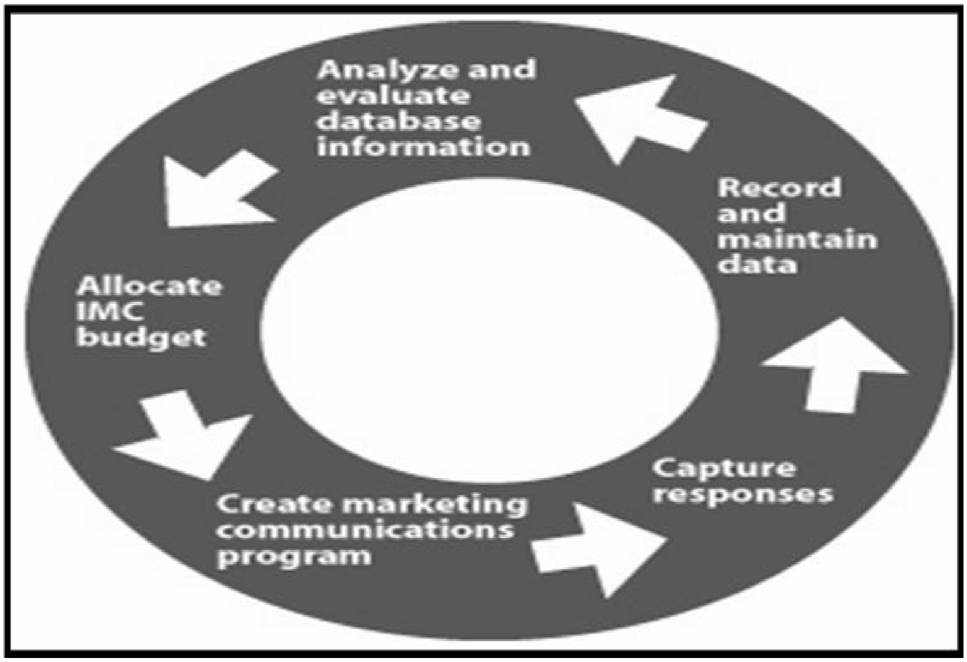



**Figure 1.1.1**

The marketing communication process identifies where the investments are being done and what is bringing more return on investment. Therefore, you can alter the advertising campaign to reap maximum benefits.

The process begins at the strategic development stage. You start by creating a marketing communications program. At this point, you decide what all will fall in your advertising bracket. At the next stage, you capture responses of your consumers. These responses are then recorded and maintained as advertising data. The executives then analyze and evaluate the collected data. They generate the all-important reports which will help to allocate the integrated marketing and communications budget.

Selecting the most important communications elements is crucial for the success of company's business. The advertising campaign should be effective across all platforms. Once the integrated marketing process is set, the company can reap rich dividends from it.

It is equally important to understand communication process parallel to the marketing communication process;

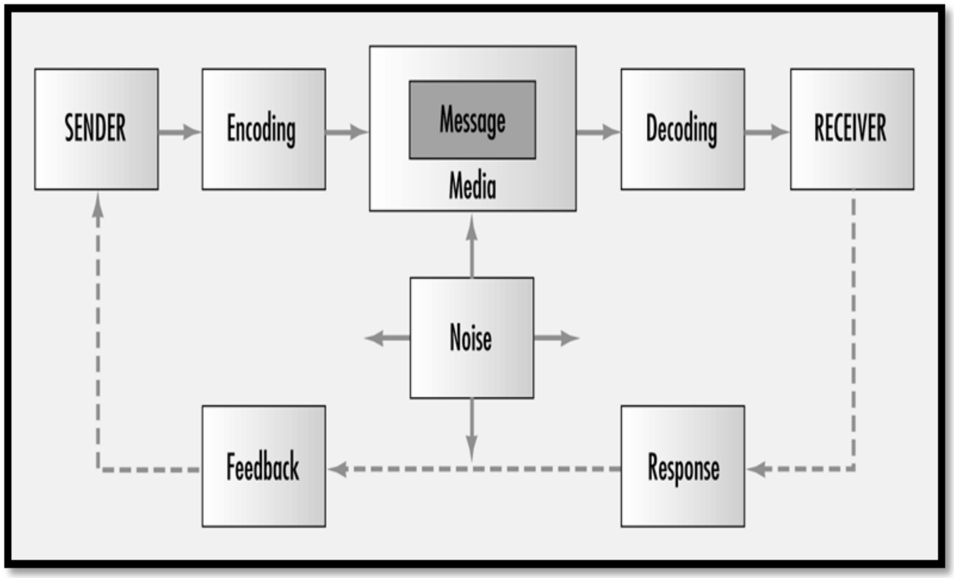



**Figure 1.1.1.2**

The communication process is sender-encoding-transmission device-decoding-receiver, which is part of any advertising or marketing program. Encoding the message is the second step in communication process, which takes a creative idea and transforms it into attention-getting advertisements designed for various media (television, radio, magazines, and others). Messages travel to audiences through various transmissions. The third stage of the marketing communication process occurs when a channel or medium delivers the message. Decoding occurs when the message reaches one or more of the receiver's senses. Consumers both hear and see television ads. Others consumers handle (touch) and read (see) a coupon offer.

One obstacle that prevents marketing messages from being efficient and effective is called barrier. Barrier is anything that distorts or disrupts a message. It can occur at any stage in the communication process. The most common form of noise affecting marketing communication is clutter

## 17.1.2 FACTORS INFLUENCE MARKETING COMMUNICATION

**Persuasion**

Persuasion is the top pick of the five factors of marketing communications. Persuasion is the main reason companies engage in marketing: to persuade their target audience to take action, as in, buy their product or subscribe to their services, make a phone call, or donate money. When Coca-Cola airs its television commercials, or runs its print ads, it has one goal in mind and that is to persuade the target audience that coke is the refreshing cola and that it brings the world together, so drink Coke!

It is important to note here that while the term persuasion may have a negative connotation to some marketers, and especially, the target audience, marketers tend to prefer the term influence over persuade. In either case, the ultimate goal is to get your target audience to take action.

**Goal Directed**

All marketing communication is goal oriented. You need an objective when you set out to create your marketing communication strategy. Can you imagine trying to take a trip across country and have no clear plan or objective on where to go or what to do? It's the same thing with your marketing communications strategy, you need to know what it is you are trying to accomplish.

Typically, your objective is to sell your product, deliver information, or build brand awareness. One question you should ask yourself before you begin your strategy is, "*What is the outcome I expect from my marketing communication*?" By asking this question, and answering it, you will begin to formulate your objective.

**Contact Points**

Every successful marketing communications plan requires the management of the marketing message at every contact point. Contact points are any marketing messages that are received by the target audience. In other words, they are the vehicles that distribute your marketing message.

Contact points can be planned or unplanned points. Planned contact points include advertisement, brochures, business cards, websites, or packaging. Unplanned contact points can include store layouts, the cleanliness of a store, and employee attitudes.

**Stakeholders (Opinion Leaders / Opinion Influencers)**

Stakeholders also referred to as Opinion Leaders and Influencers, in marketing communications are those individuals or groups that can influence the purchase of products and services as well as the success of a company. Stakeholders can include employees, government regulators, distributors, and the media. Most companies find the group topping the stakeholders list are their own employees; the reason is that if you take care of your employees, then they will yield better customer service and a better in-store experience for the target audience. While stakeholders are not necessarily part of your planned message, they are significant enough as an unplanned conveyor of your marketing message.

**Message**

The marketing communications message is either planned or unplanned. Messages are the basis of your marketing communications strategy and a variety of tools are used in order to deliver your marketing message. Some planned marketing message tools include:

- Printed or online advertising

- Marketing Collateral such as brochures or annual reports
- Websites
- Sales promotions
- Public relations
- Direct marketing
- Personal selling
- P.O.P. (Point of purchase) displays
- Packaging
- Specialty items, such as printed t-shirts and tote bags
- Sponsorships
- Customer service

Samples of unplanned messages would include all other communications: store cleanliness (mentioned above in the section, contact points), distributors, employee attitudes, and even the exterior surroundings of your business.

The five important factors of marketing communications must be followed if you are striving for success in your marketing communications plan and strategy.. The marketing message not only includes planned messages such as advertising or direct mail campaigns, but also unplanned messages which can include employees or the physical appearance of your businesses exterior; Any potential message whether planned or unplanned, directly affects your business and should be carefully planned to ensure success. Finally, the main objective and the most important of the five factors of marketing communications is persuasion or influence. Your main objective is to get your target audience to take action.

## 17.2 COMPONENTS OF PROMOTIONAL MIX

***What it is?***

The 'promotional mix' is a term used to describe the set of tools that a business can use to communicate effectively the benefits of its products or services to its customers.

The promotional mix includes the following tools;

- Advertising
- Public relations
- Sales promotion
- Direct marketing

- Personal selling

The promotional mix is part of the wider marketing mix.

***Why it is important?***

If customers don’t know what products and services you provide, then your business will not survive in today’s competitive marketplace. Effective communication with your customers is vital to ensure that your business generates sales and profits.

By taking the time to develop and implement an appropriate promotional mix, you will stimulate your target audience to buy your products or services - and manage this within a budget you can afford.

To use the promotional mix effectively, you need to understand a little bit more about each of the five tools and how you could use them to achieve your objectives.

***Advertising;*** There are three main reasons for advertising.

- To provide your target audience with information (creating awareness)
- To persuade them to buy from you (by promoting product and company benefits)
- To reinforce your existence (by consistently repeating key messages).

Research shows that people need to see an advertisement at least seven times before it starts to mean anything to them. So, to be effective, advertising needs to be conducted regularly in a consistent and ’recognisable’ manner.

It can therefore be quite costly. Typical advertising media include Yellow Pages, local newspapers, radio, trade journals, exhibitions and websites. It is also difficult to assess how much business is achieved through ’paid-for’ advertising unless you include some form of monitoring scheme (such as a discount voucher) within the advertisement.

## 17.2.1 BUDGETING : PROMOTIONAL MIX

***Public relations;*** Publicity is something that ’happens’ to a company and the result may be good or bad. Public relations (or PR) involve a sustained attempt to develop your reputation as a business by using the media to help create the image you desire. It is a way of keeping the business in your customer’s eyes.

If you feel confident dealing with the media yourself, then public relations can be a very cost effective method of promoting your business.

***Sales Promotion;*** This activity is best described as a specific, usually short term, promotion that is 'over and above' what you would normally provide to the customer **(e.g. buy one, get one free)**.

When used effectively, sales promotions can help to move old stock, counteract competitor activity, merchandise new products, encourage repeat buying and motivate your staff. They can also be monitored, so the success of a particular sales promotion can be measured over time.

Sales promotions are a good way of attracting new customers. However, on their own they are unlikely to build customer loyalty or change their longer term buying habits. The type of promotion selected also has to be relevant to your target customers as well as to your own marketing objectives.

***Direct Marketing;*** Direct marketing is an increasingly popular technique as it enables you to target specific customer groups very accurately. It is a flexible way to deliver your message and, because each letter can be personalised, the chances of a response are greatly improved. The overall success of a campaign can also be directly measured in terms of the number of responses received.

You can collect information on customers and use this to build up your own 'in-house' database. Although this can be time-consuming, the information gathered will be accurate and relevant to you, and can be relatively easily kept up to date.

***Personal selling;*** This is the most effective form of promotion because it allows your approach to be tailored to the needs of an individual customer. Getting a sale is ultimately extremely important, but the process involves a lot more than this. It is about having a constructive dialogue with customers to listen to their needs, promote product & company benefits on an individual basis, answer any questions, resolve any problems and get their feedback before clinching a sale.

Face-to-face, a sales person can build a relationship with the customer- understanding their needs and feeding back this knowledge to the business to improve products, customer service standards, competitor knowledge etc. Employing a sales person is a costly exercise in the first instance, but it is one that will provide a pay back, usually within 1-2 years.

One of the most difficult marketing decisions is determining how much to spend on promotion. John Wanamaker, the department store magnate, once said, "I know that half of my advertising is wasted, but I don't know which half."

Industries and companies vary considerably in how much they spend on promotion. Expenditures might be 30 to 50 percent of sales in the cosmetics industry and 5 to 10 percent in the industrial-equipment industry. Within the industry there are low and high spending companies.

How do companies decide on the promotion budget? We will describe in the following methods;

1. Percentage of sales method
2. Unit of sales method
3. Task and objective method
4. The competitive parity method
5. Brand history method
6. All you can afford method
7. The break- even method

**1. *PERCENTAGE OF SALES METHOD***

The percentage of sales method is the most widely used method of setting the appropriation. The percentage is based on the past years' sales or on estimated sales for the coming year or on some combination of these two. This is simplest method, as it requires little decision making. Many companies in India use this method to arrive at a tentative budget appropriation. But this method suffers from a basic drawback in that it does not take into account any specific need of the market situation. Moreover, when past sales are used to arrive at the current year's budget, the figure may have more historical value rather than current utility. Advertising leads to sales and the amount of advertising expenditure depends upon the sales target and therefore, when the percentage of future sales is used the estimates are more realistic.

In conclusion one can say that this method is not appropriate as market situations change rapidly and past sales alone are not an effective indicator of the company's communication needs.

**2. *UNIT OF SALES METHOD;***

The unit sales method also relates the advertising expenditure of sales. In this approach, a percentage of the price of each unit of the item sold is allocated to advertising. Thus, a soap manufacturer might budget that a cake of soap costing Rs.6/- will have Rs.1.50 as the advertising expenditure. Thus, if the manufacturer sells one lac units, his expenditure on that brand will be Rs1.5 lac.

This approach is useful as it links the price of a brand with its advertising expenditure. This approach is simple to plan and execute. However, it does not lead to efficient marketing since past sales determine how much a firm should spend on advertising, when in fact advertising is a tool to create sales and expand markets. This also assumes that the advertiser is satisfied with the current rate of growth in sales. This is rarely so, as every advertiser aims at improving the rate of growth.

3. ***TASK OBJECTIVE METHOD;***

This method is gaining more popularity because it provides a more logical basis for deciding advertising appropriation. The objective task method concentrates on the marketing objectives that are pre-decided and must solve these questions;

1. What is the role of advertising in obtaining these objectives?
2. How much should we spend to achieve these objectives?

There is one problem involved in the use of this method of setting the appropriation and that is: how does one determine just how much advertising and what type of advertising will achieve the stated objectives.

4. ***THE COMPETITIVE PARITY METHOD;***

This is the most controversial method and few executives admit that they use it while preparing the budget. In this approach an advertiser bases his budget decision primarily on the expenditures of competitors. That is why they try to keep pace with their competitor's advertising budgets. This method could be useful in deciding individual brand ad-expenditures. It has the advantage of recognizing the importance of competitors and ensures that the competitors do not increase their ad expenditure to a level that affects the advertiser's sales. But the approach has disadvantages. Firstly, your objective may be different from that of your competitors.

And secondly it assumes that your competitors are spending optimally. It also maintains the present market position rather than bringing any positive change for the company. If you want to overtake your competitors, you may have to spend more than them and spend this money more efficiently.

5. ***BRAND HISTORY METHOD;***

Under this method the brand's product life cycle is considered while setting the budget. Thus a brand at the introductory or pioneering stage will use more advertising appropriation than an established brand. Brands that are facing a decline may also use more advertising to add new life into it.

**For example, Close Up,** the toothpaste manufactures by Unilever had a stagnating market share. In 1990 it's spent Rs. 3.45 crore on television advertising with its new theme close up: "a mouth wash in tingling red and blue colors'". The result was that close up has over taken Promise and is now number two in the toothpaste market behind Colgate.

6. ***ALL YOU CAN AFFORD METHOD;***

This approach means that the advertising budget will be decided on the basis of whatever money is left after all other fixed and unavoidable expenses have been allocated. This method seems to be illogical and lack of objectivity, but conservative management use this method as it is safe and ensure that there is no overspending. New businesses have no other option but to follow this method.

**7. *THE BREAK- EVEN METHOD;***

The break- even or the marginal analysis method attempts to quantify the advertising spending level that will offer an organization the highest additional gross profits. That is the firm continues to spend on the advertising as long as the incremental expenditure are exceeded by the marginal revenue they generate, thus maximizing the gross profits of the firm.

