Uttar Pradesh Rajarshi Tandon
Open University

Marketing Management

B.B.A.-105

BLOCK-5 Marketing Promotion & Communication 189-226

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BLOCK

1

Introduction To Marketing, Marketing In Developing Economy, Marketing For Services, New Concepts

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BBA-103

MARKETING MANAGEMENT

BLOCK – I

Introduction To Marketing, Marketing In Developing Economy, Marketing For Services, New Concepts

This block consists of four units. First unit consists of meaning of marketing, needs, wants and desire, marketing mix, marketing management definitions. It helps to understand the basic concept of marketing. Second unit explains the role of marketing in developing economy highlighting its relevance, areas of relevance and philosophies of marketing. Third unit is related to the marketing of services, reasons for its growth and its marketing mix has been added in one case study on service marketing. Fourth unit talks about new concepts and practices emerging in marketing and new relevant P's of Marketing.

UNIT–1

INTRODUCTION TO MARKETING : AN OVERVIEW

Objectives

After going through this unit you will be able to understand:

- Meaning of Marketing
- Marketing mix
- Marketing Strategy
- Definitions of Marketing
- Marketing management

Structure

1.1 Introduction

1.2 Meaning of Marketing

1.3 Definitions of Marketing

1.4 Marketing mix

1.5 Marketing Strategy

1.6 Marketing Management

1.7 Summary

1.8 Self Assessment Questions

1.9 Further Readings

1.1 INTRODUCTION

As per the modern business is concerned, marketing viewpoint revolves around best serving, prospering and making profits by identifying and satisfying the needs of its customer. In present day perspective Marketing is all-encompassing. We are exposed to market products, services and ideas every day. The Marketing era began in 1950's and continues till today. During this period the Marketing department of the companies began to pay attention to customer wants and needs and started implementing the Marketing concepts. The current millennium has opened new business rules; the most significant of them is that past history or experience in a given product market is no indicator for future success.

Market leadership cannot be taken for granted because customer loyalty does not exist as he has a much wider choice. Marketing is occupying the key role in economic system of the whole world.

Hence to study 'Marketing' one has to understand the following aspects:

(i) Needs, wants and desires of a customer.

(ii) Development of right product and satisfying their needs.

(iii) Major concepts and philosophies, marketing system.

(iv) Difference between Goods and services and major service marketing issues.

In this unit these issues are explained in detail. This study will help you understand the basics and directions of marketing and its major branches and decision making points.

1.2 MEANING OF MARKETING

The process of marketing involves exchange transactions between the buyer and the seller. Its origin can be well linked with early human civilization when it was called ***"the Barter system".*** In current scenario, money has replaced the commodity. Then what is the difference between Marketing and Barter system? Only that the Marketing focuses on mutual satisfaction of both buyer and the seller.

The crux of marketing is exchange, which means giving something of value in return for something of value. Marketers divide products into three categories:

(i) Goods or physical items,

(ii) Services, and

(iii) Ideas.

Marketing is the process of communicating the value of a product or service to customers, for the purpose of selling the product or service. It is a critical business function for attracting customers. From a community point of view, marketing is the link between a society's material requirements and its economic pattern of response. Marketing satisfies these needs and wants through exchange processes and building long term relationships. It is the process of communicating the value of a product or service through positioning to customers. Marketing can be looked at as an organizational function and a set of processes for creating, delivering and communicating value to customers, and managing customer relationships in ways that also benefit the organization and its shareholders. Marketing is the science of choosing target markets through market analysis and market segmentation, as well as understanding consumer buying behavior and providing superior customer value.

There are five competing concepts under which organizations can choose to operate their business; the production concept, the product concept, the selling concept, the marketing concept, and the holistic marketing concept. The four components of holistic marketing are relationship marketing, internal marketing, integrated marketing, and socially responsive marketing. The set of engagements necessary for successful marketing management includes, capturing marketing insights, connecting with customers, building strong brands, shaping the market offerings, delivering and communicating value, creating long-term growth, and developing marketing strategies and plans.

1.3 MARKETING MIX

As basics of Marketing the marketer goes through the Needs, Wants and Desire factor of the human beings. The marketer always tries to understand these factors before starting the operations. Basic human requirements are known as *Needs*. When these *Needs* are directed towards a specific object to satisfy it become *Wants*. *Demand or Desire*, are the wants for any specific product with an ability to pay.

For e.g.; Thirst is a basic human need, but to quench that thirst if one opts for Mineral water is a want and when he finally buys one with any particular price tag it is a demand.

A mixture of several ideas and plans followed by a marketing representative to promote a particular product or brand is called marketing mix. Several concepts and ideas combined together to formulate final strategies helpful in making a brand popular amongst the masses form marketing mix. This is popularly known as 4 P’s having Product, Price, Place and Promotion.

1.4 MARKETING STRATEGY

A **marketing strategy** is a course that helps an organization to focus on its limited resources on the extreme opportunities to increase sales and achieve a permanent competitive advantage. A marketing strategy is most successful when it is a crucial component of corporate strategy, defining how the organization will successfully connect to customers, prospects, and competitors in the market field. It is to some extent derived from broader corporate strategies, corporate missions, and corporate goals. As the customer constitutes the source of a company's profits, marketing strategy is directly connected with sales. A key factor of marketing strategy is often to keep marketing in line with a company's overarching mission statement.

Types of Marketing Strategies

Every marketing strategy is distinctive, but can be condensed into a generic marketing strategy. There are a number of ways of categorizing these generic strategies. A brief explanation of the most common categorizing schemes is presented below:

I - Strategies based on market supremacy - In this scheme, firms are classified based on their market share or control of an industry. Typically there are three types of market control strategies:

a. Leader : [Makes the organization’s product the Market leader, among all other available]

b. Challenger : [To closely challenge the Market leader]

c. Follower : [Following the product and strategies of the Market leader and enjoying its share]

II - Porter basic strategies - strategy on the proportions of strategic scope and strategic strength. Strategic scope refers to the market penetration while strategic strength refers to the firm’s sustainable competitive advantage.

a. Cost leadership : [Offering the best cost to get the major market share]

b. Product differentiation : [Offering some unique features in product to differentiate it among competitors]

c. Market segmentation : [Selecting the right and précised market segment to market its product]

III - Innovation strategies - This deals with the firm's rate of the new product development and business model innovation. It asks whether the company is on the cutting edge of technology and business innovation. There are three types:

a. Pioneers : [The organizations which introduces the product for the very first time]

b. Close followers : [those who immediately follow the pioneers]

c. Late followers : [Comes in the market only when that particular product is established in the market]

IV - Growth strategies - In this scheme we ask the question, “How should the firm grow?” There are a number of different ways of answering that question, but the most common gives four answers:

a. Horizontal integration : [Way to grow in Straight line both right and left hand side of markets

b. Vertical integration : [Way to grow in straight upward and downward market place]

c. Diversification : [to diversify its product line or target market]

d. Intensification : [To intensify its marketing activities in the existing Target market]

1.5 DEFINITIONS OF MARKETING

Different experts understood and defined Marketing in several words but if closely studied the direction of all is the same. Some of them are as follows:

1. "Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large." ***— American Marketing Association (AMA)***

This definition is very comprehensive, encompassing the product development, marketing communications, pricing, and strategic aspects of marketing.

2. "Marketing is not only much broader than selling; it is not a specialized activity at all. It encompasses the entire business. It is the whole business seen from the point of view of the final result, that is, from the customer's point of view. Concern and responsibility for marketing must therefore permeate all areas of the enterprise." ***– Peter Drucker***

3. "Marketing is the social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others." ***— Philip Kotler***

This is more of an old-school, college-professor definition, which while accurate, is fairly cold. The "social process" part diverts concentration from the business side, and "individuals" sounds more scientific than "customers" which is the gold standard in many of these definitions.

4. "Marketing is the process whereby society, to supply its consumption needs, evolves distributive systems composed of participants, who, interacting under constraints – technical (economic) and ethical (social) – create the transactions or flows which resolve market separations and result in exchange and consumption." ***– Bartles***

This is even more a college-professor definition. The idea of society evolving distributive systems seems to take the shine off of the inventiveness and initiative of individual marketers.

5. "Marketing is any contact that your business has with anyone who isn't a part of your business. Marketing is also the truth made fascinating. Marketing is the art of getting people to change their minds. Marketing is an opportunity for you to earn profits with your business, a chance to cooperate with other businesses in your community or your industry and a process of building lasting relationships." ***— Jay Conrad Levinson***

1.6 MARKETING MANAGEMENT

Marketing management : is a business wing which is focused on the practical use of marketing techniques and the management of a firm's marketing possessions and activities. Rapidly emerging forces of globalization have forced the companies to market beyond the borders of their home countries, making international marketing highly significant and an integral part of a firm's marketing strategy. Marketing managers are often responsible for influencing the level, timing, and composition of customer demand accepted definition of the term. In part, this is because the role of a marketing manager can vary significantly based on a business's size, corporate culture, and industry context. For example, in a large consumer products company, the marketing manager may act as the overall general manager of his or her assigned product. To create an effective, cost-efficient marketing management strategy, firms must possess a detailed, objective understanding of their own business and the market in which they operate. So, often marketing overtakes the Strategic department in taking these decisions. Marketing management is therefore related to the Profit making unit of the Organization.

1.7 SUMMARY

This unit makes you understand the very basics of the subject MARKETING, allow you to know the various definitions by different experts. The Need, want, Desire factors and 4 P’s of marketing mix, meaning of marketing and different marketing strategies. In further units these factors will be explained further with its practical uses. These basic factors are used continuously in the future study of the subject and related factors.

Questions :

1. State the concept of Marketing and Marketing management. How are marketing strategies classified?
2. What are the 4P’s of marketing? Point out the types innovation and growth strategies of marketing.
3. Describe the implications of marketing, marketing management and mix. How can you classify marketing strategies?

1.8 SELF ASSESSMENT QUESTION

1. Define the term “Marketing”? Also explain its meaning.
2. What do you mean by Marketing Mix? Explain.
3. What are various Marketing Strategies?

1.10 FURTHER READINGS

1. Kotler, Philip, Marketing Management, Pierson, New Delhi, 1994.
2. Stanton, J.W. Fundamentals of Marketing, Mc Graw Hill, New York 1994.
3. Rewoldt, S.H. J.D. and Warshaw, W.R. Introduction to Marketing Management.