This method has an advantage because it helps in diagnosing any problem, that is when the company is overspending or under spending. But it suffers from the disadvantage of limited research techniques that cannot isolate the effect of advertising on marginal revenues and gross profits. Other activities such as personal selling and sales promotions also influence the revenue earned by the company. Moreover, it assumes that there is an immediate effect of advertising budget. In most of the promotional tools there is a carryover effect that is a potential customer may be influenced by the ad in the month of June but may make a purchase in December.

## 17.3 INTEGRATED MARKETING COMMUNICATION

***"Integrated marketing communications is a way of looking at the whole marketing process from the viewpoint of the customer."***

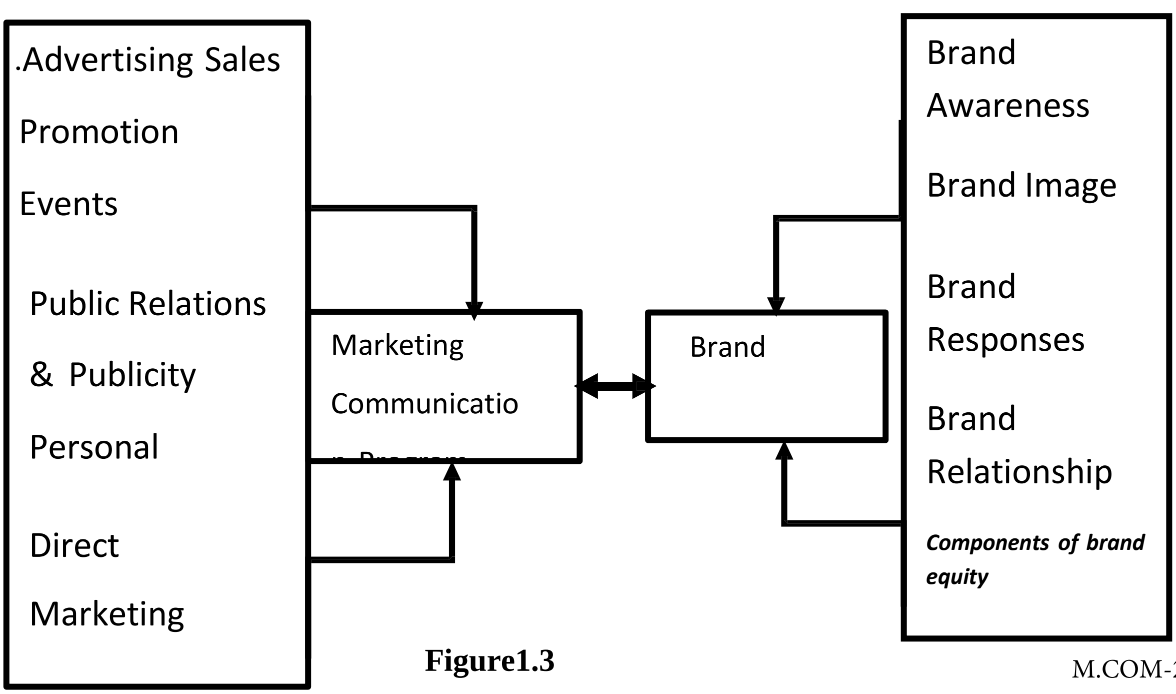



**Figure1.3**

The shift from mass marketing to targeted marketing, with its corresponding use of a richer mixture of communication channels and promotion tools, poses a problem for marketers. Consumers are being exposed to a greater variety of marketing communications from and about the company from an array of sources. However, customers don't distinguish between message sources the way marketers do. In the consumer's mind, advertising messages from different media—such as television, magazines, or online sources—blur into one. Messages delivered via different promotional approaches—such as advertising, personal selling, sales promotion, public relations, or direct marketing—all become part of a single message about the company. Conflicting messages from these different sources can result in confused company images and brand positions All too often, companies fail to integrate their various communications channels. The result is a hodgepodge of communications to consumers. Mass advertisements say one thing, a price promotion sends a different signal, a product label creates still another message, company sales literature says something altogether different, and the company's Web site seems out of sync with everything else.

The problem is that these communications often come from different company sources. The advertising department or advertising agency plans and implements advertising messages. Sales management develops personal selling communications. Other functional specialists are responsible for public relations, sales promotion, direct marketing, online sites, and other forms of marketing communications. Such functional separation has recently become a major problem for many companies and their Internet communications activities, which are often split off into separate organizational units.

Today, however, many companies are adopting the concept of integrated marketing communications (IMC). Under this concept the company carefully integrates and coordinates its many communications channels to deliver a clear, consistent, and compelling message about the organization. "IMC builds a strong brand identity in the marketplace by tying together and reinforcing all your images and messages. IMC means that all your corporate messages, positioning and images, and identity are coordinated across all [marketing communications] venues. It means that your PR materials say the same thing as your direct mail campaign, and your advertising has the same 'look and feel' as your Web site."

## 17.4 ADVERTISING

Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. *Advertising Goal* is a specific communication task & achievement level to be accomplished with a specific audience in a specific period of time.

The five M's of advertising;

- Mission

- Money
- Message
- Media
- Measurement

## 17.4.1 ADVERTISING IN INDIAN SCENARIO

Advertising carries several responsibilities. Advertising informs the public so that they can be aware of products and make informed choices among different products or brands. Advertising also benefits businesses in assisting them to sell their products. But while dispensing its role as a dream merchant, advertising has also been in the vortex of controversy of the many ills that it brings to society. It is accused of encouraging materialism and consumption, of stereotyping, of causing us to purchase items for which we have no need, of taking advantage of children, of manipulating our behaviour, using sex to sell, and generally contributing to the downfall of our social system. Advertising does not function in a vacuum but in a market environment where several forces like consumer needs, business interests and government regulations are at work. It is a powerful force in terms of its persuasiveness and functions a critical social role. Moreover, the high visibility and pervasiveness, it generates criticism and controversy. Much of this controversy springs from the fact that advertising is used more as a persuasive communication tool thereby creating serious impact on the tastes, values and lifestyles of society

Advertising through outdoor media or in other words presenting any brand or business message through an out of home channel has become one of the common practices amongst brand and business owners. A big leap has been seen in the outdoor advertising in India and its various avenues. Outdoor Advertising in Delhi, Mumbai, Bangalore, Ahmadabad etc. are growing at a fast pace. Delhi is one of the major hubs of advertising in India. Delhi Advertising avenues such as Billboard Advertising, Airport Advertising, Mall Advertising, and Metro Advertising- all these provide promotion solutions for various local, national and international brands. In the following paragraphs, let us have a brief look at the current scenario of outdoor advertising in India.

**More Brands are adopting OOH media;**

Of late, it has been observed that more brand owners have adopted outdoor advertising means to promote and position their brands in the market. OOH domain is growing fast at various avenues such as airports, metro stations, shopping malls, outdoors etc. The rising number of brands in the market, the increase in spending capacity of customers, the mushrooming market- are three main factors that have so far provided a boom in OOH sector in India.

**Rich means, affluent techniques of brand promotion;**

Another much observed feature about outdoor advertising practices in India is the implementation of rich tools and techniques to promote brands. Contemporary outdoor campaigns are also enriched by the introduction of digitalized media. Conventional OOH practices such as ordinary billboard advertising campaigns, wall paintings or poster ads are replaced by digitalized billboards and hoardings. Providing rich interactivity between customers and brands, modern OOH campaigns speak volume about the advertised brands all through rich and influential channels of brand communication.

**Seamless brand communication**

Today seamless brand communication is possible to OOH media. Advertisers can keep talking with target customers relentlessly through the various OOH channels. Be it at cinema theatres, shopping malls, eating outlets, entertainment houses and highways or simply at the community gate, outdoor advertising practices ensure that customers are continuously encouraged to try out their products by providing repeated and seamless brand messages.

Outdoor advertising industry is yet to undergo many remarkable changes in the near future. And it is also expected that its importance is going to rise further. For established as well as emerging brands, outdoor media is the right means of communicating their ad messages to customers. Evaluating the manifold utilities, every brand owner should adopt OOH techniques and tools of promoting their brands in the market. Be it a billboard ad or a kiosk ad, any OOH ad display influences the passing attention of those customers who are on the go.

Advertising is a growing business in India more so after the opening up of the economy. With more players, intense competition and expanding market in both urban and rural areas it is only natural that the marketers and manufacturers would like to reach the vast multitude of customers. The customer purchasing power, life style, and attitudes are all changing rapidly. Rising income and young and growing population would need to be tapped so that the manufacturers and retailers can retain if not increase their market share. Retailers try to attract the attention of target consumers to their goods and services by providing attractive promotional schemes. To attract consumers, retailers offer inducements such as credit facilities, after sales service, extended warranty, free home delivery, free samples, discounts, gift offers, etc.

Retailers adopt a mix of marketing and promotional strategies to withstand competition. Consumers however make informed purchase decisions by sifting through various advertisements and promotional offers. Indian consumers are maturing and therefore the retailers find it increasingly difficult to influence the purchase decisions of customers merely with promotional offers. Innovations in sales promotion techniques are required to acquire new customers and to retain existing customers, especially the youth, who have no qualms switching brands and or shops.

## 17.4.2 ADVERTISING MANAGEMENT

Advertising management is the process of overseeing campaigns that seek to inform and attract consumers regarding a particular good or service. This process begins with the first stages of the market research that helps to create the advertising strategy, moves on to the development of the general outline for the campaign, the creation of a specific plan of action and the launching of the completed project. Without effective advertising management, ad campaigns and public relations efforts tend to founder and produce little or no results.

Effective advertising always begins by engaging in competent advertising research. The research helps to identify the sectors of the consumer market that are most likely to positively respond to a given product. In order to identify these niche markets within the larger group of consumers, researchers will not only seek to understand what appeals to these buyers but why those goods and services have that inherent appeal. The data collected from the research can then be used to enhance the marketability of products, addressing everything from function to packaging.

## 17.4.3 DEVELOPING ADVERTISING

Advertising does not come cheaply, so it is important your group's hard earned funds are spent on the most effective campaign possible. To ensure this you have the best chance of success should take time to prepare and outline an advertising campaign. Working through a relatively short creative brief can help your group define your advertising aims and detail how your campaign will achieve them.

Developing an advertising campaign might sound daunting - particularly for a smaller group or not-for-profit - but it needn't be. Following steps are involved in creating an effective advertising campaign.

**Gathering your team**

Before your group starts preparing a creative brief, it needs to gather together a group of people to do the job. When gathering your team, think about including people who are most aware of your group's advertising/promotional needs, as well as those who have awareness of your group's budgetary situation, image or "brand" and history in past advertising efforts.

Doing the brief in-house and then developing an advertising campaign from it can save your group paying for an ad agency or advertising consultant.

- To publicise an upcoming event - Fundraiser, function or campaign
- To promote an appeal or fundraiser

- To promote your group in general.

**Compiling your brief**

Putting together a creative brief to guide your advertising campaign is a relatively easy process and is a vital step towards making that campaign a success. A brief is like a set of plans for a building project - if they aren't well thought out, or aren't followed, there's a high probability that the building will fall apart. Creativity is subjective, so if you're unclear about what you want from your campaign you risk having a muddled advertising effort that does nothing for your group.

The structure of a creative brief can vary slightly; following is a sample brief which could be used to clarify and provide a focus to an advertising campaign.

**What is the promotion or advertising about?**

**Why are you advertising it?**

- Linked to the first question, this looks at the action you want people to take - to donate to your appeal, attend a function, advocate on your behalf, join your group or support its causes.

**Who are you advertising to?**

- Who is your target audience - a certain age group, demographic, geographic area; existing members, non-members, etc.

**Background**

- Has this been advertised in the past, if so can you draw on that experience? For example, if your last annual appeal didn't draw in as much support as you wanted, a review may have decided to advertise it in a different way this year.

- Be aware of any relevant background to aid your group in moving forward.

**Forms of advertising**

- Knowing the purpose of your campaign and the target audience you are aiming at with your advertising, will shape the media you use.

- Depending on your target audience some of the options can be TV, newspapers, radio, direct mail, hand-outs, newsletters or a stall at an upcoming event.

- A combination of media can be used if a wide-ranging, integrated advertising campaign is called for and is within budget constraints.

**Information to include**

- The single theme or message you decided on as part of the first section of the brief can be expanded to include information and messages you want to integrate as part of your advertising campaign.

- Also decide on other details you need to include - contact details, RSVPs for functions, raffle tickets for fundraisers, etc.

**Information to avoid**

- Be aware of any information, statements or items to avoid in your campaign.

- Do not include information that is incorrect of may mislead those you are advertising to.

**How is your group going to "sell" its message through the campaign?**

- Warm and friendly?
- Funny?
- Formal?
- More authoritative?
- The tone of voice you choose will influence the delivery of your campaign.

**Budget**

1. Your group needs to know its financial limitations.
2. You need to determine a budget for your campaign and do your best to stick to it.
3. Your budget may well decide the type of advertising media your campaign uses.
4. Your budget needs to have "margins" built in, and should be subject to review if situations change.

**Timing / deadlines**

- Everyone involved in the campaign needs to be aware of deadlines or timing targets for the completion of each component of the campaign

When your group has completed its creative brief it needs to be signed off by your group's chair, president or head of advertising / marketing / promotions.

Then your brief needs to be **"actioned".** The group member responsible needs to either take on the task, or work with a team, to develop the campaign and get it up and running.

## 17.4.4 SELECTING AND SCHEDULING OF MEDIA

Advertising media selection is the process of choosing the most cost-effective media for advertising, to achieve the required coverage and number of exposures in a target audience.

This is typically measured on two dimensions: ***frequency and spread***.

**Frequency**

To maximize overall awareness, the advertising must reach the maximum number of the target audience. There is a limit for the last few percent of the general population who don't see the main media advertisers use. These are more expensive to reach. The 'cumulative' coverage cost typically follows an exponential curve. Reaching 90 percent can cost double what it costs to reach 70 percent, and reaching 95 percent can double the cost yet again. In practice, the coverage decision rests on a balance between desired coverage and cost. A large budget achieves high coverage—a smaller budget limits the ambitions of the advertiser.

The life of advertising campaigns can often extend beyond the relatively short life usually expected. Indeed, as indicated above, some research shows that advertisements require significant exposure to consumers before they even register. As **David Ogilvy** long ago recommended, "If you are lucky enough to write a good advertisement, repeat it until it stops selling. Scores of good advertisements have been discarded before they lost their potency."

**Spread**

More sophisticated media planners also look at the 'spread' of frequencies. Ideally all of the audience should receive the average number of OTS. Those who receive fewer are insufficiently motivated, and extra advertising is wasted on those who receive more. It is, of course, impossible to achieve this ideal. As with coverage, the pattern is weighted towards a smaller number—of heavy viewers, for example—who receive significantly more OTS, and away from the difficult last few percent. However, a good media buyer manages the resulting spread of frequencies to weigh it close to the average, with as few audience members as possible below the average.

**Selection of Medium**

In terms of overall advertising expenditures, media advertising is still dominated by Press and television, which are of comparable size (by value of 'sales'). Posters and radio follow some way behind, with cinema representing a very specialist medium. Some of the important mediums are discussed below:

**Print Out**

In the United Kingdom, spending is dominated by the national & regional newspapers, the latter taking almost all the classified advertising revenue. The magazines and trade or technical journal markets are about the same size as each other, but are less than half that of the newspaper sectors.

**Television**

This is normally the most expensive medium, and as such is generally only open to the major advertisers, although some regional contractors offer more affordable packages to their local advertisers. It offers by far the widest coverage, particularly at peak hours (roughly 7.00–10.30 p.m.) and especially of family audiences. Offering sight, sound, movement and color, it has the greatest impact, especially for those products or services where a 'demonstration' is essential; since it combines the virtues of both the 'story-teller' and the `demonstrator'. To be effective, these messages must be simple and able to overcome surrounding family life distractions especially the TV remote.

**Radio**

Radio advertising has increased greatly in recent years, with the granting of many more licenses. It typically reaches specific audiences at different times of the day—adults at breakfast, housewives during the day, and commuters during rush hours. It can be a cost-effective way of reaching these audiences—especially since production costs are much cheaper than for television, though the lack of visual elements may limit the message. In radio advertising it is important to identify the right timing to reach specific radio listeners. For instance, many people only listen to the radio when they are stuck in traffic, whereas other listeners may only listen in the evenings. The 24-hour availability of radio is helpful to reach a variety of customer sub-segments. In addition, it is a well-established medium to reach rural areas.

**Cinema**

Though national audience numbers are down, this may be the most effective medium for extending coverage to younger age groups, since the core audience is 15 to 35.

**Internet/Web Advertising**

This rapidly growing marketing force borrows much from the example of press advertising, but the most effective use—adopted by search engines—is interactive. Internet marketing is more the matter of choice. Each day passing, the internet users are increasing. First data available of internet users is from 1995 which totaled the number at approx 16 Million. Over the Period of 10 years it increased to 1018 Millions. As of March 2014, the number of internet users across the globe is 2,937 millions. The other perspective to look at these numbers is that 10 years ago, a brand or company could reach out to 1018 million people and today they have the opportunity to tap 2937 people through internet. World has truly become a

Global Village. Companies have allocated their budgets to the Internet marketing or making their brand visible on internet. The term is called **Search Engine Optimization** (SEO).

## 17.5 PUBLICITY

### Mobile Advertising

Personal mobile phones have become an attractive advertising media to network operators, but are relatively unproven and remain in media buyers' sidelines. Marketers have realized the significance of tapping the cell phone as advertising tool due to the rapid growth of cellular industry growth. Survey shows the number of cellular users in year 2014 is touching 4.5 Billion people.

### Advertising Scheduling

Scheduling refers to the pattern of advertising timing, represented as plots on a yearly flowchart. These plots indicate the pattern of scheduled times advertising must appear to coincide with favorable selling periods. The classic scheduling models are ***Continuity, Flighting and Pulsing.***

### Continuous

This model is primarily for non-seasonal products, yet sometimes for seasonal products. Advertising runs steadily with little variation over the campaign period.

There may be short gaps at regular intervals and also long gaps—for instance, one ad every week for 52 weeks, and then a pause. This pattern of advertising is prevalent in service and packaged goods that require continuous reinforcement on the audience for top of mind recollection at point of purchase.

### Flighting or Bursting

In media scheduling for seasonal product categories, flighting involves intermittent and irregular periods of advertising, alternating with shorter periods of no advertising at all. For instance, all of 2000 Target Rating Pioneered in a single month, "going dark" for the rest of the year. Halloween costumes are rarely purchased all year except during the months of September and October.

### Pulsing

Pulsing combines flighting and continuous scheduling by using a low advertising level all year round and heavy advertising during peak selling periods. Product categories that are sold year-round but experience a surge in sales at intermittent periods are good candidates for pulsing. For instance, under-arm deodorants, sell all year, but more in summer months.

## 17.4.5 ADVERTISING AGENCY

An advertising or ad agency is a service based business dedicated to creating, planning and handling advertising for its clients. An ad agency is generally independent from the client and provides an outside point of view to the effort of selling the client's products or services. An agency can handle overall marketing and branding strategies and sales promotion for its clients.

Typical ad agency clients include businesses and corporations, non-profit organizations and government agencies. Agencies may be hired to produce television commercials, radio commercials, Online Advertising, out of home advertising, Mobile Advertising and AR Advertising as part of an advertising campaign.

Publicity is the movement of information with the effect of increasing public awareness of a subject. The subjects of publicity include people (for example, politicians and performing artists), goods and services, organizations of all kinds, and works of art or entertainment.

Publicity is gaining public visibility or awareness for a product, service or your company via the media. It is the publicist that carries out publicity, while PR is the strategic management function that helps an organization communicate, establish and maintain communication with the public. This can be done internally, without the use of media.

From a marketing perspective, publicity is one component of promotion which is the component of marketing.

Examples of promotional tactics include:

- Art people
- event sponsorship
- Arrange a speech or talk
- Make an analysis or prediction
- Conduct a poll or survey
- Issue a report
- Take a stand on a controversial subject
- Arrange for a testimonial
- Announce an appointment
- Invent then present an award
- Stage a debate
- Organize a tour of your business or projects
- Issue a commendation

The advantages of publicity are low cost, and credibility (particularly if the publicity is aired in between news stories like on evening TV news casts). New technologies such as weblogs, web cameras, web affiliates, and convergence (phone-camera posting of pictures and videos to websites) are changing the cost-structure.

The disadvantages are lack of control over how your releases will be used, and frustration over the low percentage of releases that are taken up by the media.

## 17.6 SUMMARY

Marketing communication is a fundamental and complex part of a company's marketing efforts. Marketing communication can be described as all the messages and media you deploy to communicate with the market.

Advertising is a paid form of non-personal communication, often use for mass marketing and its impact is very difficult to measure.

## 17.7 Exercise

1. What is Marketing Communication Process and explain its various components?
2. What is “Promotional Mix”? Explain various levels of promotional mix.
3. Explain various methods of allocating advertising budget.
4. What is “Integrated Marketing Communication” and how it plays a vital role in marketing
5. Explain the role of advertising in Indian scenario.
6. What is advertising management and what practices managers are following today?
7. What are factors responsible for effective advertising?
8. Explain the importance of ‘Message’ in advertising.
9. Explain frequency and reach in the context of media.
10. Write your views on selecting and scheduling media.
11. Explain the role of advertising agency in ‘Ad-world’.
12. Differentiate Publicity and Advertising.

# UNIT 18 PERSONAL SELLING AND SALES PROMOTION

## 18.1 INTRODUCTION

When you want to buy something you usually go to a concerned shop and purchase it from there. But, sometimes you find people bring certain goods or products and make them available to you at your place. For example, you find person selling vegetables or rice by carrying the same in a cart and moving from door to door to sell. You must have noticed persons selling sarees, carpets, electronics items, etc. in a similar fashion. While travelling in buses or local trains you must also have seen people selling pens, toys, books, combs, etc. inside the bus or train. In cities also persons move from door to door to sell different products like water purifiers, air purifiers, detergents, etc. Don’t you think these are different methods of selling goods unlike keeping them in a shop and sell? In this lesson we will learn more about personal selling.

Personal selling refers to oral and face-to-face communication and presentation with the prospect for the purpose of making sales. There may be one prospect or a number of prospects in the personal conversation. Personal selling involves two-way communication. When it comes to convincing the prospect, closing a sale and transferring the title seller to buyer, personal selling becomes the strongest tool of promotion. During personal interview, the salesperson understands the needs and wants of prospect, highlights product benefits and convinces him to buy the product. Therefore, we can say that personal selling is highly distinctive and the only form of promotion involving face-to-face relationship between a salesperson and one or service with benefit to the user and profit to the company.

## 18.1.1 MEANING OF PERSONAL SELLING

Personal selling refers to the presentation of goods and services before the customers and convincing or persuading them to buy the products or services.

## 18.1.2 NATURE OF PERSONAL SELLING

a) It enhances customer's confidence in the seller.

b) It promotes long-term business relations through personal intimacy.

c) It provides a human touch to business transactions.

d) It helps to satisfy a customer by modifying the product as per the customer's choice and preference.

e) It is a powerful and effective tool in convincing the customer about the product.

f) It also helps to build long term relations between the business and the customer.

## 18.1.3 ESSENTIAL ELEMENT OF PERSONAL SELLING

Personal selling consists of the following elements

i. Face-to-Face interaction: Personal selling involves a salesman having face-to-face interaction with the perspective buyers.

ii. Persuasion: Personal selling requires persuasion on the part of the seller to the prospective customers to buy the product. So, a salesman must have the ability to convince the customers so that an interest may be created in the mind of the customers to use that product.

iii. Flexibility: The approach of personal selling is always flexible. Sometimes salesman may explain the features and benefits of the product, sometimes give demonstration of the use of product and also faces number of queries from the customers. Looking into the situation and interest of the customers, the approach of the salesman is decided instantly.

iv. Promotion of sales: The ultimate aim of personal selling is to promote sales by convincing more and more customers to use the product.

v. Mutual Benefits: It is a two-way process. Both seller and buyer derive benefit from it. While customers feel satisfied with the goods, the seller enjoys the profits.

## 18.1.4 ESSENTIALS OF EFFECTIVE SELLING

There are seven prerequisites of effective selling:

i. Knowledge of your company: Most products, especially costly and complicated products, are not judged on their own merits. They are judged by the name of the company that manufactures them. Hence salesman must be company oriented. A sa`1lesman is the company to most buyers: He is regarded as a representative of the whole company. Therefore, he should learn everything about his company.

ii. Knowledge of your Product: A salesman should know all about his product: (a) Materials from which it is made, (b) How it is used and how it is maintained, (c) products, (d) customer benefits and so on. Without adequate knowledge of the product, a salesman cannot convince the prospect and convert him into a customer.

iii. Knowledge of Competition: A salesman should constantly study the products offered by his competitors and determine their strength and weakness in comparison to his own product. Awareness of competition enables a salesman, if necessary to compare his product with that rival on those points in which the buyer seems most interested.

iv. Knowledge of Customers: A salesman must have adequate knowledge about both the customer's wants and desire, and the products offered by the firm to satisfy customers. The matching of supply with demand is impossible without knowledge of your customers representing the demand side of the match

v. Knowledge of Selling Process: Selling process runs closely parallel to the customer's buying process. To move the customer through the stages in the buying process the salesman undertakes the stages in the selling process, viz, Processing, preparation.

vi. Knowledge of Self: This is partly a personal quality and partly to be developed by constant self training. Every individual has certain strength and weaknesses. In order to become an effective sales person, one should seek knowledge in all relevant subjects and apply the same in day-to-day work. He has to improve skills in communication, public speaking and presentation.

## 18.1.5 ADVANTAGES AND DISADVANTAGES OF PERSONAL SELLING

Personal selling is the most important ingredient in the promotion mix. It is the single largest operating cost accounting for 20 percent of net sales in many enterprises. The following are the relative advantages of personal selling.

i. Convey more information: you can convey more information with personal selling than other forms of promotion, like advertising. A personal call lasts longer than with other forms.

ii. More Impact: Personal selling has a greater impact on buyers than advertising or direct mail. The customer does not have to wait to get his questions answered. He can learn what he needs to know right then and there.

iii. Interactive Nature: The interactive nature of personal selling also makes it the most effective promotional method for building relationships with customers, particularly in the business-to-business market. This is especially important for companies that either sell expensive products or sell lower cost but high volume products (i.e., buyer must purchase in large quantities) that rely heavily on customers making repeat purchases.

iv. More Practical: Personal selling is the most practical promotional option for reaching customers who are not easily reached through other methods. The best example is in selling to the business market where, compared to the consumer market, advertising, public relations and sales promotions are often not well received.

**Disadvantages of Personal Selling**

**i. Limited Reach :** One disadvantage is that your customer reach is limited through personal sales. As a result, it will require extended time period to create product awareness.

**ii. Expensive :** Personal selling is in addition costly, particularly when bearing in mind the sales representative's salary, bonus, commission as well as travel time. Furthermore, it requires plenty of money to prepare your sales representatives, educating them on a range of goods and sales techniques.

**iii. Skilled work force :** Personal selling required skills to perform this job. It requires good communication skills, presentation skills and many more

## 18.1.6 ROLE OF PERSONAL SELLING

Personal selling is a process in which an individual salesperson works one-on-one with a customer to try to match a product to her needs. This sales discipline is practiced by many companies in the retail industry and in business-to-business sales.

The role of personal selling are:

1. Prospecting: Trying to find new customers

2. Communicating: With existing and potential customers about the product range

3. Selling: Contact with the customer, answering questions and trying to close the sale
4. Servicing: Providing support and service to the customer in the period up to delivery and also post-sale
5. Information gathering: Obtaining information about the market to feedback into the marketing planning process
6. Allocating: In times of product shortage, the sales force may have the power to decide how available stocks are allocated

### 18.1.7 TYPES OF SELLING JOB

The purpose of every sales job, regardless of the industry or employer, is to close the deal by selling a product or service. The difference between selling jobs is in the sales pitch. Some positions don't engage in any selling activities other than accepting payment; other selling jobs require engaged and informative explanations or demonstrations. Generally, sales jobs fall into one of four categories –

- **i. Retail sales workers:** Most retail jobs pay workers hourly or on salary, but rarely compensate them with commission or bonuses based on their sales. Retail sales workers are employed in stores that sell products such as clothes, furniture, and makeup, books, lumber or automobile parts.
- **ii. Consulting positions:** Those who sell investment products or services, like securities, commodities and financial services, automobiles or phone systems, are often seen as consultants. These sellers are highly knowledgeable about what they sell. For example, real estate agents know every detail about properties and make the recommendations that best fit their clients' needs.
- **iii. Cold sales:** Some jobs require workers to market themselves almost as much as the product or service they're trying to sell, like independent representatives for makeup or cooking supplies. For example, telemarketers attempt to make all sales over the phone, which demands interpersonal and cold-calling sales abilities.
- **iv. Relationship agencies:** Several sales jobs require workers to establish and maintain long-term relationships with clients, such as suppliers and distributors. For example, travel agents plan accommodations for customers, fix travel problems and hope to convince customers to use their services again.

## 18.2 IMPORTANCE OF PERSONAL SELLING

Personal Selling is extremely important as it helps in increasing sales. But there are other features as well which make it important. Let us discuss the importance of personal selling from the point of view of manufactures as well as consumers.

**From manufacturer's point of view**

i. It creates demand for products both new as well as existing ones.

ii. It creates new customers and, thus helps in expanding the market for the product.

iii. It leads to product improvement. While selling personally the seller gets acquainted with the Choice and demands of customers and makes suggestions accordingly to the manufacturer.

**From customer's point of view**

Personal selling provides an opportunity to the consumers to know about new products Introduced in the market. Thus, it informs and educates the consumers about new products. It is because of personal selling that customers come to know about the use of new products

## 18.3 QUALITIES OF SALESPERSON ENGAGED IN PERSONAL SELLING

It is very difficult to enlist the qualities of people engaged in personal selling. The quality will vary from time to time and from situation to situation. It also depends upon the customers' demand and nature of the product. Again a salesman may be effective in one situation but may fail in another situation. So in real life certain qualities may be suitable for a particular line of product and may be irrelevant in any other case. However, there are certain common qualities, which every salesman should possess in order to become successful in their life. These qualities are listed below.

- Physical Quality
- Mental Quality
- Integrity of character
- Knowledge of the product and the company
- Good behaviour
- Ability to persuade

Now let us discuss the above qualities in detail.

**i.** **Physical quality** : A salesman should have a good appearance and an impressive personality. He should also have a sound health.

**ii.** **Mental quality :** A good salesman should posses certain mental qualities like imagination, initiative, self-confidence, sharp memory, alertness etc. He should be able to understand the needs and preferences of customers.

iii. **Integrity of character :** A good salesman should posses the qualities of honesty and integrity. He is to gain the confidence of the customers. He should be able to understand their needs and guide them how to satisfy those needs. His employer too should have faith in him. A salesman should be loyal both to the employer and to the customers.

iv. **Knowledge of the product and the company**: A salesman should have full knowledge of the product and the company he is representing. He should be able to explain each and every aspect of the product i.e. its qualities, how to use it, what precautions to be taken, etc. He should be able to explain the business and service record of the company. He should also have knowledge of products of rival companies. So that he can put across the superiority of his own products.

v. **Good behavior:** A salesman should be co-operative and courteous. Good behavior enables one to win the confidence of the customers. He should not feel irritated if the buyer puts up many questions even if the questions are irrelevant. It is also not necessary that the person he is trying to convince buys the product. The salesman has to remain and courteous in every case.

vi. **Ability to persuade:** A good salesman should be good in conversation so that he can engage the person he is attending in conversation. He should be able to convince him to product purchase particular.

## 18.4 THE SELLING PROCESS

Personal selling is a form of selling that many companies rely on heavily to promote and move their products. The personal selling process involves seven steps that a salesperson must go through with most sales. Understanding these seven steps can help improve your individual sales or the sales of your company.

i. **Prospecting** : The first step in the process involves prospecting. With this step in the process, sales representatives look for new customers that they can potentially sell their products to. This can be done by cold calling or by going out into the market and talking to people. This part of the process is a numbers game, and the sales representative has to contact many people.

ii. **Pre-Approach :** The pre-approach is the second step in the personal selling process. At this time, the sales representative prepares for the first contact with the potential customer. During this stage, the sales representative looks at any information that he may have about the customer. He may practice his sales presentation and do anything necessary to prepare for it.