UNIT–2

MARKETING IN DEVELOPING ECONOMY

Objectives

The study of this unit will help you understand the following topics:

- Marketing at Different levels of Economic Development
- Relevance of Marketing in developing economy
- Areas of relevance and The relevance of Social Marketing
- Philosophies of Marketing

Structure

2.1 INTRODUCTION

In the era of globalization, every country is trying to develop its economic status to be in race with others. To be economically sound the base of every activity is to increase in the revenue model i.e. more earnings. For this Marketing plays an important role because marketing helps them in increase its earnings by better sales and also Image building. Developing economy countries have the requirements to establish themselves as a Brand in international as well as national scenario. Also, for every organization there are five major management functions namely as marketing, finance, production, purchase and human resource and to become a cohesive organization it believes that all of these major functions should be treated equally. Marketing often receives a mixed reaction and has influenced social decision depending upon the strength of pro or anti marketing groups. But in last few decades marketing has prominently emerged as a backbone for the business organization as well as the society. The major reasons of increasing importance of marketing in developing economies are the major changes happening in the society an associated environment. These are explained ahead in this unit.

Growth of Marketing has helped many countries to come up and strengthen its economic status. Even in India which is targeting to become an Economic Super Power by 2020, depends on best marketing practices to fulfill its goal. Since marketing is based on Customer orientation it focuses on the social improvement at every level resulting in Economic growth. It provides the value to the assets of the organization and gives it a monetary value.

2.2 WHAT IS A DEVELOPING ECONOMY?

A developed country is one that allows all its citizens to enjoy a free and healthy life in a safe environment. A developing country, also called a less-developed country (LDC), is a nation with a low living standard, underdeveloped industrial base, and low Human Development Index (HDI) relative to other countries. There is no universal, agreed-upon criteria for what makes a country developing versus developed and which countries fit these two categories, although there are general reference points such as the size of a nation's GDP compared to other nations. Countries with more advanced economies than other developing nations but that has not yet established signs of a developed country, are often categorized under the term newly industrialized countries. So, developing economy is the country which tries to come up in the category of overall developed nation where safety, health and freedom are the main criteria for development.

2.3 MARKETING AT DIFFERENT LEVELS OF ECONOMIC DEVELOPMENT

Economic development needs to address lot of factors if it really wants to grow; we look into these factors and relate them in terms of marketing.

(1) Customer Buying Behaviour Pattern :- Since customer is a human so his behaviour always changes and is never static. This change occurs due to time and place, education, technology, socio economic factors, income, communications etc... Consumers are the main axis of the economic development so companies constantly research and assess these changes adopt different marketing strategies to over smart this issue by changing products, creating new products, promotion and pricing patterns.

(2) Combating Competition :- There is a competition in every sector of business except in high research, technology or rare sectors like space research, nuclear, defence equipments, aviation etc. . General products like fast moving consumer goods (FMCG), Electronics, household goods need regular up gradation and have lot of competition. Since they contribute a lot in economic development hence marketing provides them the way to combat the competition successfully and move ahead.

(3) **Declining Sales :-** A time comes for every product when it is outdated and being replaced by better new and low priced product. It can be seen in many sectors such as Electronic Typewriters replace by Computers, Land-line Phones by Mobile Phones, Old model Cars by new technology Cars, resulting in decline in sales. The companies start to work on Market research, promotional activities, advertising, pricing, and offers etc. to arrest this decline. Marketing comes as a great help in this situation.

(4) **To improve Sales Growth :-** There are sectors which due to the choice of customers or Government Rules stagnate or decline in Sales, like ITC having a great share in Cigarette sector have to fold their operations due to government rules. This sort of companies turns to marketing to find out reasons a remedy for the situation. So ITC diversified in FMCG sector for survival and it has done well. They even look into new opportunities, new market, even new products and a good understanding of Marketing to do so.

(5) **Balancing Expenditure and Profits earned :-** Organizations often encounter the problem of increased expenditure due rise in costs of Workers, raw materials, utilities like electricity and energy etc. resulting in increase in cost of production showing a negative trend in end profits. These organisations often put high stress on marketing efforts to increase business volume to counter the increase in costing. Use of right marketing techniques usually reverses the trends.

(6) **Technological Changes :-** For the last few decades we have seen quick changes coming in some sectors as we have discussed above. If we notice that many of these changes are technology oriented. If we take examples computers, electronics and communication industry are prone to fast technological changes as we see computer's configurations and operating systems are quickly upgrading whereas similar is the case with mobile and electronic industry. In such a situation knowledge of Marketing helps to quickly adapt the situation, identify new products, new markets instead of leaving the competitive race.

These all above mentioned factors are the causes and factors responsible for the economic development and we have seen that how Marketing helps in overcoming and succeeding in all situations marketing provides the right directions and strategies to gain success in any business.

2.4 RELEVANCE OF MARKETING IN DEVELOPING ECONOMY

As explained that developing economy requires lot of growth in revenue earnings and other social factors. So, marketing is considered as a tool which is of great use in these issues as it has practical application factors rather than be theory orientation. It is that after 1970 all the major universities have provided marketing as one of the major subjects in their syllabi. Marketing has provided serious relevance on the following areas:

(a) Marketing encompasses psychology as major tool to understand consumer behaviour, qualitative studies and attitudes studies. So this helps in understanding consumer buying behaviour and motivation of staff. Psychology in marketing gives a solid reason for any developing economy to use several other factors.

(b) Marketing has relevance in current structure of commercial or bulk buying with the importance of growing pressure groups on them. So a knowledge developed by sociologists has been used by the marketing organisations. These socio psychologists have contributed a concept that has been used in long term buyer seller relationship.

(c) Marketing as a subject is heavily based for its results and conclusions on statistics likes of moving averages, mean-median regulation, trend analysis etc. helping them in market research and survey activities, which in turn help in long term research in buying behaviour, product design preferences and pricing design effectiveness where these methods are used.

(d) Marketing uses economics as one of the major topics in its studies. so it helps in understanding different costing, pricing strategies, terms like break- even volume and monopolistic, competitive markets etc.. This helps any developing economy to smoothen its operations.

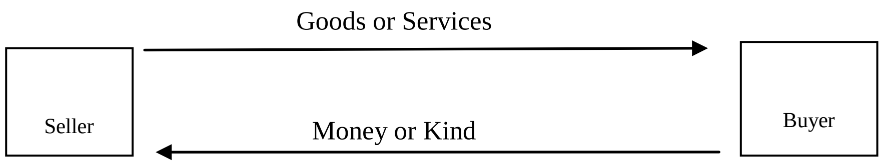
(e) Law is also an important factor helping in big commercial agreements in bulk selling. Also, used in negotiating retail network development and franchisee system legal framework is used. As aware Marketing people use it effortlessly and successfully.

So, we see the relevance of marketing as it has developed so many techniques and theories which have been adopted and used by other sectors and disciplines also. Developing economies of the world have started taking marketing as a serious subject and tool to succeed in their endeavours.

2.5 AREAS OF RELEVANCE AND RELEVANCE OF SOCIAL MARKETING

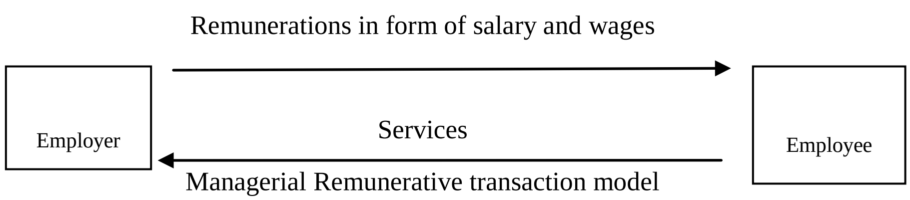
Marketing is basically based on idea of exchange process. This exchange is prevalent in all the relevant fields of society, as it needs minimum two parties or persons and one party is interested to take or buy something of value or utility and willing to pay or forego something. So, Marketing has Relevance in all important fields of life such as follows:

1. Commercial Exchange Model: - Usually noticed in everyday marketing activities, where consumers buy goods or services offered by seller in exchange of money.



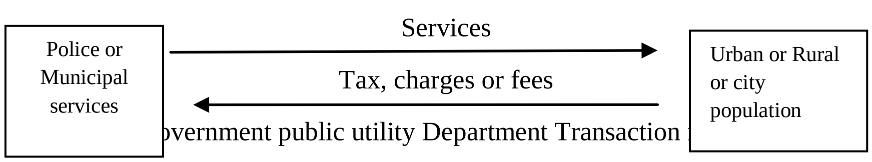
Regular Business transactions model

2. Employment Exchange Model: - This transaction is basically done between an employer and an employee where the former pays the remuneration depending upon the services offered by an individual employee. This sort of transaction can be on regular or contractual basis.



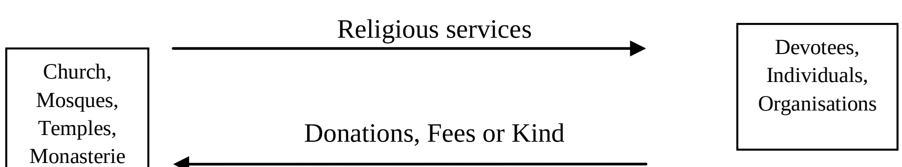
Managerial Remunerative transaction model

3. Civil Exchanges Model:- Services offered by Government or Private organisations likes of Police, electricity, Fire fighting, water supply etc. to provide the protective as well as essential services and the general citizens pay fees, charges or taxes in lieu of them.



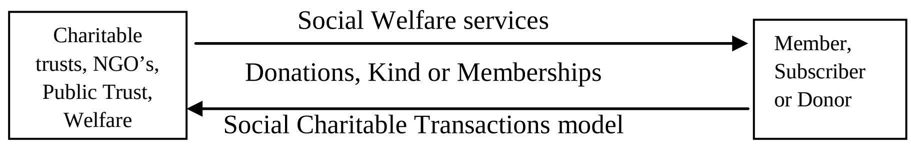
vernment public utility Department Transaction

4. Religious Exchange Model:- Temple, Mosques, Churches, Gurdwaras etc. provide religious services to the general masses and in return the groups or individuals offer money in the form of donations, offerings, membership fees etc..

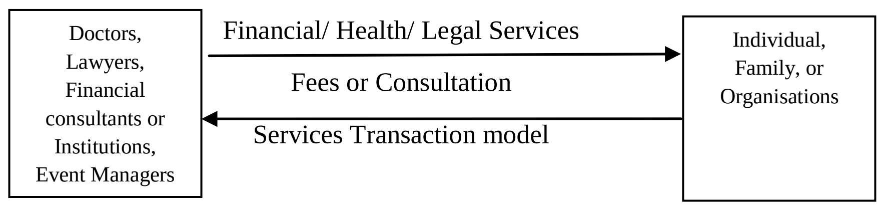


Religious Transactions model

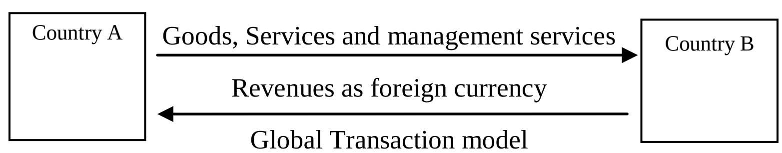
5. Charity Exchange Model:- There are organisations likes of Missionaries of Charity, Red Cross Society, Rotary Club, Lions Club, etc. which provide social services to the masses such as health services, Educational services, community services etc. require funds to provide these services and act as Done. Here the Donor offers funds in the form of Money, Land or space for these charitable organisations.