**iii. Approach :** The approach is the next step in the process and it is also one of the most important. During this step, the sales representative takes a minute or two to try to get to know the prospect. This phase usually involves some small talk to warm up the prospect and help them open up.

**iv. Presentation :** During this stage of the process, the sales representative makes a presentation. This can involve demonstrating the product or service and showing the customer why they need it. The sales rep should focus on the features and benefits of the product or service during this part of the process.

**v. Overcome Objections :** In some cases, the sales representative will have to overcome objections by the customer. Many customers have questions and concerns at this point of the sales process. If the sales representative can answer the questions and overcome any objections successfully, the barriers for a successful sale will be removed.

**vi. Closing :** After the objections have been removed, the only thing left to do is close the sale. This can involve writing up an invoice and providing any final information to the customer. At this stage of the process, you may need to negotiate the final sales price and any payment terms.

**vii. Follow Up :** The follow up is the last stage in the personal sales process. After the product or service has been delivered, the sales representative follows up with the customer to find out if they are pleased. If there were any issues with the product, the sales rep can work with the customer to get them resolved. If the customer is happy, the sales rep can also try to obtain additional referrals from the customer.

## 18.5 INTRODUCTION- SALES PROMOTION

Promotion is a form of communication with an additional element of persuasion to accept the ideas, product, and services and hence persuasion communication becomes the heart of promotion, the third element of marketing- mix. In essence, promotion is the spark plug of our marketing-mix and an important marketing strategy.

In marketing, effective communication is absolutely necessary even though you have a superb product; best packaging and also you offer a fair price. People will not buy your product, if they have never heard of it and they are simply unaware of its existence.

The promotion- mix includes four ingredient i.e advertising, personal selling, publicity and sales promotion. All forms of promotion influence consumer’s attitude, belief, lifestyle and preference towards a company and its products, and therefore, influence his behavior.

## 18.5.1 MEANING OF SALES PROMOTION

Sales promotion is one level or type of marketing aimed either at the consumer or at the distribution channel (in the form of sales-incentives). It is used to introduce new product, clear out inventories, attract traffic, and to lift sales temporarily. It is more closely associated with the marketing of products than of services.

In Short, sales Promotion is a bridge or a connecting link between advertising and personal salesmanship, the two wings of promotion.

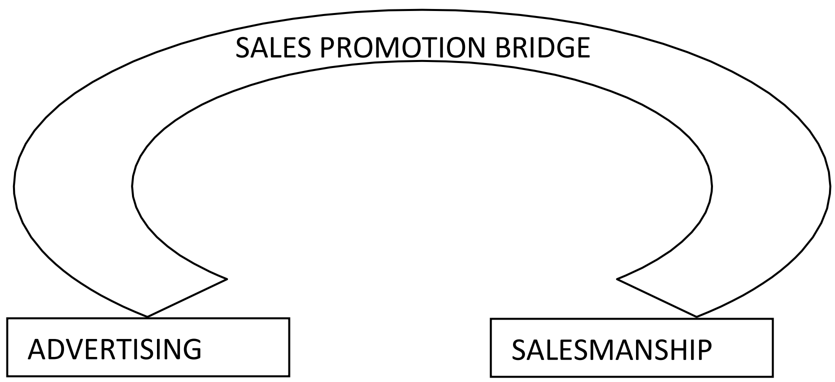



**Figure 18.5.1**

The manufacturer or wholesaler may have good product, reasonable price, attractive package, etc. He may have a good sales force. He has to attract prospective buyers and urge them to buy his product. Hence, sales promotion aims at stimulating the purchasing at the point of sale and dealers effectiveness at the retail channel of distribution.

## 18.5.2 OBJECTIVES OF SALES PROMOTION

Some of the important objectives are mentioned below:

1. Increase sales volume
2. Speed up the sales of slow-moving product
3. To check the fluctuations in sales
4. Attract consumers towards new product and increase trial.
5. Encourage repeat purchase
6. Clearance of excessive inventories
7. Motivate dealers
8. Encourage dealers to participate in display and sale contests

9. To gain advantage shelf-space
10. To increase store traffic
11. Improve relationship with dealers
12. To block competitors moves
13. Motivate sales force advertising
14. To supplement advertising and personal selling efforts
15. Deflect customers' attention from price.

## 18.5.3 MAJOR DECISIONS IN SALES PROMOTION

In sales promotion, a company must establish the objectives, select the tools, develop the program me, pre-test the program me, implement and control it, and evaluate the results.

These steps are explained below:

1. **Establishing the Sales-**Promotion Objectives: Sales promotion objectives are derived from broader promotion objectives which, in turn, come from marketing objectives, The type of objectives will vary with the target market. For consumers, the objectives may be to encourage purchases, building trial, etc. For retailers, objectives include inducing retailers to take up new items, encouraging higher stock levels, etc. The company can use sales promotion to achieve many objectives.

2. **Selecting the sales-** promotion Tools: There are three kinds of sales promotion tools. They are:

   a) Consumer Promotion: Activities intended to educate or inform the consumers and those intended to stimulate the consumers.

   b) Dealer Promotion: Activities to increase the interest and enthusiasm of dealers and distributors.

   c) Business Promotion: Through exhibition, trade fairs and conventions.

3. **Developing the Sales-Promotion Programme:** The marketer must take further decisions to define the full promotion programme. The marketer has to determine the size of the incentives, or conditions for participation, duration of promotion, the distribution vehicle, timing of promotion, total sales-promotion budget and incentives cost in order to arrive at a full programme.

4. **Pre-testing the sales- promotion programme**: The programme thus selected must be pre tested in order to check the effectiveness of the programme.

5. **Implementing and controlling the Sales-Promotion Programme**: This involves planning, designing and modifying programme, etc. Each programme should have its individual implementation and control.

6. **Evaluating The Sales-Promotion Result**: The final step is to evaluate the result of sales-promotion programme in order to determine the effectiveness of the programme. The manufactures can use three methods to measure the effectiveness of sales-promotion.

    a) to examine the sales data, before, during and after a promotion.

    b) to examine the consumer panel data which would reveal the kinds of people who responded to the promotion, and

    c) to conduct experiments about incentive value, duration and distribution media

## 18.5.4 CONSUMER SALES PROMOTION

Consumer sales promotions are steered toward the ultimate product users—typically individual shoppers in the local market—but the same techniques can be used to promote products sold by one business to another, such as computer systems, cleaning supplies, and machinery. In contrast, trade sales promotions target resellers—wholesalers and retailers—who carry the marketer's product. Following are some of the key techniques used in consumer-oriented sales promotions.

- **Price deal:** A temporary reduction in the price, such as 50% off.
- **Loyal Reward Program:** Consumers collect points, miles, or credits for purchases and redeem them for rewards.
- **Price-pack/Bonus packs deal**: The packaging offers a consumer a certain percentage more of the product for the same price (for example, 25 percent extra). This is another type of deal “in which customers are offered more of the product for the same price”. For example, a sales company may offer their consumers a bonus pack in which they can receive two products for the price of one. In these scenarios, this bonus pack is framed as a gain because buyers believe that they are obtaining a free product. The purchase of a bonus pack, however, is not always beneficial for the consumer. Sometimes consumers will end up spending money on an item they would not normally buy had it not been in a bonus pack. As a

result, items bought in a bonus pack are often wasted and is viewed as a "loss" for the consumer.

- **Coupons**: coupons have become a standard mechanism for sales promotions. Coupons are legal certificates offered by manufacturers and retailers. They grant specified savings on selected products when presented for redemption at the point of purchase
- **Free-standing insert (FSI):** A coupon booklet is inserted into the local newspaper for delivery.
- **Checkout dispensers**: On checkout the customer is given a coupon based on products purchased.
- **Mobile couponing**: Coupons are available on a mobile phone. Consumers show the offer on a mobile phone to a salesperson for redemption.
- **Online interactive promotion game:** Consumers play an interactive game associated with the promoted product.

## 18.5.5 DEALER PROMOTION

Sales promotion activities are conducted to stimulate consumer-purchasing and dealer effectiveness.

1. There is a provision of free display material either at the point of purchase or point of sale, depending on one's viewpoint. Display reaches consumers when they are buying and actually spending their money.
2. Retail demonstrators are supplied by manufacturers for preparing and distributing the product as retail sample. e.g Nescafe instant coffee to consumers for trying the sample on the spot or demonstration regarding the method of using the product.
3. Sellers give buying allowance of a certain amount of money for a product bought.
4. Trade deals are offered to encourage retailers to give additional selling support to the product, e.g toothpaste sold with 30 per cent to 40 percent margin.
5. Sales contests for salesmen are held.
6. Advertising and display allowance may be given.
7. Seller gives free goods, e.g, one free with 11, or 2 free with 10 are common free deals.

Dealer sales promotion provides the selling devices. Sales-promotion devices at the point of purchase inform, remind and stimulate buyers to purchase products. People who see these devices are in a buying mood and thus they can be easily persuaded to buy those products.

## 18.5.6 TRADE PROMOTION

A trade sales promotion is targeted at resellers—wholesalers and retailers—who distribute manufacturers' products to the ultimate consumers. The objectives of sales promotions aimed at the trade are different from those directed at consumers. In general, trade sales promotions hope to accomplish four goals:

1) Develop in-store merchandising support, as strong support at the retail store level is the key to closing the loop between the customer and the sale.
2) Control inventory by increasing or depleting inventory levels, thus helping to eliminate seasonal peaks and valleys.
3) Expand or improve distribution by opening up new sales areas (trade promotions are also sometimes used to distribute a new size of the product).
4) Generate excitement about the product among those responsible for selling it.

Some of the more common forms of trade promotions—profiled below—include point-of-purchase displays, trade shows, sales meetings, sales contests, push money, deal loaders, and promotional allowances.

**Point-of-Purchase (POP) Displays**

Manufacturers provide point-of-purchase (POP) display units free to retailers in order to promote a particular brand or group of products. The forms of POP displays include special racks, display cartons, banners, signs, price cards, and mechanical product dispensers. Probably the most effective way to ensure that a reseller will use a POP display is to design it so that it will generate sales for the retailer. High product visibility is the basic goal of POP displays. In industries such as the grocery field where a shopper spends about three-tenths of a second viewing a product, anything increasing product visibility is valuable. POP displays also provide or remind consumers about important decision information, such as the product's name, appearance, and sizes. The theme of the POP display should coordinate with the theme used in ads and by salespeople.

**Trade Shows**

Thousands of manufacturers display their wares and take orders at trade shows. In fact, companies spend over $9 billion yearly on these shows. Trade shows provide a major opportunity to write orders for products. They also provide a chance to demonstrate products, disseminate information, answer questions, and be compared directly to competitors. Related to trade shows, but on a smaller scale, are sales meetings sponsored by manufacturers or wholesalers. Whereas trade shows are open to all potential customers, sales meetings are targeted toward the company's sales force and/or independent sales agents. These meetings are usually conducted regionally and directed by sales managers. The meetings may be used to motivate sales agents, to explain the product or the promotional campaign, or simply to answer questions. For resellers and salespeople, sales contests can also be an effective motivation. Typically, a prize is awarded to the organization or person who exceeds a quota by the largest percentage.

**Push Money**

Similarly, push money (PM)—also known as spiffs—is an extra payment given to salespeople for meeting a specified sales goal. For example, a manufacturer of refrigerators might pay a $30 bonus for each unit of model A, and a $20 bonus for each unit of model B, sold between March 1 and September 1. At the end of that period, the salesperson would send evidence of these sales to the manufacturer and receive a check in return. Although some people see push money as akin to bribery, many manufacturers offer it.

**Deal Loaders**

A deal loader is a premium given by a manufacturer to a retailer for ordering a certain quantity of product. Two types of deal loaders are most typical. The first is a buying loader, which is a gift given for making a specified order size. The second is a display loader, which means the display is given to the retailer after the campaign. For instance, General Electric may have a display containing appliances as part of a special program. When the program is over, the retailer receives all the appliances on the display if a specified order size was achieved.

**Trade Deals**

Trade deals are special price concessions superseding, for a limited time, the normal purchasing discounts given to the trade. Trade deals include a group of tactics having a common theme—to encourage sellers to specially promote a product. The marketer might receive special displays, larger-than-usual orders, superior in-store locations, or greater advertising effort. In exchange, the retailer might receive special allowances, discounts, goods, or money. In many industries, trade deals are the primary expectation for retail support, and the marketing funds spent in this area are considerable. There are two main types of trade deals: buying allowances and advertising/display allowances.

**Buying Allowances**

A buying allowance is a bonus paid by a manufacturer to a reseller when a certain amount of product is purchased during a specific time period. For example, a reseller who purchases at least 15 cases of product might receive a buying allowance of $6.00 off per case, while a purchase of at least 20 cases would result in $7.00 off per case, and so forth. The payment may take the form of a check or a reduction in the face value of an invoice. In order to take advantage of a buying allowance, some retailers engage in "forward buying." In essence, they order more merchandise than is needed during the deal period, then store the extra merchandise to sell later at regular prices. This assumes that the savings gained through the buying allowance is greater than the cost of warehousing and transporting the extra merchandise. Some marketers try to discourage forward buying, since it reduces profit margins and tends to create cyclical peaks and troughs in demand for the product.

The slotting allowance is a controversial form of buying allowance. Slotting allowances are fees retailers charge manufacturers for each space or slot on the shelf or in the warehouse that new products will occupy. The controversy stems from the fact that in many instances this allowance amounts to little more than paying a bribe to the retailer to convince him or her to carry your company's products. But many marketers are willing to pay extra to bring their products to the attention of consumers who are pressed for time in the store. Slotting allowances sometimes buy marketers prime spaces on retail shelves, at eye level or near the end of aisles.

The final type of buying allowance is a free goods allowance. In this case, the manufacturer offers a certain amount of product to wholesalers or retailers at no cost if they purchase a stated amount of the same or a different product. The allowance takes the form of free merchandise rather than money.

**Advertising Allowances**

An advertising allowance is a dividend paid by a marketer to a reseller for advertising its product. The money can only be used to purchase advertising—for example, to print flyers or run ads in a local newspaper. But some resellers take advantage of the system, so many manufacturers require verification. A display allowance is the final form of trade promotional allowance. Some manufacturers pay retailers extra to highlight their display from the many available every week. The payment can take the form of cash or goods. Retailers must furnish written certification of compliance with the terms of the contract before they are paid. Retailers are most likely to select displays that yield high volume and are easy to assemble.

## 18.6 PROMOTIONAL STRATEGY

Product promotion is one of the necessities for getting your brand in front of the public and attracting new customers. There are numerous ways to promote a product or service. Some companies use more than one method, while others may use different methods for different marketing purposes. Regardless of your company's product or service, a strong set of promotional strategies can help position your company in a favorable light with not only current customers but new ones as well.

**Contests**

Contests are a frequently used promotional strategy. Many contests don't even require a purchase. The idea is to promote your brand and put your logo and name in front of the public rather than make money through a hard-sell campaign. People like to win prizes. Sponsoring contests can bring attention to your product without company overtness.

**Social Media**

Social media websites such as Facebook and Google+ offer companies a way to promote products and services in a more relaxed environment. This is direct marketing at its best. Social networks connect with a world of potential customers that can view your company from a different perspective. Rather than seeing your company as "trying to sell" something, the social network can see a company that is in touch with people on a more personal level. This can help lessen the divide between the company and the buyer, which in turn presents a more appealing and familiar image of the company.

**Mail Order Marketing**

Customers who come into your business are not to be overlooked. These customers have already decided to purchase your product. What can be helpful is getting personal information from these customers. Offer a free product or service in exchange for the information.

**Product Giveaways**

Product giveaways and allowing potential customers to sample a product are methods used often by companies to introduce new food and household products. Many of these companies sponsor in-store promotions, giving away product samples to entice the buying public into trying new products.

**Point-of-Sale Promotion and End-Cap Marketing**

Point-of-sale and end-cap marketing are ways of selling product and promoting items in stores. The idea behind this promotional strategy is convenience and impulse. The end cap, which sits at the end of aisles in grocery stores, features products a store wants to promote or move quickly. This product is positioned so it is easily accessible to the customer. Point-of-sale is a way to promote new products or products a store needs to move. These items are placed near the checkout in the store and are often purchased by consumers on impulse as they wait to be checked out.

**Customer Referral Incentive Program**

The customer referral incentive program is a way to encourage current customers to refer new customers to your store. Free products, big discounts and cash rewards are some of the incentives you can use. This is a promotional strategy that leverages your customer base as a sales force.

### Causes and Charity

Promoting your products while supporting a cause can be an effective promotional strategy. Giving customers a sense of being a part of something larger simply by using products they might use anyway creates a win/win situation. You get the customers and the socially conscious image; customers get a product they can use and the sense of helping a cause. One way to do this is to give a percentage of product profit to the cause your company has committed to helping.

### Branded Promotional Gifts

Giving away functional branded gifts can be a more effective promotional move than handing out simple business cards. Put your business card on a magnet, ink pen or key chain. These are gifts you can give your customers that they may use, which keep your business in plain sight rather than in the trash or in a drawer with other business cards the customer may not look at.

### Customer Appreciation Events

An in-store customer appreciation event with free refreshments and door prizes will draw customers into the store. Emphasis on the appreciation part of the event, with no purchase of anything necessary, is an effective way to draw not only current customers but also potential customers through the door. Pizza, hot dogs and soda are inexpensive food items that can be used to make the event more attractive. Setting up convenient product displays before the launch of the event will ensure the products you want to promote are highly visible when the customers arrive.

### After-Sale Customer Surveys

Contacting customers by telephone or through the mail after a sale is a promotional strategy that puts the importance of customer satisfaction first while leaving the door open for a promotional opportunity. Skilled salespeople make survey calls to customers to gather information that can later be used for marketing by asking questions relating to the way the customers feel about the products and services purchased. This serves the dual purpose of promoting your company as one that cares what the customer thinks and one that is always striving to provide the best service.

## 18.7 INTRODUCTION TO SALES MANAGEMENT

Every organization has people who are entrusted with the responsibility of dealing with prospects and customers for selling their product or services. These people form the sales force in an organization and are known as salesmen. In many organizations, the salesmen come under the category of officers and are referred to as sales executives, technical executives or even marketing executives. Regardless of the designation used, the major objective of the salesperson is to increase the sales, market share and profit of the sales territory.

## 18.7.1 MEANING OF SALES MANAGEMENT

Sales management is consist of two words i.e., ‘sales’ and ‘Management’. Selling is the process of persuading a prospective customer to buy a commodity or a service or to act favorably u[on an idea that has commercial significance to the seller. Management is the process of carrying out the essential functions of planning, organizing, staffing, directing and controlling.

The term sales management has a broader meaning and it include the following:

1. Managing the sales force: includes recruitment, selection, training, motivation, remuneration and controlling the sales force.

2. Organizing the sales effort: Deals with creating appropriate organisational structure and effective coordination within the sales department and other departments such as HR, Distribution,

Production management in the company. It also include the management of external customers like dealer, distributors, direct consumers and opinion leaders.

Therefore we can say that sales management generally refers to the management of sales force. It deals with planning organizing, directing and controlling the personal selling.

It can also be a business discipline which is focused on the practical application of sales techniques and the management of a firm's sales operations. It is an important business function as net sales through the sale of products and services and resulting profit drive most commercial business. These are also typically the goals and performance indicators of sales management.

## 18.7.2 ROLE OF SALES MANAGEMENT IN MARKETING

Marketing stresses the importance of satisfying customer needs and wants through a process of exchange. Marketing occurs virtually every aspect of life.

Sales Management is a vital sub-system of marketing management. It will continue as an indispensable part of marketing management as long as sales people are required to interact with the customers, influence them and win them. In reality marketing plans, strategies, policies are implemented through sales management. Hence sales management acts as the dynamic force behind marketing management.

In a modern organization sales management centers round the management of Sales force and sales efforts. Modern sales manager is not only profit-oriented but also customer-oriented.

Sales management plays an important role in marketing, especially for firms in business-to-business markets. The relationship between sales and marketing strategies is shown below:

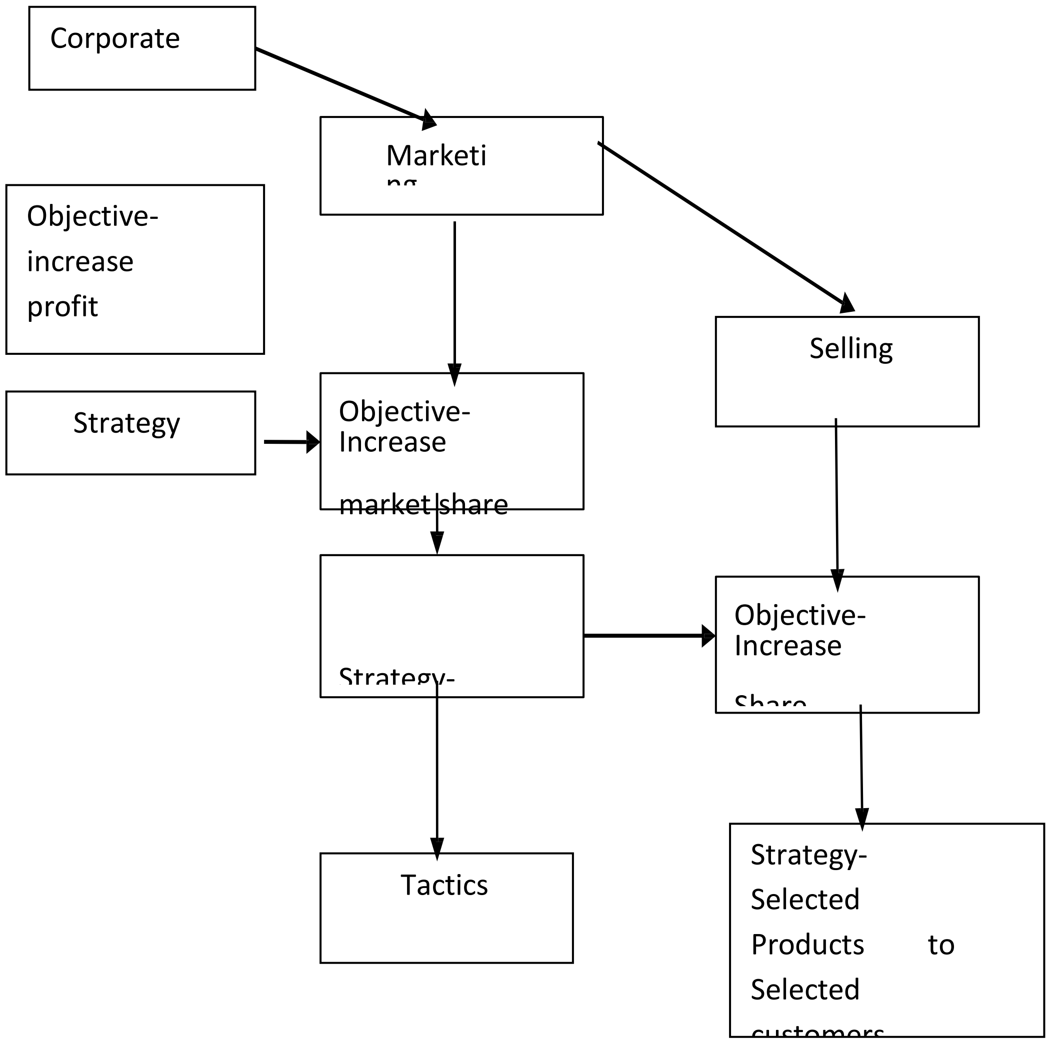



**Figure 18.7.2**

## 18.7.3 OBJECTIVES OF SALES MANAGEMENT

Normally the top management finalizes the qualitative objectives for the organization. Example: Long term growth, industry leadership, new product introduction, excellent customer service, positive image among customers and public, outstanding technical research. These objectives are translated into specific quantifiable objectives and passed on the sales department for execution.

Major objectives of Sales Management are given below.

1. Achievement of Sales Volumes/Values.
2. Contribution to profits
3. Growth in Sales
4. Growth in Market Share

The sales manager is responsible for effective execution of sales plan through the sales executives.

## 18.8 SALES ORGANISATION

Once the sales plan has been formulated, the next logical step is to organize a sales force to achieve the enterprise objectives. Decision must be made as to the type of sales tasks required to be performed and as to how the sales people should be grouped together to ensure effectiveness and efficiency. The scope of their sales responsibility, line authority and accountability must be defined so that the sales activities can be well coordinated.

### 18.8.1 NEED FOR SALES ORGANISATION

Sales organisation which bridges the gap between the market and the productive capacity of the firm. As the market changes, the sales function accommodates through adjusting its organisation and manner of operation. Shifts in size bf market operation, market trends, competitive position and other environmental factors may necessitate changes in existing sales organisations. An effective sales organisation usually provides for growth and adaptability to such changes.

You can compare the role of an organisation to that of the skeleton in the human body- provides a framework within which normal functions can take place. However while the skeletal system is uniform for all human, sales organisations vary widely over firms. This is because every enterprise has its own objectives and resources, and corporate plans to achieve those objectives. The structure of the sales organisation reflects this diversity. A part from providing a basic structure to facilitate working, sales organisation has the following basic purposes.

### 18.8.2 BASIC TYPES OF ORGANISATIONAL STRUCTURE

**a) Line Sales Organisation**

The line sales organisation is the most basic forms of sales organisation, characterised by a chain of command running from the top sales executive down to the level of the salesman. All executives have line authority over their subordinates who in turn are accountable only to their immediate superior. Since lines of authority run vertically in this structure, executives at each level are generally independent of all others al the same level. Through assignment of quotas or sales targets, responsibilities are usually, clearly delineated.

Figure 1 gives the sales organisation of liquor division of Jagatjit Industries Ltd., designed as a line sales organisation.


**Figure 18.8.2**

The liquor division is headed by the vice president marketing, who has two marketing managers looking after the southwest region and northeast region, reporting to him. The Marketing Manager has a line authority over a number of regional and Area managers who in turn control a field staff of sales executive, field sales officer and sales representatives, each level connected to the subordinate level by scalar lines of command.

Line organization is extensively used in similar firms are those dealing in a narrow product line, or selling in a limited geographic area.

Line organization also becomes in appropriate in case of rapidly growing organizations are those with large sales staffs, as growing departments necessitate additional layers of executives to be added. Increase in vertical levels is often accompanied by distortion directions and reduced efficiency of communication, resulting in poorer results.

**b) Line and Staff Sales Organisation**

Line and staff organizations usually result as the size of the operations grows. It is characteristically found in medium and large firms which sizeable sales staff selling diversified product lines. The line and staff department is differentiated by the presence to staff specialists of staff assistants to advise and assist the top sales executive. These specialists are experts in their own fields which could be sales training, service, sales analysis and planning, dealer relations, sales promotion, sales personnel development and so on. While staff executives and assistants do not have the line authority to command, they advise the line executives through recommendations and provide the benefit of specialization in the organization. The inclusion of the staff component frees the line executive from the burden of detail. By delegating problem involving in depth study or detailed analysis to staff specialists, the line executive gets more time for policy making and planning. A pool of experts becomes available for providing advice and assistance in specialized fields. The activity of planning can also be subdivided and assigned to staff specialists. More information is also made available for better decision-making. Figure 2 gives the sales organization of Prentice Hall of India Ltd. Which has both line and staff components?

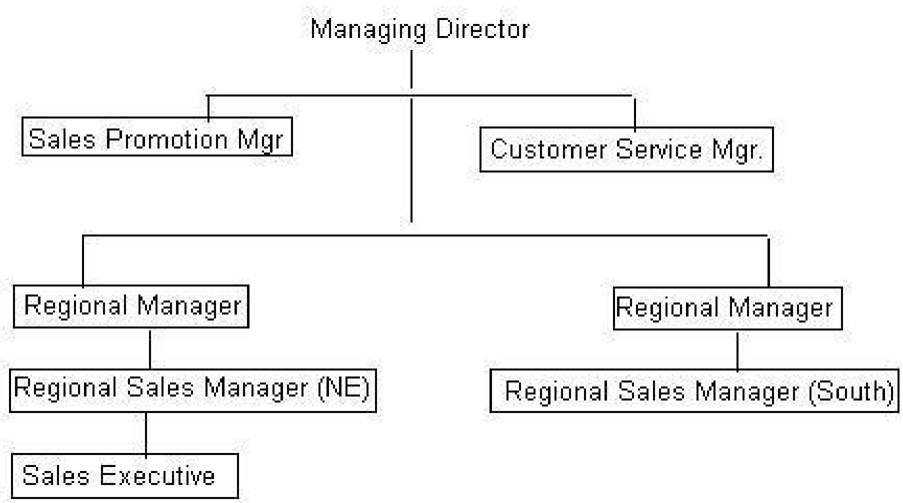



**Fig 3: Line and Staff sales Organisation**

The problem that arises with line and staff organization is basically one of the coordination. The work of the staff specialists needs to be actively coordinated with the operations of the line department and generally a lag develops, as reports and recommendations take time to compile.

Line and Staff organisation also sometimes generates problems of interpersonal relations. The staff executives tend to overstep their advisory authority and try to assume and sometimes succeed in assuming the authority to issue orders and directions. This presents difficulties of dual subordination and may create confusion. The fact that staff specialists do not share direct responsibility for results is also resented by some line executives. Experience has shown that to a large extent these problems can be minimised if all areas in which line and staff executives have to share authority and responsibility are specifically written down as components of the job description.

**c) Functional Sales Organisation**

The functional sales organization is aimed at utilizing the benefits of specialization to its fullest extent. In the functional sales organization, all sales personnel receive direction from, and are accountable to different executives, on different aspects of their work. Somewhat in contravention to the principle of unity of command, the functional organizational structure gives all executives, each a specialist in his own field, a direct authority to command and issue orders to his functional authority therefore, simply means that at any given time, a sales person could be under instruction from a number of executives, depending upon the functional specializations setup. The top sales executives has coordinating responsibilities in respect of the actions of functional heads in functional organizations have not been found to be a very appropriate structure for sales organization. Here each sales person is under direction of several executives. In larger firms where the size of the sales force is substantial, the degree of centralization necessitated by the functional organizational structure, renders the operation inefficient. Smaller the medium sized firms on the other hand find the system expensive because of the high degree of specialization. Another weakness of the structure is that burden of coordinating the activities of highly diverse specialists is placed on a single individual. In case that individual is not capable enough in this regard, the whole structure is likely to become cumbersome and ineffective.

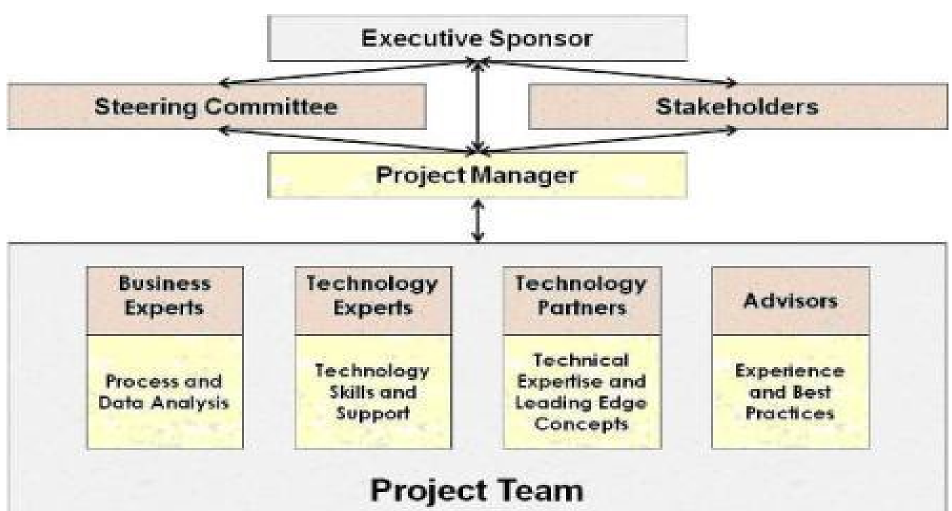



**Figure 3.2.2**

### 18.8.3 BASIC FUNCTIONS OF SALES ORGANISATION

The basic functions of sales organisation has been categorized into four categories:

1. **Administrative Functions:**
   a) Sales policies
   b) Sales Planning
   c) Sales Programme
   d) Evaluation of performance
   e) Controlling Cost
   f) Direct and motivation
   g) Dealer Relations
   h) Co-ordination and Communication

2. **Operating Functions**
   a) Recruitment
   b) Selection
   c) Training
   d) Routing
   e) Controlling
   f) Equipment and Leading
   g) Supervising
   h) Evaluating Sales Quotas

3. **Staff Functions Specialists Acting as Guides and Advisers**
   a) Marketing Research
   b) Advertising
   c) Sales Promotion
   d) Sales Analysis
   e) Dealer Relations
   f) Sales Personnel
   g) Transportation and Warehousing Problems
   h) Sales Planning Programming
   i) Counselling to Sales people

## 18.9 MANAGEMENT OF SALES FORCE

Sales force management is defined as “the planning, direction and control of the personal selling activities of a business unit, including recruiting, selecting, training, equipment, assigning, routing, supervising, paying and motivating as these tasks apply to the personal sales force.”