6. Financial/ Health/ Legal/ Event services Exchange Model: - In the current view of growing living standards, income level and economic conditions of masses, the above mentioned services are having a boom time. Expert consultancy by Financial consultants, Doctors, Lawyers and Event managers at the right situation eases out a lot of worries for them, against which they are paid Fees, interest or consultancy remunerations.



7. Global Exchange Model: - There is exchange of goods and services in the form of Import and export between two countries. Global transaction is becoming a important aspect in the marketing scenario. In this type of Transactions country earns revenues in the form of foreign currency.



These are the areas of relevance of marketing in modern scenario. It can be noticed that practically in every spheres of life and all of them are connected to exchange of goods or services with money or kind, and this exchange is only possible if the marketing sector of the provider is strong. Many other sectors can be added to this section of study.

Relevance of Social Marketing

What is Social Marketing? :

Marketing is related to the needs and wants of the customer but often these objectives do not coincide with the society's needs and objectives and therefore it is difficult to satisfy both. The term Social Marketing is used for marketing of those products or services which are social benefits or society's benefits. For e.g.; administering Polio Drops to all children below 05 years. The marketing of this campaign is directed towards the benefit of children and eradication of Polio from India. The major objective of social marketing is to market and distribute products or services which are generally benefitting to community or society.

So, to define the management thought about social marketing concept is that it believes assessing the needs and wants of consumers and to adapt the organisation to produce and market goods to give expected satisfaction more effectively in such a way that preserves the consumers and society's well being in the future.

The social marketing has following objectives to be met:

- **(a)** Customer will prefer that organisation which takes care of both customer's long term needs as well as society's long term interests of safety and environmental benefits.
- **(b)** Company needs to understand the consumers concern for safety and environmental problems.
- **(c)** The objectives of social marketing should be directed towards the overall up gradation and benefits of the community. E.g. polio campaign, Aids campaign, eco-friendly packing materials, malnutrition campaign etc…
- **(d)** The overall marketing activities should be coordinated to offer products which satisfy the needs of customers as well as long term interests and safety of the society.

There are always a common agreement in identification of target groups which deserves priority in social marketing and their needs. These campaigns are usually directed towards the people living below poverty line, unemployed, illiterate, small farmers, construction workers, labourers etc… Social marketing helps them strengthening their weaknesses as in healthcare, education, housing, family planning etc… For e.g. promotions and free distribution of Condoms in the rural areas and media advertisement is an example for the same. "School Chale Hum" is a social programme towards improving the literacy level in India.

Image 1 (source web)

Image 2(source web)

Image 1 and Image 2 are the two current examples of social marketing campaigns. By performing these activities organisations shows that they are concerned with the well being, safety and quality of life of the society or community, and this is very well done in other sectors also. Big organisations such as Microsoft, Coca Cola, Hp, etc… are good examples of companies taking the burden of social responsibilities which is called Corporate Social Responsibilities. Examples can be huge in number but we have to identify them and be aware of those aspects of Social marketing. Government of India has been taking this initiative and large part of the annual budget is being allotted to tackle these social weaknesses as it has been done for the defence activities of the country. So, we should understand that social Marketing is relevant in every grade of Human life depending upon the lifestyle one follows. For the upper class may be it is anti-smoking, anti-drug campaigns, and for the other sectors its Family Planning, Education etc…

2.6 PHILOSOPHIES OF MARKETING

Marketing philosophies and concepts are guided by many factors to satisfy the customer's needs and wants such as social factors, organizational vision and missions, market type and characteristics and ever changing consumer buying behaviour and characteristics. The intensity of efforts made on marketing and its programme are decided by the company itself to the interests of the customers and society. As the time is going by five major philosophies or concepts have emerged on which marketing is planned as follows:

The major highlights of Product concept are :

1. The Production Concept
2. The Product Concept
3. The Selling Concept
4. The Marketing Concept
5. The Social Marketing Concepts

The Production Concept

The management philosophy behind the *Production concept* is a belief that consumers choose those products which are conveniently available in ample quantity and reasonable price at all major outlets. So, the focus of the management should be on production of adequate quantity with good quality and a proper distribution process to make it reach to the end consumers. As a result this production will be sold out and the customers will accept it readily.

This concept is useful in those products only which are consumed in masses and demand always exceeds the supplies. Products like of stationeries, eatables, cooking products, fertilizers and many other essential commodities. As an example Henry Ford of Ford motors implemented the concept of mass production to reduce the cost of cars in early 20th century. This effort was to enable the American consumers to afford their cars.

Many social service organizations likes of Schools, hospitals, colleges, sports academy, family planning centers etc… operate on mass production concepts basis providing service to masses and provide a maximum coverage. If we see the efficiency of these services they are not up to the mark but the emphasis is on mass service provision. Production concept thus believes on providing quantity rather than quality but a certain standard is maintained.

The major highlights of *production concepts* are:

1. Consistent Quality and affordable price can satisfy customer's needs, quantity matters.
2. Sufficient quantity of product availability and a quality is the responsibility of the Production company.
3. Competitor Knowledge and competing in a right manner helps.

The Product Concept

This management philosophy emphasises on the fact that consumers often choose those products which are best in quality and reasonable in price, in other words it is the essential factor for all the organizations, marketing its products that they should provide the products which are having sustainable improved quality. In this concept too competitors play a very important role in customer decision process as they compare the price v/s quality in comparison to the competitors.

Many organizations following the product concept often ignore the customer's specific needs for a solution. As few years ago many Hotels, restaurants, hospitals, cinema halls had a faith that to succeed in their business if they are serving a set standard quality product, which satisfied a big section of consumers but not the prosperous section of market.

The major highlights of *Product concept* are:

1. Quality of the product and a reasonable price is the customer's choice.
2. Customers compare the quality and Price of the product with the Competitors similar Product.
3. A modern customer is fully aware of all the similar products in the market and prefers only those which are very near to the preferred quality and matches their buying power.
4. Overall need of the customer should be satisfied by the product not the specific needs.
5. Brand preference of the customer is based on the quality opinion and this leads to the Brand loyalty.

NGO's and many service providing organizations follow this concept believing that they are providing their quality at their best but just hate the complaining customers or users, for e.g., Railways, roadways, Government hospitals, Post Offices, Banks etc.. .This indicates the over confidence of these organizations and causes a self-inflicting injury to their long term business strategies.

The Selling Concept

This concept is quite different from the above mentioned concept as this believes on the fact that nothing is consumed as desired by the customers until they are motivated to do so through selling techniques. The selling efforts play an important role in getting business and satisfying customers. The selling concept can be defined as:

"A management philosophy that customers do not buy products that are not essential rather buy it in limited quantities until the organization puts up an effort to make them aware and create interest in its products in such a manner that that they are tend to have a positive attitude towards it".

This concept gives an importance to the fact that no product or service is sold on its own until a clever and vigorous selling effort backs it up. Goods and services can be of any good quality or affordable price but is not a success in the market until a selling effort is made. The selling efforts also include the advertising and promotional efforts.

The major highlights of selling concept are:

1. Consumers are always a limited buyers and do not waste money by buying non-essential commodities or in excess quantities.

2. Organisations motivate these consumers by using selling efforts.

3. Consumers are attracted towards good and effective salesmanship, techniques and efforts rather than negative aggressive unmannered salesmanship.

4. Customers are loyal to those organisations and outlets where they find a systematic, pleasing and effective salesmanship.

We can notice this concept being used in many sectors in our day to day lives likes of Insurance companies, automobile sectors, investment companies, Mobile companies even courier services use this concept to grow its business and attract the customers to do excess and repetitive buying. The focus of selling concept is to earn sales revenues and profits by the selling techniques and promotional exercises. So this concept is a seller oriented concept rather than customer oriented because it is the profit earning which matters not the needs and wants of the customers.

The Marketing Concept

This concept emerged in early 1960's where the organisations started working on dividing the existing market into different segments depending upon the status, needs and wants of the customers. Here the CUSTOMER IS THE KING. It found out that market characteristics and their needs are not similar, static and change with time and place. Now the needs of the customer took the main stage of all the planning and programmes called the marketing planning. The marketing concept focuses on customers their needs and wants and provides a solution to satisfy them. The marketing concept can be defined as:

A management philosophy that is directed towards the needs and wants of the customers of the target markets and the organisation finds the products or services that satisfies and provide the right solution to the requirements of such needs and wants and providing the satisfaction to the customers.

As quoted before the customer is the main character in this concept and he should not be dissatisfied in any way, because it is a tough and long journey for an organisation to find a customer whereas it is very smooth and a short task to lose him.

The major highlights of the marketing concepts are:

1. Different varieties of needs and wants of the customer should be recognized and the products and services should be developed or served to match those requirements.

2. Products or services which are preferred by the customers are the ones which are perceived to be close enough to their needs and wants and carry those features which attracts them.

3. Customers' characteristics group themselves in different segments and these segments consist of market which the organisations target.

4. If the product does not match the needs and wants of the customers it is not accepted by them.

5. The success of this concept depends upon the right assessment of market research, market segmentation and offering specific products to them along with proper marketing programmes.

So now the difference can be understood that Marketing is directed towards the needs and wants of the customer whereas the selling is focused on the needs of the seller. This denotes that the selling is a mode which works on the existing products or services and tries to fit in the needs of the customers whereas marketing tries to understand those needs and wants and then develop the right product. So it can be underlined that

Selling is the tip of Iceberg of Marketing, where selling makes an important and ultimate contribution towards the process but Marketing is the base all.

We can quote the example of Telecommunication services where till 90's landline services were available which was the only way to communicate. People had to wait for the operators mainly Government bodies to get a connection that too with lot of trouble. Public PCO's were there but people had to queue up for their chance to talk. In emergencies it was quite painful to wait, even in bad weather conditions the services collapsed because they were based on wired system. This is a clear cut example of Seller concept. But by early 2000 wireless services of Mobiles were lost initially expensive but later on very affordable and reasonable came in the scene, and now we all know that even a poorest man is having a mobile set and communicating has become so convenient. This is a Marketing concept case where organisations are competing with each other and providing best features, price and reach to the customers.

So we can see that Selling concept is based on the "existing products or services" and tries to create a place in the needs of the customers, whereas the marketing concept starts right from identifying the needs of the target market and customers and developing the right product or service accordingly leading to better business transactions, profits and better satisfaction of customers. A win- win situation everywhere.

Marketing concept is now being used in NGO's and service industries also. They are working in the field where they identify the more need to be addressed like right now Women empowerment, malnutrition are the burning issues and NGO's are working on them, they are using media, celebrities and other important resources to create an awareness among the masses especially the Rural India. They are increasing their base by Government aids, donations and memberships. Service industries likes of Hospitals, Insurance sectors, holiday package providers, etc are using this concept to bring out new offers and schemes to satisfy the end customers.

Figure below tries to summaries the different Marketing philosophies:

Effects	**Product Concept**	**Production Concept**	**Selling Concept**	**Marketing Concept**
Company	Belief on its product quality	Customer should be satisfied by the quality and value of the product offered	Persuasive approach helps in selling what is produced	Identifies the customers' needs and wants and serves them with a product that satisfies it.

Product	Products sold are of acceptable quality	Whatever produced is being sold	Product offered are of utility but are not exactly match the customers' needs	Products are designed and offered as per the perfect needs of the customers
Product Quality	Always tries to improve the quality	Always try to improve productivity and reducing costs	Makes the product available and improves quality	Product renovation and innovation
Research and Development	Used in getting customers feedback on product quality	Not a usual feature but randomly works on assessing customers feedbacks on quality and avaibility	Used in increasing sales rather than knowing needs of the customers	Development of Innovative products to satisfy customers' needs
Customer care services	Usually not provided	Usually not provide	Non focused approach usually try to avoid	Focuses heavily due to the belief of gaining customer loyalty
Examples	Office equipments, Clothing material	Police service, railways, Roadways, Government healthcare centers	Petroleum Products, Building materials such as cement, steel etc.	Automobiles, Mobile services and equipments, Electronics goods

2.7 SUMMARY

This unit focuses on the term Marketing and its role in Economic development and its relevance in various areas of life. We have seen that unknowingly we are exposed to marketing every now and then and are being served by it all the way. We are socially, commercially always connected to it and are always thankful that it has helped us get solutions to many problems of our day to day life. Marketing thus plays a very important role in individuals' life as well as overall economic development and modernization of a nation.

2.8 SELF ASSESSMENT QUESTIONS

1. What do understand by Developing Economy?
2. What is the Marketing pattern at different levels of Economic Development?
3. What are the different areas of relevance of Marketing?

4. Write down a short noted on Social Marketing and its relevance in society.

2.9 FURTHER READINGS

1. Kotler, Philip Marketing, Marketing Management, Pierson, New delhi, 1994.

2. Stanton, J.W., Fundamentals of Marketing, Mc Graw Hill, New York 1994.

3. Rewoldt, S.H., Scott, J.D. and Warshaw, W.R. Introduction to Marketing Management, 1973.

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UNIT-3

MARKETING OF SERVICES

Objectives:

This unit will help you to study and understand following topics:

- Difference between Goods and Services
- Concepts of services and its characteristics
- Why there is a growth in service industry?
- Marketing mix of services
- Case study

Structure:

3.1 INTRODUCTION

Service segment is the most wide ranging industry globally today because it covers the fields like restaurants, hotels, health, education, welfare, communication, travel, banking, consultancy, insurance, advertising, IT services etc.. Every individual buys these for himself whereas organizations buy in bulk. So there is terrific growth in this Industry and it is mainly due to the changing lifestyles, changing world, economies, population and technology. Despite of several envoi mental pressures and competition in this sector yet it is growing very fast. Economic history tells us that all developing nations have invariably experienced a shift from agriculture to industry and then to the service sector as the main stay of the economy. This shift has also brought about a change in the definition of goods and services themselves. No longer are goods considered separate from services. Rather, services now increasingly represent a basic part of the product and this interconnectness of goods and services is represented on a goods-services continuum.

The service sector is going through almost major change, which considerably affects the way in which we live and work. New services are continually being launched to satisfy our on hand needs and to meet needs that we did not even know we had. Not even 10 years ago, few people estimated a need for email, online banking, web hosting, and many other new services. Today, many of us feel we can't do anything without them. Similar transformations are occurring in business-to-business markets. Service organizations vary widely in size. At one end of the scale it are huge international corporations operating in such industries as airlines, banking, insurance, telecommunications, and hotels. At the other end of the scale is a vast array of locally owned and operated small businesses, including restaurants, laundries, optometrists, beauty parlors, and numerous business-to-business services, to name a few.

3.2 CONCEPTS OF SERVICES

Services' marketing is a branch of marketing, which can be divided into the two main areas of goods marketing (which includes the marketing of fast moving consumer goods (FMCG) and durables) and services marketing. A service marketing typically refer to both business to consumer (B2C) and business to business (B2B) services, and includes marketing of services like financial services, professional services, car rental services, air travel, telecommunications services, health care services and all types of hospitality services. The range of approaches and terminology of a marketing idea developed with the hope that it should be effective in conveying the ideas to the different population of people who receive it.

Services are economic activities offered by one party to another. Often time-based, performances bring about desired results to recipients, objects, or other assets for which purchasers have responsibility. In exchange for money, time, and effort, service customers expect value from access to goods, labor, professional skills, facilities, networks, and systems; but they do not normally take ownership of any of the physical elements involved.

There has been a long educational debate on what makes services different from goods. The historical point of view in the late-eighteen and early-nineteenth centuries focused on creation and possession of wealth. Classical economists contended that goods were objects of value over which ownership rights could be established and exchanged. Ownership implied tangible possession of an object that had been acquired through purchase, barter or gift from the producer or previous owner and was legally identifiable as the property of the current owner.

Adam Smith's famous book, The Wealth of Nations, published in Great Britain in 1776, distinguished between the outputs of what he termed "productive" and "unproductive" labor. The former, he stated, produced goods that could be stored after production and subsequently exchanged for money or other items of value. But unproductive labor, however" honorable,...useful, or... necessary" created services that perished at the time of production and therefore didn't contribute to wealth. Building on this theme, French economist Jean-Baptiste Say argued that production and consumption were inseparable in services, coining the term "immaterial products" to describe them.

As per W.J. Stanton, "Services are fulfilling certain wants and states that services are separately identifiable, essentially intangible activities which provide want – satisfaction, and that are not necessarily tied to the sale of a product or another service.

3.3 REASONS FOR GROWTH OF THE SERVICE SECTOR

1. **Market Orientation** : The changing competitive situation and demand supply positions has forced the manufacturing organisation to shift their philosophy from production orientation to market orientation. Market is a service function that has been added in the organisation. The pressures in the market has further forced the manufacturing organisations to have marketing research, accounting, auditing, financial management, human resource management and marketing research divisions – all of which are services functions.

2. **Development of Markets** : During the last few decades the wholesaler and the retailer population has grown in the country. Urban India has become a cluster of wholesaling and retailing business. In the Semi – urban areas, retailing has spread to the nooks and corners of the streets and in the rural areas retail business is significantly present. A new breed of organisations, offering marketing services has come up. The government also offers marketing services to the small-scale agricultural farmers, artisans and other traditional business sectors such as promotion of regulated markets, export promotion councils, development boards etc.

3. **Economic Liberalisation** : The economic liberalisation of the 1991 has brought many changes in the Indian scenario. With the Disinvestment and the Privatisation policies the state owned monopolies in many service areas came to an end Multinationals were permitted to enter the Indian market. Liberal lending policies and lower interest rates motivated many people to become self-employed. Different sectors like Banking, Insurance, Power projects, Telecommunication, Hospitality sector, Health Services, Entertainment, Air transport, and Courier services witnessed intense competition, due to the entry of multinationals. The flow of time-tested service technology from various parts of the world changed the attitude of the Indian consumer towards sources.

4. I.T. Revolution : For the last 15 years India is occupying a vital position in the area of Information Technology. IT became one of the key service businesses of the country. India has the largest software skilled population in the world. The domestic market as well as the international market has grown substantially. Realising the potential for this area many state governments have made IT as their most prioritized segment states such as Karnataka, Andhra Pradesh, Madhya Pradesh Maharashtra and Delhi have already achieved substantial progress in Information Technology the in years to come Litlle IT enabled services will have a bright future. The growth of' population, industrialisation and indiscriminate consumptions have affected the natural resources, environment and the ecological balance. Due to this there is an imbalance of the ecology various service organisations have been promoted in order to take up social marketing. Thousands of crores of rupees are being spent on safeguarding the rare animals and birds, water pollution, conservation of oil & energy and research to develop new technologies that can promote effective use of natural resources and safeguard the environment.

5. Changing Role of Women : Traditionally the Indian woman was confined to household activities. But with the changing time there has been a change in the traditional way of thinking in the society. Women are now allowed to work. They are employed in defence services, police services, postal services, software services, health services, hospital services, entertainment industries, Business Process Outsourcing and so on. The percentage of working women has been growing rapidly. The changing role of women has created a market for a number of product and services. Earning women prefer to hire services in order to minimise the innumerable roles that they are required to perform. The demand by woman is forcing service organisations to be more innovative in their approach.

6. Economic Affluence : One, of the key factors for the growth of demand for services is the economic affluence. According to the NCAER study the size of the middle income consumer is raising fast and the percentage of the very poor household's declining. The rural household in the upper income group is growing at a much faster pace than the urban households in the matching categories. The Economic liberalisation Process has had a positive impact on the Indian households. Their income as well as their expenditure have been pushed, creating a demand for many goods and services.

7. Cultural Changes : Change is the underlying philosophy of culture Place of change in Indian culture is not uniform. However, during the last century the factors of change are prominent. The emergence of the nuclear family system in place of the traditional joint family system creates a demand for a host of services like education, health care, entertainment, telecommunication, transport, tourism and so on. There has been a marked change in the thought Processes relating to investment, leisure time perception and so on which has created a huge demand for services.

8. Health-Care Awareness : In India, the healthcare market has grown considerably. The increased life expectancy is the result of the awareness of the people regarding the health issues. The growth of fitness clubs, diagnostic centers, medical counseling, and health-related information sites are the reflections of the growing demands for health care services. The government as well as the social organisations has taken up the mass campaigns in order to create awareness among the illiterate persons and the rural population on health service. Hence, the growth of health related services.

9. Extensive Migration : One of the important reasons for the growth of services in India is the extensive migration of rural to semi-urban and urban areas. Migration to urban areas for the want of jobs and livelihood has resulted in the expansion of cities and townships due to which businesses like real estates, rentals, transportation and infrastructure services are rapidly expanding.

10. Export Potential : India is considered to be a budding source for services. There are a number of services that India offers to various parts of the world like banking, insurance, transportation co - data services, accounting services, construction labour, designing, entertainment, education, health services, software services and tourism. Tourism and software services are the major among foreign exchange earners of the country and that the growth rate is also very high as compared to the other sectors.

11. Service tax : The growth in the service sector attracted the attention of the government as a tax generating source. Over the years, the number of services brought under service tax has increased- Service tax is levied on hotels and restaurants, transport, storage and communications, financial services, real estates, business services and social and personal services.