Sales management has dual responsibilities:

1. Generating sales volume
2. Developing sales manpower.

Long term success of the firm in generating sales volume hinges upon the development of sales manpower. Salespeople are invaluable human resource of the firm. they have practically unlimited potential for the growth and development.

Effective management of salesforce requires leadership plus administrative skills in planning, organizing, directing, motivating and controlling the personnel selling portion of the promotion mix. Sales manager must determine the number and types of sales people required to implement the sales plans and programmes at a given time. Then salespeople must be secured and their activities are planned, organized and directed in order to achieve the set sales objectives.

**The Process of Management of Salespeople**

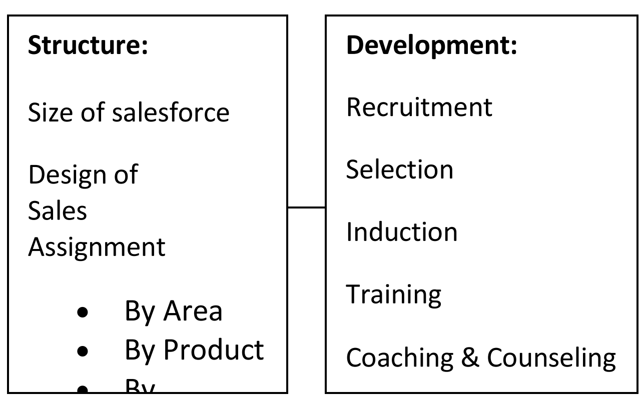



**Figure 18.9**

There are six areas for managerial decisions regarding the sales force:

1. Recruitment and selection
2. Training
3. Remuneration and expenses
4. Supervision and direction
5. Motivation
6. Control and Evaluation or assessment of sales performance.

## 18.10 RECRUITMENT AND SELECTION OF SALES-FORCE

Effective recruitment and selection of salespeople is one of the most crucial tasks of sales management. It entails finding people who match the type of sales position required by a firm. Recruitment and selection practices would differ greatly between order-taking and order-getting sales positions, given the differences in the demands of these two jobs. Therefore, recruitment and selection begin with a carefully crafted job analysis.

A sales manager must organize the sales force so that all the necessary tasks are done well. A large organization might have different salespeople specializing by different selling tasks *and by* the target markets they serve. Sales managers often divide sales force responsibilities based on the type of customer involved.

Recruitment of Salesmen involves the following Processes:

1. Deciding the quantity of Salesforce.
2. Determination of the characteristics and qualities to be possessed by the salesman
3. Tapping the various sources of recruitment
4. Careful selection of the candidates and finalising the employment.

1. **Deciding the quantity of Salesforce.:** Before the selection is undertaken, the sales manager should assess the need for salesforce in quantitative terms, e.g., how many are required, based on expansion of business and attrition due to retirement and resignation.

2. **Determination of the characteristics and qualities to be possessed by the salesman:**

   a) Job description/ Analysis: It is concerned with a nature of duties and responsibilities involved in performing effectively a particular job. It gives detail of the job to be performed and the qualities and qualifications required.

b) General qualities: Good personality, sound Health, intelligence, honesty and integrity of character and power of observation.

c) Particular qualities: Educational qualification, past experience, knowledge of the product, customers and market, language known.

d) Technical Knowledge: Knowledge about the chemical and mechanical aspect of the product to be sold and legal implication involved in the sales activities, etc.

**3. Sources of Recruitment:**

After job analysis and man- specification, every possible source should be tapped to select the most efficient salesman. The various sources are as follows:

a) Company's own staff

b) Employment Exchange

c) Educational Institutions

d) Situation wanted' columns of newspapers

e) 'Situation Vacant' Advertisement

f) Casual Applicant

g) Recommended Candidate

h) Placement Agencies.

**4. Selection of Sales force:**

From these sources, applications are received and screening of the applications is made. Application which satisfies the Job description and man- specification are only considered for selection. The selected applicants are called for psychological test. If a good report is given by references, the candidates will be called for medical examination, if he finds fit, they will be called for the Final interview and appointment letter is issued.

--------------------



**Figure 18.10**

## 18.11 TRAINING OF SALES FORCE

There is an old Belief that "Salesmen are born and not made." Once in a while, we may come across a salesman who is capable of selling a refrigerator to an Eskimo, but this is rare. The salesman has to educate the customers about products, sell the same with benefit to the customer and profit for the company. Therefore, he should have excellent knowledge about products, competition, market dynamics, buying motives, and selling skills.

### 18.11.1 THE NEEDS FOR TRAINING OF SALESFORCE

The need of training salesman arises from the fact that a newly appointed salesman does not have the knowledge about the product he has to sell. He may not have knowledge about customers and buying motives. He may not know how to sell the product or how to present them to the prospective buyers. Even old salesman needs training to acquaint them with the new products of the firm or those of the competitors, to explain to them the improved sales technique or simply as a refresher course.

The Extent of training will depend upon following:

1. How difficult and complicated is the selling job concern?
2. The level of education and previous training the salesman possesses.
3. Previous selling experience of the salesmen.
4. The type of buyer to be approached. In case of an expert buyer, more knowledge of the product to be sold is the absolute necessity.

In general, a good training scheme would include the following:

1. Basic principle of Salesmanship
2. Knowledge of the firm
3. Knowledge of the product
4. Knowledge about the customers
5. Knowledge of competitors
6. Matters pertaining to the day to day work
7. Knowledge of self

### 18.11.2 ADVANTAGES OF TRAINING THE SALES FORCE

A firm having well-designed training Schemes gain the following advantages:

1. Greater sales volume: A scientifically designed training programme helps to reduce cost of production.

2. Reduces cost of production: Increased selling helps to reduce cost of production.

3. Early Selling maturity: Training reduces the time to be spent by the salesman with each customer in convincing him about the product.

4. Lowers supervisions cost: In case of untrained salesmen, sales manager have to pay more visits than those needed in the case of trained salesmen to keep check on their work.

5. Lower turnover of sales force: Proper training makes the salesman well prepared for the field work. This results in reduced number of salesmen leaving their job.

6. Better Customer Relations: A scientifically trained salesmen know how to deal with a particular sales situation. He does not oversell, e.g., he does not sell the wrong quality or type of goods.

## 18.11.3 METHODS OF TRAINING

**A. Individual Methods**

**a) Initial or Break-in Training:** The trainee is asked to work in different departments and study for himself. He may be guided but often left free. After a specific period, he would be asked to work in his field.

**b) Special Assignment:** Slightly easier assignments are given and his capacity in handling problems is watched. Shortcomings, if any, are brought to his notice for future guidance e.g senior and junior lawyers.

**c) Field Coaching:** The newly recruited salesman is asked to work along with an experienced salesman in the field. These methods create self-confidence, enthusiasm in newly recruited salesman.

**B. Group Methods:**

**a) Lecture Method:** This is the easiest and quickest method of imparting information to the trainees. Most of the training methods are based on this principle, simply because of assured success.

**b) Audio-visual Methods:** It is a telling and showing method. This method is often used as a supplementary to the lecture method. The visual aids such as filmstrips, slides, charts, posters etc. are capable of providing more exposition to the lectures and making it more interesting.

c) **Discussion and Case Method:** This method is quite good for those who have basic knowledge on the subject. A particular problem is given to the various groups and asked to discuss it and put forward its suggestions. Later on all such suggestions are analysed by all the groups together. This enables to have a correct idea of the problem and a better solution.

## 18.12 MOTIVATION OF SALESMEN

Ability or capacity to work is different from the will to work. Motivation is the act of stimulating someone or oneself to get desired course of action, to push the right button to get a desired action, a compliment, a pay-rise, a smile, a promise of promotion, praise, public recognition and so on.

Motivation ignites the will to work. It moves people to take a desired action. Motivation can be either financial or non-financial. Sales contests, conventions and conferences are examples of motivating salesforce.

## 18.13 CONTROL OF SALES FORCE

Control is the act of checking or verifying whether everything occurs in conformity with one charted in the plans. Supervision and control of salesmen is essential for a sales organization to achieve maximum success.

### 18.13.1 IMPORTANT WAYS FOR CONTROLLING THE SALES FORCE ARE AS FOLLOWS

(1) Recruit and select efficient salesman and lay down an adequate procedure for selection (except in large organizations where this is done by the Personnel Department and the sales manager or supervisor has the final say);

(2) Train the recruits using both the break-in training and the continuous training; impressing on the salesman that creative selling is part of his job;

(3) Make the salesman proud of his organization, his shop, his product, and then service he sells and of himself.

(4) Show an honest personal interest in his salesmen;

(5) Correct and guide salesmen constructively;

(6) Handle complaints and grievances satisfactorily;

(7) Motivate salesmen to greater effort and more sales; and

(8) Show the salesman that he himself can do a better selling job as his own example would be the most inspiring from of leadership.

## 18.14 SALESMANSHIP

Salesmanship is just personal selling- negotiating, emphasizing inducing and making the prospective buyer to take a decision in favour of going for the product being offered to him. The mutual satisfaction is greatly emphasized in a salesmanship.

Salesmanship is an art of influencing another person for the object of persuading him to buy specific product. It may be regarded as the process of winning the confidence of consumer. It is the ability of a person to persuade the people to people to buy the goods and services for satisfactions to the buyer and profit to the seller.

**According to JOHN WANAMAKER** "Salesmanship is the art of so successfully demonstrating the merits of the goods and services of a house that a permanent customer is made."

**Qualities of a Good Salesperson**

Sales executives as the name implies are required for the product sales. The top performing salespeople in any industry are an elite group, they directly interact with the customers.. So this mean they should have a pleasing personality and great communication skills, they should have a thorough knowledge of the product he is selling so that his able to answer any question asked by the prospective buyer about the product.

**Qualities of Salesperson to become leading salesperson:**

1. **Self Confidence**
2. **People Oriented**
3. **Good listener**
4. **Honesty**
5. **Motivation**
6. **Persistence**
7. **Good Communication**
8. **Self Control**
9. **Punctual**
10. **Passion**
11. **Good Planner**

## 18.15 SUMMARY

Personal selling is where businesses use people (the "sales force") to sell the product after meeting face-to-face with the customer. The sellers promote the product through their attitude, appearance and specialist product knowledge. They aim to inform and encourage the customer to buy, or at least trial the product.

Sales promotions are the set of marketing activities undertaken to boost sales of the product or service. Description: There are two basic types of sales promotions: trade and consumer sales promotions.

## 18.16 EXERCISE

1. Define “Personal Selling” and its objective.
2. How many types of selling jobs, a market can pursue?
3. Explain various stages involved in selling process.
4. Differentiate ‘Sales’ and ‘Marketing’.
5. What is sales promotion and its objectives?
6. What are different methods or tools used by companies for sales promotion?
7. In today’s competitive scenario, how companies are planning their sales promotion techniques?
8. Explain various promotional strategies used by companies.
9. Define ‘Sales Management’ and its role in growth of the organization.
10. Explain various methods of Recruitment and Selection of a salesman.
11. What are various motivating factors for a salesman and prioritise them as per the expectations of salesman?
12. Explain the importance of controlling in sales.
13. What is “Salesmanship”?

# UNIT-19 DISTRIBUTION STARTEGY



## 19.1 IMPORTANCE OF CHANNEL OF DISTRIBUTION

**Introduction**

Distribution-activities that make products available to customers when and where they need them. A channel of distribution or marketing channel is a group of individuals and organizations that directs the flow of products from producers and customers. Marketing Intermediaries link producers to other intermediaries or to the ultimate users of the product. Operate between the producer and the final buyer.

**Types of utility distribution offers:**

- **TIME...**when the customers want to purchase the product.
- **PLACE...**where the customers want to purchase the product.
- **POSSESSION...**facilitates customer ownership of the product.
- **FORM...**sometimes, if changes have been made to the product in the distribution channel, i.e. Pepsi/Coke, concentrate to bottlers.

Each channel member has different responsibilities within the overall structure of the distribution of the system; mutual profit/success is obtained through cooperation.

**The distribution system:**

- Determines a product's marketing presence and the buyers' accessibility to the product

- Entails a long-term commitment, easier to change other aspects of the marketing mix.

## 19.2 ALTERNATIVE CHANNEL OF DISTRIBUTION

In today's scenario when markets are in intense competition, it is very much required by marketers to establish new, innovative and accessible distribution channels for customers. These channels should integrate vast potential to capture mass markets or we can say that they should be able to capture the mass markets. It is equally important to have intact bonding with traditional channels of distribution because if we talk in terms of Indian scenario where markets are diverse in nature therefore it is required to tap every segment of market else your long term sustainability is in question. In this way we find various alternative distribution channels, although mostly they are industry specific. Here we generalize these distribution channels as follow;

1. **Manufacturer Direct To Retail Store.**

   The manufacturer or supplier delivers direct from the production point to the retail store. As a general rule, this channel is only used when full vehicle loads are being delivered.

2. **Manufacturer via Manufacturer's Distribution Operation to Retail Store.**

   The manufacturer or supplier holds its products in a finished goods warehouse, a central distribution centre (CDC) or a series of regional distribution centres (RDCs). The products are trunked (line-hauled) in large vehicles to the sites, where they are stored and then broken down into individual orders that are delivered to retail stores on the supplier's retail delivery vehicles.

3. **Manufacturer via Retailer Distribution Centre to Retail Store**

   Manufacturers supplying their products to National Distribution Centres (NDCs), which are sites run by the retail organizations. The retailers then deliver full vehicle loads of all the different manufacturers' products to their own stores. Most retailers now use third parties to run these final delivery operations.

4. **Manufacturer to Wholesaler to Retail Shop**

   Wholesalers acted as the intermediaries in distribution chains, providing the link between the manufacturer and the small retailers' shops.

5. **Manufacturer to cash-and-carry wholesaler to retail shop**

   These are usually built around a wholesale organization and consist of small independent shops collecting their orders from regional wholesalers, rather than having them delivered. The increase in cash-and-carry facilities has arisen as many suppliers will not deliver direct to small shops because the order quantities are very small.

**6. Manufacturer via third-party distribution service to retail shop**

A number of companies have developed a particular expertise in warehousing and distribution. These companies consist of those offering general distribution services as well as those that concentrate on providing a 'specialist' service for one type of product or for one Client Company.

**7. Manufacturer via small parcels carrier to retail shop**

Very similar to the previous physical distribution channel, these companies provide a ‘specialist‘distribution service where the 'product' is any small parcel. The competition generated by these companies has been quite fierce.

**8. Manufacturer via broker to retail shop**

A broker is similar to a wholesaler in that it acts as intermediary between manufacturer and retailer. Its role is different, however, because it is often more concerned with the marketing of a series of products, and not really with their physical distribution. Thus, a broker may use third-party distributors, or it may have its own warehouse and delivery system. The broker can provide an alternative physical distribution channel.

**9. Mail order**

Goods are ordered by catalogue, and delivered to the home by post or parcels carrier. The physical distribution channel is thus from manufacturer to mail order house as a conventional trunking (line-haul) operation, and then to the consumer's home by post or parcels carrier, bypassing the retail store.