3.4 CHARACTERSTICS OF SERVICES

What exactly are the characteristics of services? Factually, many products have service elements attached to it to define its success, for that we can take example of any successful restaurant serving physical food items but it is the speed of delivery, taste of food, cheerful back up staff which satisfies a customer as in recent food chains like McDonald, Pizza Hut etc.. So we find following characteristics in services:

The are several characteristic Which differentiate a service from a product. are Perishability, Heterogeneity, Intangibility and Ownership. Here we discuss further 7 characteristic which are critical and help you to understand a service product better.

(1) Services are Performance based – Why is it that Accenture has such a high brand equity? This is because of one single thing which they have commanded over time – Trust. Thus this is one benefit to the service of Accenture which other companies can hardly give. Therefore, word of mouth publicity and a good reputation are some benefits which are critical to make a service brand over time. The first restaurant you try is one recommended by your friend.

(2) Services cannot be made available in advance – If you were running a restaurant, can you make all the dishes one day in advance and then serve the customer when he comes? No you can't. All you can do is make the ingredients. Even fast food restaurants take care that the food is replenished every single day. The simple reason behind this is that services cannot be stored. They cannot be given in advance. They can be given only when a purchase of the services has been made.

(3) Services are time bound – If you were a doctor, and you gave half an hour to each patient, talking idle talks just to make him comfortable, you will probably lose the 10 customers sitting in your lobby. In services, you charge by the amount of time a person consumes. Thus the way you utilise your time is critical to the profitability of your business. A restaurant which does not have any customers today will have lost a lot of money in keeping the restaurant open, in labour charges etc.

(4) Services are non transferable – Outsourcing is the best example of non transference of services. If you wanted to outsource your calls, can you bring the call centre to your country? You can't. Because again the costing will go high. That is why call centers are in cheaper countries. You cannot separate the process from the source. You will have to keep the call centre services in one place and provide these services in another.

(5) Services are perishable – The point is similar to perishability of services marketing. The concept is simple – if you do not watch the show now, you won't get a refund of the ticket. If you do not board your plane or your train, you cannot ask back for the charges of the ticket. Once ordered the service perishes, if left unused.

(6) A service is non returnable – You pay a doctor for consultation and medicines. But your illness does not get cured or he is unable to find the source. Can you ask your money back? You cannot. He gave you the service which you asked for. He might not ask for money anymore or you can return the medicines and receive the money for the medicines. Medicines are not a service. These are products. The bottom-line – you cannot return a service once it has been consumed. In restaurants, you can return the dish if you don't like it, and ask for another same one. But you cannot walk out of the restaurant without paying for the services.

(7) Quality of services is variable– My local auto service centre has one rule for loyal customers – Do not give your bikes on weekends. The reason is quite simple. He has a heavy workload on weekends as a result of which the quality of service is low. This is human factor and the owner can hardly do anything. Even in a restaurant, the quality of food served or the service given will vary during peak hours. Furthermore, as services are intangible, it is not possible to measure the quality of service given. Thus controlling the quality of services over time is very difficult as long as the human element is involved.

Overall these seven characteristics define a service. A marketer / entrepreneur should go through each of these characteristics and find out where you can bring about an improvement in your organization. I am sure even if you are meeting your customers' satisfaction goals; there is scope for exceeding customer expectations by analysing these seven characteristics of services.

3.5 ELEMENTS OF MARKETING MIX IN SERVICE MARKETING

The first four elements in the services marketing mix are the same as those in the traditional marketing mix. However, given the unique nature of services, the implications of these are slightly different in case of services.

1. **Product :** In case of services, the 'product' is intangible, heterogeneous and perishable. Moreover, its production and consumption are inseparable. Hence, there is scope for customizing the offering as per customer requirements and the actual customer encounter therefore assumes particular significance. However, too much customization would compromise the standard delivery of the service and adversely affect its quality. Hence particular care has to be taken in designing the service offering.

2. **Pricing :** Pricing of services is tougher than pricing of goods. While the latter can be priced easily by taking into account the raw material costs, in case of services attendant costs - such as labor and overhead costs - also need to be factored in. Thus a restaurant not only has to charge for the cost of the food served but also has to calculate a price for the ambience provided. The final price for the service is then arrived at by including a markup for an adequate profit margin.

3. **Place :** Since service delivery is concurrent with its production and cannot be stored or transported, the location of the service product assumes importance. Service providers have to give special thought to where the service would be provided. Thus, a fine dine restaurant is better located in a busy, upscale market as against on the outskirts of a city. Similarly, a holiday resort is better situated in the countryside away from the rush and noise of a city.

4. **Promotion :** Since a service offering can be easily replicated promotion becomes crucial in differentiating a service offering in the mind of the consumer. Thus, service providers offering identical services such as airlines or banks and insurance companies invest heavily in advertising for their services. This is crucial in attracting customers in a segment where the services providers have nearly identical offerings.

➢ We now look at the *three new elements of the services marketing mix* - people, process and physical evidence - which are unique to the marketing of services.

5. People : People are a defining factor in a service delivery process, since a service is inseparable from the person providing it. Thus, a restaurant is known as much for its food as for the service provided by its staff. The same is true of banks and department stores. Consequently, customer service training for staff has become a top priority for many organizations today. Since bad service can't be taken back and it has to be perfect first time and every time so there is an emphasis on following factors:

- Selection of Personnel
- Motivation of Personnel
- Training of Personnel

6. Process : The process of service delivery is crucial since it ensures that the same standard of service is repeatedly delivered to the customers. Therefore, most companies have a service blue print which provides the details of the service delivery process, often going down to even defining the service script and the greeting phrases to be used by the service staff.

7. Physical Evidence : Since services are intangible in nature, most service providers strive to incorporate certain tangible elements into their offering to enhance customer experience. Thus, there are hair salons that have well designed waiting areas often with magazines and plush sofas for patrons to read and relax while they await their turn. Similarly, restaurants invest heavily in their interior design and decorations to offer a tangible and unique experience to their guests.

The figure given below explains all the factors:

A CASE STUDY OF BANK SERVICES

It emphasizes on a very important factor that the success of any financial institution (bank) depends upon the service delivery of the products offered and the satisfaction of the customers. It also covers the various quantitative products offered to the customers for their maximum retention and tells that the products and services should along with being quantitative be qualitative. The study reveals that during recent times there has been a quantitative expansion of banking services but qualitatively the scenario has been far from satisfactory. The qualitative improvement provides up thrust in the success of the banking industry and is the need of the hour in today's era of cut throat competition and to provide customer satisfaction.

1. The Primary Sector, comprising Agriculture, Fisheries, Forestry, Animal Husbandry.

2. The Secondary Sector, comprising Small and Large scale industries

3. The Tertiary Sector, comprising Transport, Communication, Banking Finance and other services.

Agriculture forms the backbone of the Indian economy and occupies a place of pride but the share of agriculture is decreasing continuously and that of industrial and service sector is continuously increasing.

Today, service sector contributes the maximum share oflndia's Gross Domestic

Product (GDP). It comprises of trade, communication, financial system, insurance, community, social and personal services.

INDIAN BANKING SYSTEM

The resources of the financial systems are held by financial institutions in trust and have to be deployed for the maximum benefit of their owners- viz. depositors and investors. The safety of their funds should be the primary concern of banks and regulatory authorities and hence ensuring solvency, health and efficiency of the institutions should therefore be central to effective financial reforms. Almost 80% of the business is still controlled by Public

Sector Banks (PSB). PSBs are still dominating the commercial banking system. Shares of leading PSBs are listed on the stock exchange with private sector banks. The RBI has given licenses to new private sector banks as a part of the liberalization process. Many banks are successfully running in retail and consumer segment but are yet to deliver services to industrial finance, retail trade, small business and agricultural finance.

Today the banking industry, which was tightly protected by regulations is now experiencing a rapid change. Now it is no more confined to nationalized and cooperative banks but has emerged with multinational banks who have spread their branches across the length and breadth of the country.

The entry of private players in the industry has altogether transformed the banking arena. Now the consumers have a choice of transacting either in traditional way or the new multi channel banking i.e.

A.T.M., Net banking, Tele banking etc. Banks today are thus providing large number of quantitative services along with qualitative dimensions.

Due to tough competition in the banking sector and due to the entry of private players, the quantity of services of the banks are increasing day by day but as far as quality is concerned, it is continuously deteriorating. Today the customer is interested in how he *I* she can benefit from the banks and their products.

That is why it becomes necessary for a bank to differentiate its products from the others. Indian banks have now realized that it no longer pays to have transaction based operating. This has shifted their focus from operational services to customer centric services. Today they are looking at newer ways to make a customer's banking experience more convenient and effective. This can be done by using new technology, tools and techniques to identify customer needs and then offering products to them. In the financial world, product

superiority does not last long as it is relatively easy to copy products. So the real strength comes from operational excellence and understanding the customer and developing rapport with them. The emerging need of the time is that the banks both in the public as well as private sector should identify and cater the needs of the customers thereby practicing customer retention and • providing them efficient services. Customer service is concerned with the creation, development and enhancement of individualized customer relationship with carefully targeted customers resulting in maximizing their total customer lifetime value by giving them satisfaction against their expectations. Today approach towards customer service, emphasizes on keeping as well as winning the customers. Today focus of banks has shifted from customer acquisition to customer retention. Besides rendering traditional services of accepting deposits and granting advances, during the recent years, banks have gradually started providing various auxiliary services to their customers which has completely revolutionized and enlarged the banking sector. Today, with the help of Core banking solution, the operations have shifted from branch banking to bank banking i.e. now the customers are not confined to the branch in which they having their account rather now they can access their account from any branch of the in which they are having their account. Core banking solution is providing the competitive edge to scale unprecedented height in customer delight. With the stepping in of Information Technology in the banking sector, the working strategy of the banking sector has seen revolutionary changes. Today without the use of Information Technology, the banking sector may become paralyzed. The various customer service oriented products like internet banking, ATM services, telebanking, electronic payment system, cheque processing system etc. have declined the workload of the customers. Now they need not go to the banks each and every time for meager tasks. Debit and credit cards, are another beneficial products of the banks which have made the life of the customers much easier are there for their use. Today anytime anywhere shopping has become an easy task for the shoppers who now need not carry large sums while going for shopping or any other transaction because credit cards are the remedy for them. Today the use of debit cards has donated so much time to the customers which was earlier wasted in standing in long queues of the cash counter waiting for their turn to encash their cheques or get money. Earlier customers were bound by a limit of 10:00 am to 2:00 pm for cash withdrawal or account statement, but ATMs have made the life easier by removing the time limit. A large number of services are provided by the banks Wide Area Networking (WAN) is the most important of these services. Today all the branches of a particular Bank Group spread all over the country are connected through WAN and all the details, circulars, publications, balance sheets etc. related to them are displayed on the website for the access of the customers. Although the banks are providing the. above enumerated services and many more i.e. the quantity of services is continuously increasing but unfortunately there appears to be total neglect in the quality. Today the customers have become harder to please. They have become smarter and demanding. Now the banks aim at T C S - Total Customer Satisfaction i.e. they are making efforts to match the delivery and performance of products and services which is multidimensional. But they have been successful in only one aspect of their aim i.e. they have provided ample delivery of products but their performance level is declining.