**10. Factory direct to home**

It can occur by direct selling methods, often as a result of newspaper advertising. It is also commonly used for one-off products that are specially made and do not need to be stocked in a warehouse to provide a particular level of service to the customer.

**11. Internet and shopping from home**

Initial physical distribution channels were similar to those used by mail order operations - by post and parcels carrier. The move to internet shopping for grocery products has led to the introduction of specialist home delivery distribution operations. These are almost all run by third-party companies. In addition, it is now possible to distribute some products, such as music, software and films, directly, computer to computer.

12. **Factory to factory / business to business**

The factory-to-factory or business-to-business channel is an extremely important one, as it includes all of the movement of industrial products. This may cover raw materials, components, part-assembled products, etc. Options vary according to the type and size of product and order, may range from full loads to small parcels, and may be undertaken by the manufacturers themselves or by a third party.

## 19.3 ROLE OF MIDDLEMEN IN INDIAN ECONOMY

In many markets in developing countries, especially in remote areas, middlemen are thought to earn excessive profits. Non-profits come in to counter what is seen as middlemen's market power, and rich country consumers pay a "fair-trade" premium for products marketed by such non-profits.

Middlemen, trading entrepreneurs who link the backwaters of developing countries to emerging markets nationally and especially globally, seem to be universally reviled despite the economic service they provide. Without their capital and specialized knowledge, high prices in growing markets might be outside the reach of the small holder in the rural area, or of the home-based artisan in the urban slum. By bridging this gap, albeit for profit, surely they help to alleviate poverty? And yet it is this profit motive, and the claim that these middlemen make "excessive profits" because of market power, that is at the root of much of the concern.

In economics, disintermediation is the removal of intermediaries in a supply chain, or "cutting out the middlemen". Instead of going through traditional distribution channels, which had some type of intermediate (such as a distributor, wholesaler, broker, or agent), companies may now deal with every customer directly, for example via the Internet. One important factor is a drop in the cost of servicing customers directly.

This can also happen in other industries where distributors or resellers operate and the manufacturer wants to increase profit margins, therefore missing out intermediaries to increase their margins.

Disintermediation initiated by consumers is often the result of high market transparency, in that buyers are aware of supply prices direct from the manufacturer. Buyers bypass the middlemen (wholesalers and retailers) to buy directly from the manufacturer, and pay less. Buyers can alternatively elect to purchase from wholesalers. Often, a business-to-consumer electronic commerce (B2C) company functions as the bridge between buyer and manufacturer.

## 19.4 SELECTION OF AN APPROPRIATE CHANNEL

Many producers, including major multinational companies in the developing countries are faced with the problem of searching for reliable, effective, and efficient intermediaries capable of handling their products to their own overall satisfaction/success and the ultimate benefits of the consumers in a way that seeks to guarantee a smooth business relationship between the two parties with little or no friction in the entire marketing process. The identified selection criteria represent standard expected of the independent firms operating as marketing intermediaries and are placed under seven categories as listed below:

- Intermediaries with adequate market, product and customer knowledge.
- Intermediaries with good reputation among customers.
- Intermediaries with good financial standing.
- Intermediaries with acceptable managerial competence.
- Intermediaries with hunger for success.
- Intermediaries with the right enthusiasm for handling the producers' lines.
- The extent to which competitive and complementary products are carried by an Intermediary.

The choice of a suitable channel of distribution is one of the most important decisions in the marketing of products because channel affects the time and costs of distribution as well as the volume of sales.

It also influences pricing and promoting efforts and dealer relations. Choice of a channel of distribution involves the selection of the best possible combination of middlemen or intermediaries.

The objective is to secure the largest possible distribution at minimum cost. The channel must be flexible and efficient. It should be consistent with the declared marketing policies and programs of the firm.

Such a channel can be selected by evaluating alternative channels in terms of their costs, sales potential and suitability. The factors affecting the choice of distribution channels may be classified as follows:

1. **Product Considerations :**

   The nature and type of the product have an important bearing on the choice of distribution channels. The main characteristics of the product in this respect are given below :

*(a)* **Unit Value** :

Products of low unit value and common use are generally sold through middlemen as they cannot bear the cost of direct selling. Low-priced and high turnover articles like cosmetics, hosiery goods, stationery and small accessory equipment usually flow through a long channel.

On the other hand, expensive consumer goods and industrial products are sold directly by the producers.

*(b)* **Perishability :**

Perishable products like vegetables, fruits, milk and eggs have relatively short channels as they cannot withstand repeated handling. Same is true about articles of seasonal nature.

Goods which are subject to frequent changes in fashion and style are generally distributed through short channels as the producer has to maintain close and continuous touch with the market. Durable and non-fashion articles are sold through agents and merchants.

*(c)* **Bulk and weight:**

Heavy and bulky products are distributed through shorter channels to minimize handling costs. Coal, bricks, stones, etc., are some examples.

*(d)* **Standardization:**

Custom-made and non-standardized products usually pass through short channels due to the need for direct contact between the producer and the consumers. Standardized and mass-made goods can be distributed through middlemen.

*(e)* **Technical nature:**

Products requiring demonstration, installation and after sale services are often sold directly the producer appoints sales engineers to sell and service industrial equipment and other products of technical nature.

**(f)** **Product line:**

A firm producing a wide range of products may find it economical to set up its own retail outlets. On the other hand, firms with one or two products find it profitable to distribute through wholesalers and retailers.

**(g)** **Age of the product:**

A new product needs greater promotional effort and few middlemen may like to handle it. As the product gains acceptance in the market, more middlemen may be employed for its distribution. Channels used for competitive products may also influence the choice of distribution channels.

**2. Market considerations:**

The nature and type of customers is an important consideration in the choice of a channel of distribution. Following factors relating to the market are particularly significant.

***(a)*** **Consumer or industrial market:**

The purpose of buying has an important influence on channel. Goods purchased for industrial or commercial use are usually sold directly or through agents.

This is because industrial users buy in a large quantity and the producer can easily establish a direct contact with them. To ultimate consumers, goods are sold normally through middlemen.

***(b)*** **Number and location of buyers:**

When the number of potential customers is small or the market is geographically located in a limited area, direct selling is easy and economical. In case of large number of customers and widely scattered markets, use of wholesalers and retailers becomes necessary.

***(c)*** **Size and frequency of order:**

Direct selling is convenient and economical in case of large and infrequent orders. When articles are purchased very frequently and each purchase order is small, middlemen may have to be used.

A manufacturer may use different channels for different types of buyers. He may sell directly to departmental and chain stores and may depend upon wholesalers to sell to small retail stores.

**(d) Customer's buying habits:**

The amount of time and effort which customers are willing to spend in shopping is an important consideration. Customer expectations like desire for one-stop shopping, need for personal attention, preference for self-service and desire for credit also influence the choice of trade channel.

**3. Company considerations:**

The nature, size and objectives of the firm play an important role in channel decisions.

***(a)*** **Market standing:**

Well-established companies with good reputation in the market are in a better position to eliminate middlemen than new and less known firms.

*(b)* **Financial resources:**

A large firm with sufficient funds can establish its own retail shops to sell directly to consumers. But a small or weak enterprise which cannot invest money in distribution has to depend on middlemen for the marketing of its products.

*(c)* **Management:**

The competence and experience of management exercises influence on channel decision. If the management of a firm has sufficient knowledge and experience of distribution it may prefer direct selling. Firms whose managements lack marketing know-how have to depend on middlemen.

*(d)* **Volume of production:**

A big firm with large, output may find it profitable to set up its own retail outlets throughout the country. But a manufacturer producing a small quantity can distribute his output more economically through middlemen.

*(e)* **Desire for control of channel:**

Firms that want to have close control over the distribution of their products use a short channel. Such firms can have more aggressive promotion and a thorough understanding of customers' requirements. A firm not desirous of control over channel can freely employ middlemen.

**(f)** **Services provided by manufacturers:**

A company that sells directly has itself to provide installation, credit, home delivery, after sale services and other facilities to customers. Firms which do not or cannot provide such services have to depend upon middlemen.

**4.** **Middlemen considerations:**

The cost and efficiency of distribution depend largely upon the nature and type of middlemen as reflected in the following factors:

*(a)* **Availability:**

When desired type of middlemen is not available, a manufacturer may have to establish its own distribution network. Non-availability of middlemen may arise when they are handling competitive products as they do not like to handle more brands.

*(b)* **Attitudes:**

Middlemen who do not like a firm's marketing policies may refuse to handle its products. For instance, some wholesalers and retailers demand sole selling rights or a guarantee against fall in prices.

***(c)*** **Services:**

Use of middlemen is profitable who provide financing, storage, promotion and after sale services.

***(d)*** **Sales potential:**

A manufacturer generally prefers a dealer who offers the greatest potential volume of sales.

***(e)*** **Costs:**

Choice of a channel should be made after comparing the costs of distribution through alternative channels.

**(f) Customs and competition:**

The channels traditionally used for a product are likely to influence the choice. For instance, locks are sold usually through hardware stores and their distribution through general stores may not be preferred. Channels used by competitors are also important.

**(g) Legal constraints:**

Government regulations regarding certain products may influence channel decision. For instance, liquor and drugs can be distributed only through licensed shops.

As stated above, a. channel of distribution consists of some middlemen in addition to the manufacturer and the consumer. Middlemen or intermediaries are persons and institutions which serve as connecting links between the producer and ultimate consumers.

**Categories of Intermediaries**

They direct the flow of goods from producers to consumers and perform several marketing functions. They are known by different names. Middlemen may be classified into three broad categories.

**1. Agent Middlemen 2. Merchant middlemen 3. Facilitators**

**Agent Middlemen**

***Agent middlemen or functional middlemen or merchantable agents do not take ownership and delivery of goods.*** They negotiate on behalf of the producer and simply assist in buying and selling of goods. They help in the transfer of ownership and delivery of goods and charge commission for their services. Agent middlemen are of the following kinds.

1. **Factor :**

   A factor is an agent employed to sell goods consigned or delivered to him by his principal. He keeps the goods of others in his possession and exercises general lien on them for his charges. A factor enjoys wide powers.

   He can sell goods in his own name, receive payment and give valid receipts of discharge. He can pledge the goods and can sell goods on credit. He receives commission at fixed percentage on sales from his principal.

2. **Broker :**

   A broker is an agent who makes bargains for others and receives brokerage for his services. He makes transactions on behalf of and in the name of his principal. ***He obtains neither the possession nor the ownership of goods.***

   He brings buyers and sellers together and negotiates terms and conditions of sales. He receives brokerage at a fixed percentage of the volume of transaction.

3. **Commission Agent :**

   He is an agent employed to sell goods on behalf of and at the risk of his principal. ***He not only negotiates the transaction but also makes arrangement for transfer of ownership.*** He gets commission on sales at a fixed rate.

4. **Del-Credere agent :**

   He is an agent employed to sell goods on credit on behalf of his principal. But he undertakes to bear the risk of loss on account of bad debts. ***He is paid extra commission called Del credere commission for bearing this risk.***

5. **Auctioneer:**

   He is an agent employed to sell goods on behalf of the principal and at a public auction. ***He makes publicity, displays goods to the intending buyers, invites bids and sells goods to the highest bidder.***

He is usually paid a commission on the sale proceeds. Sometimes a minimum price (Known as reserve price) is fixed and bids below this price are not accepted.

**Merchant Middlemen**

These are the intermediaries who buy, take title to the goods and services and resell them. We know them as dealers, wholesalers and retailers. These middlemen get margins and bonuses as compensation. They share the risk with the manufacturers when they take title and physical possession of the goods.

**Facilitators**

These are independent business units that facilitate the flow of goods and services from the producer to the customer without taking a title to them or negotiating for them on behalf of the producer. Transport companies, banks and independent warehouses are an example of these institutions. These institutions are paid for their service charges. For example, a transporter get paid in the form of freight charges, while a banker gets paid service charges in the form of bank commission and warehouses and cold storages earn rent.

## 19.5 CHALLENGES IN PHYSICAL DISTRIBUTION

Distribution channels are pathways along which products travel from producers and manufacturers to ultimate consumers. They are routes along which products, information, and finance flow. While some manufacturers deal directly with their customers, most manufacturers use a distribution channel to take products to consumers. Considerable thought, effort, and investment are required to create and maintain a distribution channel. Channel margins and the expense of sales efforts in managing channels can form a substantial proportion of total marketing costs. An effective channel can be a source of strategic advantage for companies. Channel design and channel management are therefore important elements in a company's competitiveness. Channels are also important from a public policy perspective since they employ a large number of people and are critical to the unhindered availability of food items and other products to customers across the socio-economic spectrum. Although channels are very important, little research exists about Indian distribution channels. This note and the accompanying round table presentations therefore attempt to focus on distribution channels in India, especially on the challenges that companies in India face in designing, constructing, and managing distribution channels. The aim is to identify important challenges, examine the relevance of research findings, and develop an agenda for future channel related research in India.

**Physical transportation**

Transportation refers to the movement of products from one location to another. The fuel required to transport products depends on:

- the distance between producers and purchasers or end-customers
- the quality of the transport infrastructure that connects the two parties
- the density of depots involved in supplying goods to purchasers, intermediaries or directly to customers

Most transportation infrastructure is owned and managed as a Public good throughout the world. This ensures optimal allocation of investments for maintenance and build-up of transport capacities as needed. Transportation policy aims to prevent abuse of monopoly power, promote fair competition, and balance environmental, energy, and social concerns in transportation.

**Storage and warehousing**

Warehousing is one of the main spheres of logistics. The very broad meaning of it is storage of finished goods or materials (raw, packing, components) for manufacturing, agricultural or commercial purposes. In fact, warehousing contains numerous functions, like acceptance of products (loading, unloading), inspection, and proper storage. It is the whole system (warehouse management system) that includes warehouse infrastructure, tracking systems and communication between product stations.

One of the most sustainable trends in storage solutions is the Just In Time (JIT) technique. It means product delivery directly from supplier to producer without warehousing.

**Packaging**

Rising climate change awareness started contributing to the need of considering sustainability in packaging decisions. Sustainability objectives relate to packaging life cycle in terms of material sourcing, packaging design, manufacturing, transportation and disposal. According to Sustainable Packaging Coalition, packaging can be considered sustainable if it meets the following criteria:

- Is beneficial, safe & healthy for individuals and communities throughout its life cycle
- Meets market criteria for both performance and cost;
- Is sourced, manufactured, transported, and recycled using renewable energy;
- Optimizes the use of renewable or recycled source materials;
- Is manufactured using clean production technologies and best practices;
- Is physically designed to optimize materials and energy;
- Is effectively recovered and utilized in biological and/or industrial closed loop cycles

**Labeling**

Labeling is an important means of communicating with consumers about sustainable consumption, and it plays a critical role in shopping for food and domestic appliances. Used as a promotional mechanism, eco-labels inform customers about social and environmental effects, the possibilities of recycling the product and its packaging, methods of production (e.g. bio farming), product's characteristics (e.g. vegan), or the producer's way of running business (e.g.Fair Trade / Marine Stewardship Council).

There is a challenge for consumers though to be able to recognize, understand and cope with sheer number of emerging labels dealing with specific aspects of the sustainability agenda.

**Reverse logistics**

Reverse logistics has become an important extension within the supply chain as it carries high potentials to achieve a sustainable distribution process that fulfills both environmental and social needs. It deals with reclaiming used packaging as well as unsold and end-of-life products that have to be disposed in order to make materials available for recycling or reuse.

**Specific Issues Relating to Maintenance of Stock**

The inventory and purchasing staff have the largest impact on maintenance productivity than any other support group. An interesting statement; but how does inventory and purchasing affect the maintenance organization.

The following lists some of the ways poor inventory control can affect maintenance productivity:

**Material Related Delays**

- Waiting for Materials
- Travel Time to Obtain Materials
- Time Required to Transport Materials
- Time Required to Identify Materials
- Time to Find Substitute Materials
- Time Required to Find Materials in Area Stores Locations
- Time Required to Process a Purchase Order
- Lost Time Due To:
  - Other Crafts delayed due to materials
  - Wrong Materials planned and delivered
  - Wrong Materials Ordered
  - Materials Out of Stock

**Figure19.5**

Maintenance work should be planned part of the job plan for maintenance is the detailing of all the materials required to perform the work, insuring they were in stock and available before the work was scheduled.