3.7 SUMMARY

This unit appraises the readers about the Service sector of Marketing. This is always based upon the Factor Satisfaction. It also shows that how Service sector enhances the P's of Marketing. In Service sector any offered Product can be used but cannot be owned by paying for it. So the Loyalty of a Consumer using it solely depends upon the Total Customer Satisfaction, as shown in the Case Study.

3.8 SELF ASSESEMENT QUESTIONS

1. What do you mean by Services? How it is different from Goods? Differentiate.
2. What are the various reasons for the Growth of Service sector?
3. Through a diagram explain the Marketing Mix in a Service sector.

3.9 FURTHER READINGS

1. Stanton, J.W., Fundamentals of Marketing, Mc Graw Hill, New York 1994.
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UNIT – 4

NEW CONCEPTS IN MARKETING

Objectives:

This unit helps you understand the modern view point of marketing management under following topics:

- Extended Marketing mix
- Emerging Concepts in Marketing
- New practices in marketing

Structure:

4.1 INTRODUCTION

Marketing is the process of communicating the value of a product or service to customers, for the purpose of selling the product or service. It is a critical business function for attracting customers.

From a societal point of view, marketing is the link between a society's material requirements and its economic patterns of response. Marketing satisfies these needs and wants through exchange processes and building long term relationships. It is the process of communicating the value of a product or service through positioning to customers. Marketing can be looked at as an organizational function and a set of processes for creating, delivering and communicating value to customers, and managing customer relationships in ways that also benefit the organisation and its shareholders. Marketing is the science of choosing target markets through market analysis and market segmentation, as well as understanding consumer buying behavior and providing superior customer value.

With the modernisation of society the Marketing mix is ever expanding and so are the conceptual thinking and practices of the marketers. This unit helps you understand these factors at length.

4.2 OTHER RELEVANT P's IN MARKETING MIX

As we have studied till now that Marketing mix has 4 P's that are:

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

These are further extended in Service marketing as:

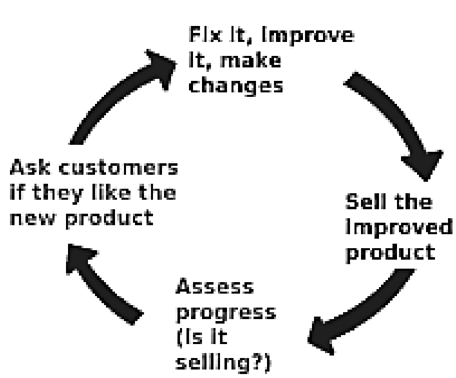
5. People
6. Physical evidence and
7. Process

But with Globalisation happening and the culture is becoming common many new relevant P's have emerged in the Marketing mix as follows:

8. Personalisation
9. Participation
10. Peer to Peer and
11. Predictive Modeling

These factors can be explained as follows:

- Personalisation: With the emerging and continuous use of internet masses are well connected to the sellers and hence customised products can be designed and be sold to these customers. We can take examples of many computer manufacturers, eye care products, and automobile industry following this pattern. We can buy a sunglass customised for us and can even try it on our face online. We can suggest changes in models of automobiles and can get one of our choices. This is also known as customer orientation approach and its vicious cycle is shown in the figure below:



Source web

- ❖ Participation: As explained above the customised approach has allowed the customers to involve in the designing of the product. This is to allow the customer to participate in what the brand should stand for; what should be the product directions and even which ads to run. This concept is laying the foundation for disruptive change through democratization of information.
- ❖ Peer to Peer: It is concerned with the customer networks and communities where advocacy happens. We commonly know it as 'Multi level Marketing' 'MLM' also. The historical problem with marketing is that it is 'interruptive' in nature, trying to impose a brand on the customer. This is most apparent in TV advertising. These 'passive customer bases' will ultimately be replaced by the 'active customer communities'. Brand engagement happens within those conversations. P2P is now being referred as Social Computing and is likely to be the most upsetting force in the future of marketing.
- ❖ Predictive Modeling: This refers to algorithms that are being successfully applied in marketing problems (both a regression as well as a classification problem).

4.3 OTHER VARIOUS EMERGING CONCEPTS & PRACTICES IN MARKETING

With the emergence of Globalization Marketing style is changing at a fast speed. Traditional style of marketing is being replaced by many new concepts and practices. Common practices are replaced by new with the tide strategies and which are technically strong. Many of these are listed below:

(i) International Marketing

(ii) Rural Marketing

(iii) Direct Marketing

(iv) Relationship Marketing

(v) Business or Industrial Marketing

(vi) Social Marketing

(vii) Internet or E- Marketing

(I) International Marketing : This type of business existed even in the ancient ages in the form of selling products beyond the boundary of a country in the form exchanges. Dry agricultural products, gold, stones, textiles materials were the main products to be exchanged. With the advent of technology and science particularly transport and communication, the modern concept of International marketing started taking shape. Now the market for any product is vast and it can be sold to any part of the world. International marketing has expanded the horizons for the manufacturer as well as the seller/ marketer. This also helps the national economy with the foreign currency as well as relationships. This has opened up the boundaries of the countries and all the produces are available across the world.

(II) Rural Marketing : Rural is defined as that which is not urban. And the definition of Rural market is one which is used by the Census of India as it has the advantages of relevance, simplicity and measurability. There are a large variety of transactions constituting the rural marketing likes of:

1. Marketing of agricultural inputs like seeds, fertilisers, Farm machinery, etc..

2. Urban produces like cycles, bikes, soaps, medicines, TV, Electronics etc. to the rural population.

3. Rural products like Khadi, Jute Agro based products, milk products to the urban buyers.

4. Marketing of products made and sold in Rural areas only like cattle feed, cloth, vegetables, milk related products.

Rural marketing is also a huge sector of focus for the organisations in India as the majority of population exists in this area only.

(III) Direct Marketing: As the term suggests this is a type of marketing where there are no intermediates in a sale. The accepted definition of it is “Direct marketing is a method of distribution where the transactions are completed directly between the buyer and the seller without the intervention of any other retailer or distributor”. With the modernisation of the affairs now this direct market is based on customer database where relevant customers are shortlisted from the sources likes of data resource banks, travel companies, insurance companies, computer companies and other businesses where bulk public dealing is done. These sources provide these marketers the right contacts to communicate.

US Direct Marketing association has given the following definition:

“*Communications where data are used systematically to achieve quantifiable marketing objectives and where direct contact is invited or made between a company and its customers*”

(IV) Relationship Marketing: Emphasis is placed on the whole relationship between suppliers and customers. The aim is to provide the best possible customer service and build customer loyalty. As we know that successful business depends upon the relations between the seller and buyer, so in this type suppliers usually mean the suppliers of different sort of raw materials to the manufacturer of any particular product. Hence, a proper relationship has to be maintained between them for smooth operation. This helps in understanding each other's position and never letting anybody down.

(V) Business or Industrial Marketing: In this context, marketing takes place between businesses or organizations. The product focus lies on industrial goods or capital goods rather than consumer products or end products. Different forms of marketing activities, such as promotion, advertising and communication to the customer are used. Different types of raw materials or finished parts or services are being interchanged for the production purpose. This field also has stiff competition so a proper marketing strategy has to be adopted. These are bulk supplies so there is huge revenue generation in this sector.

(VI) Social Marketing: This concept focuses on the factors which are beneficial to the society's quality of lifestyle, health and safety. This concept not focuses on profit building rather it is concerned with the social work. It is called marketing because the population segment has to be identified and the cause has to be promoted and implemented. So, all the marketing techniques are used except the profit making part.

(VII) Internet or E- Marketing: Internet marketing is sometimes considered to be broad in scope, because it not only refers to marketing on the Internet, but also includes marketing done via e-mail, wireless media as well as driving audience from traditional marketing methods like radio and billboard to internet properties or landing page. This attracts the customers on the site of the Internet offering them the best quality products and on good price deals. Facilities like Home delivery, Cash on delivery is being provided for customers' convenience. Hence in this era where Time is short for all this is a fast growing concept which saves both time and money of the consumers.

4.4 SUMMARY

This Unit focuses on the extension and emergence of latest Marketing areas, concepts and Practices. With the emergence of latest Technology and is advancements the Products offered are more Technical in nature and the consumers more aware, so the Marketing techniques have changed aggressively to adapt the same. This unit helps the readers to understand the same and implement in the future.

4.5 SELF ASSESMENT QUESTIONS

1. What is called Extended Marketing Mix? Explain in details with examples.

2. With the emergence of Globalization, what are the major concepts developed in Marketing?

3.10 FURTHER READINGS

1. Stanton, J.W., Fundamentals of Marketing, Mc Graw Hill, New York 1994.
2. Rewoldt, S.H. Scott, J.D. and Warshaw, W.R., Introduction to Marketing Management, 1973.
3. Staudt T.A. and Taylor, D.A., A Managerial Introduction to Marketing Management, 1973.

Uttar Pradesh Rajarshi Tandon
Open University

Marketing Management

B.B.A.-105

BLOCK

2

Marketing Mix & Segmentation

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BLOCK-II

This block consists of four units, which explains the applications and working strategies of marketing. It focuses on the main functions and their uses in studying and using marketing as a subject and an art. In the last block we have seen the basics, their definition and their characteristics and now we will elaborate on many factors such as Marketing mix, Market segments, Marketing organizations and Marketing Research. Studying these topics in length will allow us to understand the ways marketing is useful and how one can go about it in implementation.

UNIT-5

PLANNING MARKETING MIX

The objectives of this unit is to understand the very important and basic issue of marketing on which the total structure of the subject is build i.e. Marketing mix. This topic will help you entering the basic planning and decision making of the subject. Any product is successful only if the Marketing mix is properly worked out.

Structure:

5.1 INTRODUCTION

While planning any product for the market the organisations identify the customers' needs and wants at the primary level. But to succeed in its operations marketing mix plays a central role or the pivotal role. On this basis only the total planning and strategies work and are implemented. In this unit we will study its role, relations and implications with other branches of marketing decision process.

As we have seen that marketing is an art of Identifying and satisfying the consumers needs and wants to the maximum but to do so right decision process has to be made that what should be the product? What should it cost? What should be its promotional strategies? What should be its distribution programme? It gives the right direction to succeed in its total operations, and this is known as "Marketing Mix" among the marketers. It can be seen that this popular term is such that it is the most basic factor for all the companies.