## 19.6 LOGISTICS CONCEPTS AND PRACTICES

Logistics is the art of managing the supply chain and science of managing and controlling the flow of goods, information and other resources like energy and people between the point of origin and the point of consumption in order to meet customers' requirements.

It involves the integration of information, transportation, inventory, warehousing, material handling, and packaging. The branch of science dealing with procuring, maintaining and transporting material, personnel and facilities.

**Business Logistics involves;**

- Inventory management
- Purchasing
- Transportation
- Warehousing

***This can be defined as having the right item in the right quantity at the right time at the right place for the right price.***

## 19.7 SUPPLY CHAIN MANAGEMENT

Supply chain management (SCM) is "the systemic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain, for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole." It has also been defined as the "design, planning, execution, control, and monitoring of supply chain activities with the objective of creating net value, building a competitive infrastructure, leveraging worldwide logistics, synchronizing supply with demand and measuring performance globally

**Commonly accepted definitions of supply chain management include:**

- *The management of upstream and downstream value-added flows of materials, final goods, and related information among suppliers, company, re-sellers, and final consumers*
- *The systematic, strategic coordination of traditional business functions and tactics across all business functions within a particular company and across businesses within the supply chain, for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole*
- *According to the AIMS, it is a management of a global network used to deliver products and services from raw materials to end*

*customers through an engineered flow of information, physical distribution, and cash.*

- *Supply Chain Structure (SCS) is the management of the relationship between the supplier's supplier and the customer's customer through the supply chain participants (Distributor/Wholesaler and Retailer) between them, mainly using information flow and logistics activities to gain Competitive advantage* and customer satisfaction.

SCM is a cross-functional approach that includes managing the movement of raw materials into an organization, certain aspects of the internal processing of materials into finished goods, and the movement of finished goods out of the organization and toward the end consumer. As organizations strive to focus on core competencies and becoming more flexible, they reduce their ownership of raw materials sources and distribution channels. These functions are increasingly being outsourced to other firms that can perform the activities better or more cost effectively. The effect is to increase the number of organizations involved in satisfying customer demand, while reducing managerial control of daily logistics operations. Less control and more supply chain partners led to the creation of the concept of supply chain management. ***The purpose of supply chain management is to improve trust and collaboration among supply chain partners, thus improving inventory visibility and the velocity of inventory movement.***

**Main functions of Supply Chain Management are as follows:**

- Inventory Management
- Distribution Management
- Channel Management
- Payment Management
- Financial Management
- Supplier Management
- Transportation Management
- Customer Service Management

## 19.7.1 REVERSE SUPPLY CHAIN

Reverse logistics is the process of managing the return of goods. It is also referred to as "aftermarket customer services". Any time money is taken from a company's warranty reserve or service logistics budget, one can speak of a reverse logistics operation. Reverse logistics is also the process of managing the return of goods from store, which the returned goods are sent back to warehouse and after that either warehouse scrap the goods or send them back to supplier for replacement depending on the warranty of the merchandise.

A few authors such as Halldorsson et al, Ketchen & Hult and Lavassani et al have tried to provide theoretical foundations for different areas related to supply chain by employing organizational theories. These theories include;

- Resource-based view (RBV)
- Transaction cost analysis (TCA)
- Knowledge-based view (KBV)
- Strategic choice theory (SCT)
- Agency theory (AT)
- Channel coordination
- Institutional theory (InT)
- Systems theory (ST)
- Network perspective (NP)
- Materials logistics management (MLM)
- Just-in-time (JIT)
- Material requirements planning (MRP)
- Theory of constraints (TOC)
- Total quality management (TQM)
- Agile manufacturing
- Time-based competition (TBC)
- Quick response manufacturing (QRM)
- Customer relationship management (CRM)
- Requirements chain management (RCM)
- Available-to-promise (ATP)
- Order management system (OMS)

However, the unit of analysis of most of these theories is not the supply chain but rather another system, such as the firm or the supplier-buyer relationship. Among the few exceptions is the relational view, which outlines a theory for considering dyads and networks of firms as a key unit of analysis for explaining superior individual firm performance.

One of the recent developments about supply chain theory has been presented by supply chain manager and educator Hernan David Perez, under the name of ***"Supply Chain Roadmap"***, which is a method whereby an organization's supply chain strategy can be reviewed in an organized and systematic approach in order to assure alignment of the supply chain with the business strategy. The method allows the characterization of the supply chain under analysis by 42 factors in a single page view called ***"The Map"*** and allows the comparison of this supply chain with 6-Supply Chain Archetypes (Fast, Efficient, Continuous Flow, Agile, Custom Configured, Flexible), in order to find gaps between supply chain under analysis and the most proper supply chain archetype

## 19.8 SUMMARY

Distribution is the process of making a product or service available for use or consumption by a consumer or business user, using direct means, or using indirect means with intermediaries.

## 19.9 EXERCISE

1. Explain various types of "Channels of Distribution" and their importance in today's' business environment.
2. What do you understand by "Alternative Channel of Distribution" and why it is important in supply channel?
3. Explain the importance of 'Middlemen' in business with special reference of Indian economy.
4. What factors you should consider, while selecting an intermediary and thereafter the channel structure.
5. What challenges are involved in execution of physical structure of supply chain.
6. What factors are involved in the selection of various locations associated with various levels of supply chain structure.
7. What do you understand by the term 'Logistics' and explain the role of logistics in business.
8. Why do companies have middleman?
9. Define "Supply Chain Management" and its various components.
10. Draw the supply chain structure of Dell Computers and Amazon.

# UNIT-20 MARKETING AND PUBLIC POLICY



## 20.1 REGULATORY ROLE OF THE GOVERNMENT

### Introduction

All modern societies agree we need some laws to prevent fraud and injustice in business transactions. For example, government should enforce contracts, and also impose some health and safety standards on the sale of medicines, foods, and other products. Government should enforce health and cleanliness regulations on public restaurants, and regulate weights and measures.

Most people in modern societies would also agree that it works well for government to provide certain other goods that nearly everyone uses, such as roads, traffic regulation, an army and police force and a fire department, and perhaps a postal service. Beyond that, there is a large difference of opinion. Some people favor a "free market" approach to the rest of the economy, while others favor government ownership and control of the means of production and even property

## 20.2 MEANING OF REGULATORY AGENCIES

A **regulatory agency** is a governmental body that is created by a legislature to implement and enforce specific laws. An agency has quasi-legislative functions, executive functions, and judicial functions.

Regulatory agencies serve two primary functions in government: they implement laws and they enforce laws. **Regulations** are the means by which a regulatory agency implements laws enacted by the legislature. You can think of regulations as formal rules based upon the laws enacted by a legislature that govern specific social or economic activities.

Regulations are required to some extent to prevent unscrupulous people from manipulating the system to gain an unfair advantage. For example, businesses are not allowed to conspire to keep prices higher than if competition were allowed to occur.

When government starts to meddle in the decisions made in the Free Market, efficiency and prosperity are reduced. There is no way for a limited number of bureaucrats to make better decisions than the millions of producers and consumers every day as part of normal supply and demand decisions

## 20.3 WAYS BY WHICH GOVERNMENT REGULATES MARKETING ACTIVITIES

Consumers must be protected from business owners who are eager to sell without taking into consideration the well-being of customers. Consumers must be protected from overcharging, poor quality goods and services and short measurements and weights.

Consumers are protected by legislation delegated to various government agencies. These agencies include:

1. The Consumer Affairs Commission- aids consumers with redress
2. The Fair Trading Commission- investigates cases of tied selling and misleading advertising.
3. The Bureau of standards – set standards for goods and services to be sold on the market.
4. The Ombudsman- investigates injustices suffered by citizens from dealing with a government agency or official.

## 20.4 ROLE OF GOVERNMENT IN MARKETING DECISION

1. Provide a legal system to make and enforce laws and to protect private property rights.
2. Provide public goods that individuals or private businesses would not provide.
3. Correct market failures such as external costs and external benefits.
4. Maintain competition by regulating competition.
5. Redistribute income by taxing those with larger incomes and helping those in need.

6. Stabilize the economy by reducing unemployment and inflation and promoting economic growth.
7. Policy on International Business prevent domestic markets from foreign firms
8. Government facilitate technology exchange between two nations
9. Government provides various security measures to companies in terms of cyber theft, patents, trademarks, etc.
10. By the means of SEZs' (Special Economic Zones) government facilitate various industries like Information Technology hub in NCR (National Capital Region), Bangaluru, etc.
11. Government facilitate inter-industrial growth to the companies.

## 20.5 IMPACT OF GOVERNMENT CONTROL ON 4PS' OF MARKETING

Government of any country decides how its respective economy grows in term of businesses. The growth of economy largely depends upon the orientation of government i.e. degree of liberalization in economic policies. If we go back 1990s we will understand the importance of degree of liberty in economic policies and their impact on overall economic growth. In the same way we can also understand the impact of government rules, regulation, policies, etc on the marketing environment or marketing of the organization. This is all about the orientation of government towards economic reforms but in countries like India, where political stability is always in question again becomes a matter of great concern for 'Marketing Manager'.

**Marketing Strategy Decisions**

| Product | Price | Place | Promotion |
|---|---|---|---|
| Physical good | Objectives | Objectives | Objective |
| Service | Flexibility | Channels | Mix |
| Features | Life cycle pricing | Market exposure | Sales management |
| Quality level | Geographic terms | Middlemen | Advertising |
| Accessories | Discounts | Type/location-stores | Promotion |
| Installation | Allowances | Logistics | Publicity |
| Instructions | | Service levels | |
| Warranty | | | |
| Product lines | | | |
| Packaging | | | |
| Branding | | | |

**Figure 20.5**

The impact of any environment on marketing cannot be studied in isolation and this impact may be multidimensional i.e. any change in one environment may lead this change in one or more environment and it may impact one or more than one Ps' of marketing. It is important to know that impact of government on marketing is uncontrollable from marketing perspective.

## 20.5.1 PRODUCT DECISIONS

Marketing starts with the product since it is what an organization has to offer its target market. As we've stressed many times in this tutorial, organizations attempt to provide solutions to a target market's problems. These solutions include tangible or intangible (or both) product offerings marketed by an organization.

In addition to satisfying the target market's needs, the product is important because it is how organizations generate revenue. It is the "thing" that for-profit companies sell in order to realize profits and satisfy stakeholders and what non-profit organizations use to generate funds needed to sustain itself. Without a well-developed product strategy that includes input from the target market, a marketing organization will not have long-term success

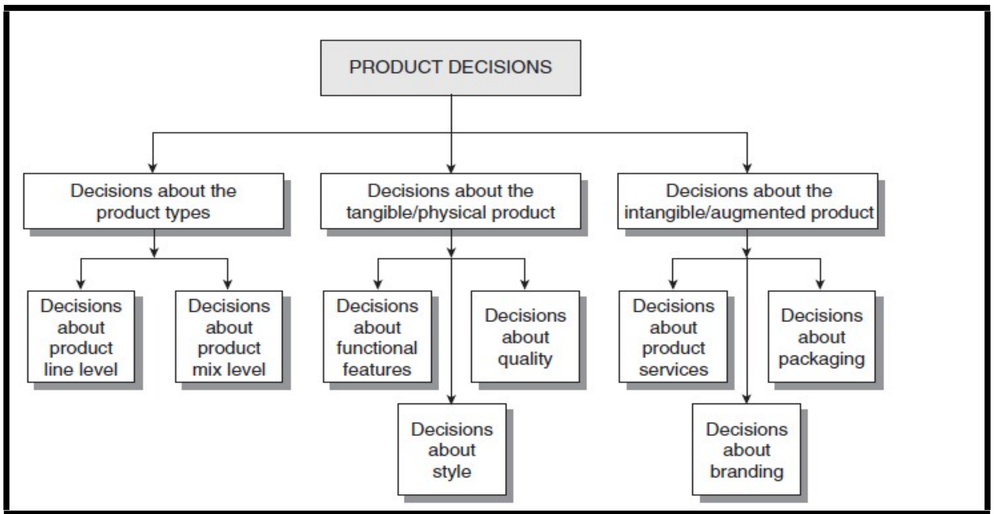



**Figure 20.5.1**

While taking decisions regarding products, companies are bound with policy framework of government on various areas like quality parameters, packaging guidelines, preservatives, product dimensions, ingredients, etc. Government has put several checks on these grounds. Companies are bound to follow labor laws put in forced by state or federal system of the country. From procurement of raw materials to finished products there is framework laws put in forced by the government.

## 20.5.2 PRICING DECISIONS

The economy also has a tremendous effect on pricing decisions. In this we noted that factors in the economic environment include interest rates and unemployment levels. When the economy is weak and many people are unemployed, companies often lower their prices. In international markets, currency exchange rates also affect pricing decisions.

Pricing decisions are affected by federal and state regulations. Regulations are designed to protect consumers, promote competition, and encourage ethical and fair behavior by businesses. For example, the Robinson-Patman Act limits a seller's ability to charge different customers different prices for the same products. The intent of the act is to protect small businesses from larger businesses that try to extract special discounts and deals for themselves in order to eliminate their competitors. However, cost differences, market conditions, and competitive pricing by other suppliers can justify price differences in some situations. In other words, the practice isn't illegal under all circumstances. You have probably noticed that restaurants offer senior citizens and children discounted menus. The movies also charge different people different prices based on their ages and charge different amounts based on the time of day, with matinees usually less expensive than evening shows. These price differences are legal.

## 20.5.3 PLACE DECISION

In India where approximate 65-70% population live in rural areas, it becomes quite difficult to cater these markets. These markets are having low density of people therefore it becomes costly to cater these markets. We can see following problems are associated with distribution in India;

- Infrastructure is one of the most practical problem in India
- The penetration of other services like banking & insurance is very poor
- The availability of information technology is not good
- The availability of services like electricity, telecommunication, etc is poor
- The availability of middleman for rural markets
- Fast mode of transportations are absent
- Main occupation in rural India is farming where incomes are seasonal

But when we talk about semi-urban or urban India the intensity of above problems is very mild and companies can easily reach into these markets.

Indian government too has picked up the cue and they are ready to act where the private sector has lagged. With less than 45% of Indian population having access to basic banking services, a planning commission (NITI Ayog) committee on financial inclusion has proposed rural ATMs at Post Offices. This convergence of a wide distribution outreach of 1.55 lakh post office branches with the government's financial inclusion agenda could bring a significant rural population into the formal banking domain. Game-changing initiatives, like Aadhar-Unique Identification, are expected to accelerate the inclusion mandate, while cornering implementation issues, such as pilferage in public distribution system, and make any prosperity stick at the ground level. Such measures from the government stimulate the rural economy and create favourable incentives for organised players to participate in rural India.

Apart from above the Public Distribution System (PDS) in India is having strong hold over rural markets and Government of India is planning to use this system for further and various categories goods distribution.

### 20.5.4 PROMOTION DECISION

Products or services will not sell unless people are told about them. It is true that few companies from developing countries are global in operation; so much of the promotion process is limited to either third party advertising.

In developing countries like India, there is not very clear & transparent laws on advertising therefore companies are able to play in a liberal and big arena and it is one of the causes of unhealthy competitive practices in India. For example ***Rin a product from Unilever family is always in intense competition with Tide a product from Procter & Gamble***. Same type of rivalry we can see in between ***Cocacola & Pepsico (two US giants in beverages).***

## 20.6 SUMMARY

The role of government is to create healthy competition within the market without hurting the benefits of consumers. To create healthy environment government accommodate the marketing efforts of an organization with public policy, which are designed in the interest of consumer. Government bound the marketing mix (Product, Price, Place, and Promotion) of an organization by various means or standardization associated with the product.

## 20.7 EXERCISE

1. How government acts as a safeguard in public interest?
2. What is "Marketing Decision Process" and elaborate the role of government in this process?
3. Who has given the concept of 'Marketing Mix' and explain various components of marketing mix?
4. Identify the compatibility of government in product decisions.
5. Analyze the influence of government in pricing decisions.
6. Elaborate the role of government in distribution of goods.
7. Write a note on Public Distribution Channel.
8. India is having a very vast network of post offices, being a manager how can you utilized it for the betterment of society.
9. Do you think India has immature laws on promotional activities? Explain.