5.2 THE ELEMENTS OF MARKETING MIX

Neil Borden in the year 1953 introduced the term marketing mix, an extension of the work done by one of his associates James Culliton in 1948.

The elements of marketing mix are often called the four P’s of marketing.

1. **Product :** Goods manufactured by organisations for the end-users are called products. Products can be of two types - Tangible Product and Intangible Product (Services) an individual can see, touch and feel tangible products as compared to intangible products which can just be felt. The product aspects of marketing deal with the specifications of the actual goods or services, and how it relates to the end-user's needs and wants. The scope of a product generally includes supporting elements such as warranties, guarantees, and support.

2. **Price :** The money which a buyer pays for a product is called as price of the product. The price of a product is indirectly proportional to its availability in the market. Lesser its availability, more would be its price and *vice-versa*. Retail stores which stock unique products (not available at any other store) quote a higher price from the buyers. This refers to the process of setting a price for a product, including discounts. The price need not be monetary - it can simply be what is exchanged for the product or services, e.g. time, energy, psychology or attention.

3. **Place :** Place refers to the location where the products are available and can be sold or purchased. Buyers can purchase products either from physical markets or from virtual markets. In a physical market, buyers and sellers can physically meet and interact with each other whereas in a virtual market buyers and sellers meet through internet.

4. **Promotion :** Promotion refers to the various strategies and ideas implemented by the marketers to make the end - users aware of their brand. Promotion includes various techniques employed to promote and make a brand popular amongst the masses.

Promotion can be through any of the following ways:

a. **Advertising :** Print media, Television, radio are effective ways to entice customers and make them aware of the brand’s existence. Billboards, hoardings, banners installed intelligently at strategic locations like heavy traffic areas, crossings, railway stations, bus stands attract the passing individuals towards a particular brand. Taglines also increase the recall value of the brand amongst the customers.

b. **Word of mouth :** One satisfied customer brings ten more customers along with him whereas one dissatisfied customer takes away ten more customers. That’s the importance of word of mouth. Positive word of mouth goes a long way in promoting brands amongst the customers.

If noticed it can be shown that these 4P’s cover all the important aspects of making a product successful in the marketplace where the buyer and sellers meet and identifying these markets is the main concern for the organisations. These elements of Marketing mix are shown in its real time working pattern in the figure 5.1 and how all the elements are working together in the target market.

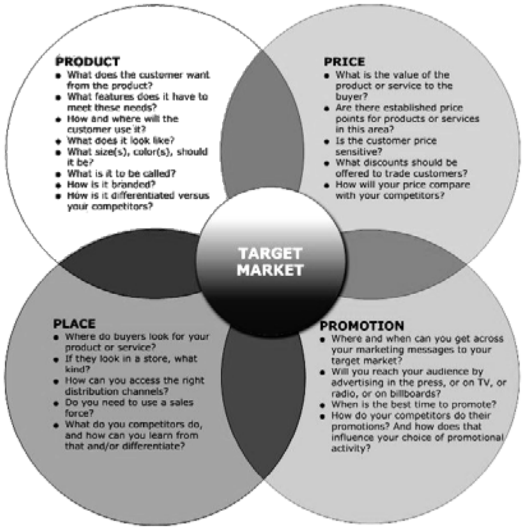


Fig. 5.1 [4P's in Marketing mix] source: web

5.3 THE PLACE OF MARKETING MIX IN MARKETING PLANNING

What is a Marketing Plan?

An official marketing planning process provides composition and accuracy for making marketing decisions. The marketing plan gathers and presents the knowledge of the company in a document that draws a path to achieve the company's objectives. Specifically, the marketing plan answers the following questions:

- What exactly do you sell?
- Who are your customers?
- Why should they buy your product or service rather than your competitors'?
- How will you communicate your product or service to your customers?
- What business objectives do you expect to achieve?
- Who will do what, when?
- What opportunities and problems are you facing?
- What economic and business environment are you experiencing?
- How are you going to measure your progress so you can learn from the experience?

Depending on the size and sophistication of your company, your marketing plan may be just a few pages or, with supporting material, run into hundreds of pages. However, even in the largest and most sophisticated company, the marketing plan document should be clear, to the point, and state the few key strategies that the organization will be undertaking. Your marketing plan acts as a road map for the next 12 months -- it awakens new possibilities and provides a sense of direction at the same time.

Going through this we can now identify the place of marketing mix in marketing planning that without the focus on the 4P’s no planning is possible.

If we notice the first few self questions we will find that they are exactly based on the marketing mix philosophy and that shows that the basis of every planning are the 4P’s. Since marketing planning is theoretical document so implementing it practically becomes necessary. So, the place of marketing mix is the foundation stone for all the marketing planning.

5.4 RELATIONSHIP BETWEEN MARKETING MIX AND MARKETING STRATEGY

Strategy is a military term that refers to the objective of a force and the plans and tactics employed in reaching the objective. In addition, strategy takes into account the external and internal environment and the competition, rather than focusing exclusively on the company's own products. As we have discussed in unit I Marketing Strategy provides the overall direction of marketing efforts toward a specific goal that can be expressed simply and clearly. A company with a marketing strategy might have a goal of capturing majority of a given market share and have definite plans on how to accomplish that goal. A company without a solid marketing strategy might intend to expand sales by growing several market sectors, but not really have a specific focus or a plan to achieve its goals. A good marketing strategy will include all elements of the marketing mix as part of its tactical plan.

4P’s of marketing mix guides the marketing strategy formulation in a manner that the scope of fault is being removed in the company’s objectives. Ideally, a company has a marketing strategy that is interwoven with its marketing mix. The first P, product, is the most strategic choice of all. Many businesses don't succeed simply because they are not offering the right product to the right market. Understanding your target customer is critical to choosing the second P, place, to offer the product, pricing and promotion are tactical decisions made to support the overall strategy, in alignment with getting the right product to the right target customer.

The marketing strategy should be a company's initial focus. It should consider the opportunities and threats in each potential market, along with the company's own strengths and weaknesses. This is called a SWOT analysis, a marketing tool used to understand these elements. Once the target market, product and specific goals have been chosen, the rest of the marketing mix can be fleshed out around the central target of the marketing strategy. Marketing strategy should be heavily based on solid marketing research, not on assumptions.

5.5 CONCEPT OF OPTIMUM MARKETING MIX

This is the concept which has been worked upon world over by those involved in the field of marketing. We have seen that the basic role of marketing is to identify the needs and wants of the customer and to serve a product or service to satisfy them, and ultimately earn revenue and profits for the company. In this operation it heavily depends upon the concept of marketing mix and hence optimizing its use is the maximizing of profits. So, it is evident that this concept focuses on maximizing the sales of the product or service. And we know that to increase sales one factor which has prime importance is Awareness, so the factor of Promotion in 4P's has to be focused upon.

Optimizing the promotional campaign for years to come is the major factor in this concept. To achieve this goal right promotional mix is being planned; right mode depending upon the target market helps the maximum coverage of the masses resulting in increased consumption of the product or service and increased revenues and profits for the company. It depends upon the company that how it optimizes the use of marketing mix and succeed in the market place.

5.6 SUMMARY

Consideration of the marketing mix elements and how they fit together is the basis of your marketing program. For a long time we called them the 4P's because it was easy to remember. All elements from the marketing mix have an interaction on and with each other. If you have a product, you will have to create a price and sell it. The way you communicate this product will make it either more or less visible to your target market. The price you ask for the product will infer a special quality. If you communicate effectively about the product, it will need to be for sale in a place where your target market has access to it. These elements, product, price, place and promotion all influence each other.

5.7 SELF ASSESSMENT QUESTION

1. What do you understand by the term 'Marketing Plan'? Explain in detail.

2. What is the relationship between Marketing Mix and Marketing strategy?

5.8 FURTHER READINGS

1. Stanton, J.W. Fundamentals of Marketing, Mc Graw Hill, New York 1994.
2. Rewoldt, S.H. J.D. and Warshaw, W.R. Introduction to Marketing Management.
3. Staudt T.A. and Taylor, D.A., A Managerial Introduction to Marketing Management, 1973.

UNIT-6

MARKET SEGEMENTATION

Objectives:

This unit will focus and provide coverage on following topics:

- What is a market?
- What is a market segment?
- Product Differentiation
- Formation of segments
- Selection of segments.

Structure:

6.1 INRODUCTION

In this unit we will understand about Market, its different segments and why and how they are done. Market is a complex place where different type of human beings exists. They are all different in appearance, languages, habits and thought process. So, to understand them and targeting them successfully is a process and that we will understand in this unit. By understanding this concept we can utilize it in launching of new products as well as analyzing successful concepts.

6.2 THE CONCEPT OF MARKET AND SEGMENTS

A market refers to a set up where two or more parties are involved in transaction of goods and services in exchange of money. The two parties here are known as sellers and buyers.

It is the responsibility of the marketers to create awareness of their products amongst the consumers. It is essential for the individuals to be aware of the brand's existence. The USPs of the brands must be communicated well to the end-users.

An organization cannot afford to have similar strategies for product promotion amongst all individuals. Not every individual has the same requirement and demand.

The marketers thus came with the concept of **STP**.

STP stands for:

S - Segmentation

T - Targeting

P - Positioning

The first step in the process of product promotion is **Segmentation**

The division of a broad market into small segments comprising of individuals who think on the same lines and show inclination towards similar products and brands is called Market Segmentation.

Market Segmentation refers to the process of creation of small groups (segments) within a large market to bring together consumers who have similar requirements, needs and interests.

The individuals in a particular segment respond to similar market fluctuations and require identical products.

In simpler words market segmentation can also be called as Grouping.

Kids form one segment; males can be part of a similar segment while females form another segment. Students belong to a particular segment whereas professionals and office goers can be kept in one segment.

Targeting : *Once the marketer creates different segments within the market, he then devises various marketing strategies and promotional schemes according to the tastes of the individuals of particular segment.*

This process is called targeting. Once market segments are created, organization then targets them.

Targeting is the second stage and is done once the markets have been segmented.

Organizations with the help of various marketing plans and schemes target their products amongst the various segments.

Samsung offers handsets for almost all the segments. They understand their target audience well and each of their handsets fulfils the needs and expectations of the target market. Similarly Tata Motors launched Nano especially for the lower income group.

Positioning : Positioning is the last stage in the Segmentation Targeting Positioning Cycle.

Once the organization decides on its target market, it strives hard to create an image of its product in the minds of the consumers. The marketers create a first impression of the product in the minds of consumers through positioning.

Positioning helps organizations to create a perception of the products in the minds of target audience. For eg. Parker pens cater to the premium segment while Linc or Cello pens target the middle income group. Parker pens have no takers amongst the lower income group.

Similarly, Avon offers wide range of merchandise for both men and women.

Each of their brands has been targeted well amongst the specific market segments. (Men, women, teenagers as well as older generation)

Men-Sunscreen lotions, Deodorant Women-Daily skin care products, hair care products Teenagers - Fairness cream, Deos, sunscreens. Older Generation - Cream to fight signs of ageing, wrinkles

A female would never purchase a sunscreen lotion meant for men and vice a versa. That’s brand positioning.

6.3 MARKET SEGMENTATION VERSUS PRODUCT DIFFERENTIATION

This concept was proposed by Edward Chamberlin in his 1933 *Theory of Monopolistic Competition* that **product differentiation** (or simply differentiation) is the process of distinguishing a product or service from others, to make it more attractive to a particular target market. This involves differentiating it from competitors' products as well as a firm's own products.

Differentiation can be a source of competitive advantage. Although research in a niche market may result in changing a product in order to improve differentiation, the changes themselves are not differentiation. Marketing or product differentiation is the process of describing the differences between products or services, or the resulting list of differences. This is done in order to demonstrate the unique aspects of a firm's product and create a sense of value. The term unique selling proposition refers to advertising to communicate a product's differentiation.

Differentiation is due to buyers perceiving a difference; hence, causes of differentiation may be functional aspects of the product or service, how it is distributed and marketed, or who buys it. The major sources of product differentiation are as follows.

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

The objective of differentiation is to develop a position that potential customers see as unique. The term is used frequently when dealing with freemium business models, in which businesses market a free and paid version of a given product. Given they target a same group of customers, it is vital that free and paid versions be effectively differentiated.

Market Segmentation : Dividing a market into distinct groups of buyers who have different needs, characteristics or behavior, and who might require separate products or marketing programs. If the demand forecast looks good, the company next decides how to enter the market. The market consists of many types of customers, products and needs; The marketer has to determine which segments offer the best opportunity for achieving company objectives. Consumers are grouped in various ways based on geographic factors (countries, regions, cities); demographic factors (sex, age, income, education); psychographic factors (social classes, lifestyles); and behavioral factors (purchase occasions, benefits sought, usage rates). The process of dividing a market into groups of buyers with different needs, characteristics or behavior, who might require separate products or marketing mixes, is market segmentation. Every market has market segments, but not all ways of segmenting a market are equally useful.

For Example : A market segment consists of consumers who respond in a similar way to a given set of marketing stimuli. In the car market, **for example**, consumers who choose the biggest, most comfortable car regardless of price make up one market segment. Another market segment would be customers who care mainly about price and operating economy. It would be difficult to make one model of car that which is first choice of every consumer. Companies are wise to focus their efforts on meeting the distinct needs of one or more market segments.

Product Differentiation : A company can distinguish its physical product. At one extreme, some companies offer highly standardized products that allow little variation: chicken, steel and aspirin. Yet even here, some meaningful differentiation is possible. Differentiation can be a source of competitive advantage. Although research in a niche market may result in changing a product in order to improve differentiation, the changes themselves are not differentiation. Marketing or product differentiation is the process of describing the differences between products or services, or the resulting list of differences. This is done in order to demonstrate the unique aspects of a firm's product and create a sense of value.

For Example : Companies offer products that can be highly differentiated, such as cars, commercial buildings and furniture. Here the company faces an large quantity of design parameters. It can offer a variety of standard or optional features not provided by competitors. Like Hyundai provides new and better safety features, while King fisher offers wider seats to business-class flyers. Today in India a large chain of food joints offer nice food items for families as well as a Play area where - a large self-contained area full of games, toys and adventure equipment. Companies can also differentiate their products on performance. Whirlpool designs its dishwasher to run more quietly; Unilever formulates radios to remove odour as well as dirt from washing. Style and design can also be important differentiating factors. Thus many buyers pay a premium for Jaguar cars because of their extraordinary look, even though Jaguar has sometimes had a poor reliability record. Similarly, companies can differentiate their products on such attributes as consistency, durability, reliability or repair ability.

6.4 BENEFITS AND DOUBTS OF SEGEMENTATION

Benefits of segmentation are majorly targeted to serve the customers better and effectively with the various resources available with the organisation. They are as follows:

1. Better match for the customers' needs and an opportunity for the organisation to assess the situation.

2. Enhances the chances to achieve better competitive position for existing brands. The company can study the broad chunk of group of consumers of the competitive brand and the amount of their satisfaction achieved. Then it can find a suitable market segment to offer products to take advantage of competitive position.

3. Identify the gaps in the market to launch its new product. By market segmentation it is possible to identify groups or division of customers which are not served at all or not served properly by existing products. The opportunity to explore new markets.

4. Helps to separate two or more brands of the same company to minimise doubling the offers. Sometimes similar type of brands of same company overlaps and cut the sales revenue of the organisation. So segmentation reduces the overlapping without disturbing the brand's appeal of the market.

5. Helps in identifying new customers for the product. By segmenting the marking and focusing on the sub sections the group of consumers can be identified who can be persuaded to buy its product and increasing sales revenues.

There may be so many doubts in this process, on the above mentioned benefits such as right identification, Targeting, and whether this exercise would provide the desired results. But a scientific approach of analysis and persuasive implementation clears all of them by achieving the success in the campaign.

6.5 FORMING SEGMENTS

As we have seen that there are so many benefits in market segmentation and so this process is very necessary in marketing process. There are literally thousands of ways to segment a market, but the following are some of the more typical segmentation categories, which have been given with examples:

1. **Physical Size -** Offerings might be big men's clothing, or meant for shorter height people, etc.

2. **Creation of or response to a trend -** Examples are Gyms, cartoon character T-shirts, fast food joints, etc.

3. **Geographic location -** Marketers take advantage of location by selling suntan lotion in Chennai, warm woolens in Kashmir, etc.

4. **Time related factors -** You may be able to target vacationers in summer by selling holiday packages, or selling educational goods during working period at schools.

5. **Demographics/culture/religion -** Ethnic products would fall into this category.

6. **Gender -** Product examples are sarees for women, ties for men, etc.

7. **Age -** Product examples are toys for children, Fashion accessories for women, etc.

8. **Social status -** This could include country club memberships, philanthropic contributions, etc.

9. **Education -** Product and service examples are encyclopedias, scientific calculators, learning to read tools and financial counseling.

10. **Avocation -** This could include products for hunting, fishing, golf, art work, knitting, etc.

11. **Special Interests** You could target cat lovers, science fiction readers, classical music collectors, etc.

12. **Accessibility -** Because the individual is more difficult to reach you may want to segment by urban versus rural, train commuters, people who read Journal, etc.

13. **Need for specific information -** Based on features or content of your offering you can target a market segment. A product might be books on how to start a business or a service might be seminars on how to quit smoking.

14. **Need for customization -** Product/service examples are home decoration, fashion wear, personal portraits, etc.

15. **Need for quality, durability, etc**. **-** Product examples are mountain climbing gear, carpenter's tools, etc.

6.6 BASES FOR SEGMENTATION OR SELECTION OF SEGMENTS

There are several ways or methods to segment a market. Such ways or methods depend upon consumer characteristics and their responses to the products or services.

A standard shift has taken place in the way the Indian corporate is viewing customers. There has been a shift from organizing by-products to organizing by-market segments. For example, Hyundai is segmenting is customers on the basis of economic and premium class, which was not done previously. The common methods are as follows:

I. GEOGRAPHIC SEGMENTATION:

In geographic segmentation, the market is sub divided on the basis of area.

- **Region :** Regional segmentation is made because regional differences exist in respect of demand for products. For example, buyers from south India are different from the buyers in north.
- **Urban / Rural :** There are differences in buying behaviour of urban and rural customers. Accordingly, marketing strategies must be designed depending upon their likes, dislikes, moods, preferences, fashions and buying habits.
- **Locality :** Consumer’s buying behaviour is also reflected by the locality within a particular city. For instance, there are differences in terms of buying patterns of people residing at Parel and Bandra, within a city like Mumbai.

II DEMOGRAPHIC SEGMENTATION:

Demography refers to study about the different aspects of population. Markets can be divided on demographic factors like age, gender, education etc. The various demographic factors are:

- **Age:** The primary method of analysing markets by age is to divide the total population into age groups and analyse the wants and needs of each group.
- **Gender:** Marketers devote much attention to male and female differences in purchasing. Today, marketers segment female groups into college girls, working women, housewives, etc. Again, male groups can be further classified.
- **Income:** Buying patterns depends on income of the consumers. No two individuals or families spend money in exactly the same way. If a researcher knows a person's income, he can predict with some accuracy wants and needs of that person and how those wants are likely to be satisfied.
- **Education:** Market can be segmented on the basis of education – matriculation or less, under graduates, graduates, post-graduation, etc. Most studies show that the highly educated people spend more than the poorly educated in respect of housing, clothing, recreation, etc.
- **Family Size:** The consumption patterns of certain products definitely vary with the number of people in the household.
- **Family Life Cycle:** The market can be segmented as bachelors, newly married couples, married with grown up children, older married couples, etc., for selling tours and vacations, Life Insurance policies etc., this segmentation is of use.
- **Race and Religion:** Consumption patterns of certain products differ on the basis of religion and race, such as alcohol and meat products.

III. SOCIOGRAPHIC SEGMENTATION:

The market can be segmented on the basis of sociological factors such as :

- **Cultural Influences:** The marketer must consider cultural influences while segmenting markets. People in urban areas are influenced to a certain extent by western culture, whereas, many people in villages follow more or less traditional culture. Culture is influenced by our socio-cultural institutions like family, religion, language, education, and so on.

- **Influence of Social Class:** Buying behaviour is reflected by the influence of social class to which the consumers belong. The social class can be segmented as – lower -lower, middle-lower, upper-lower, lower-middle, middle-middle, upper-middle, lower-upper, middle-upper and upper-upper. Firms dealing in clothing, home furnishing, automobiles, etc. can design products for specific social class.

- **Influence of Reference Groups:** A reference group may be defined as a group of people who influence a person's attitudes, values and behaviour. Consumer behaviour is influenced by the small groups to which they belong or aspire to belong. These groups include family, religious groups, a circle of close friends or neighbours, etc. Each group develops its own set of attitudes and beliefs that serve as guidelines for members' behaviour

IV. PSYCHOGRAPHIC SEGMENTATION:

It refers to individual aspects like life style and personality.

- **Life-Style:** Sellers study the life-styles of the consumers. For example, a manufacturer of readymade garments may design his clothes differently matching different life styles of college-students (more fashionable), office-goers (more sober) and so on.

- **Personality:** Personality characteristics such as leadership, independence, masculine, impulsive, ambitious,-etc., do influence buying behaviour.

V. BEHAVIOURAL SEGMENTATION:

In this case, buyers are divided into groups on the basis of their response to the product – usage rate, user status, loyalty status, buying motives, and so On.

- **Usage Rate:** One possible way to define target market is by product usage. There can be heavy users, medium users, light users, and nonusers. Targeting on this basis may be useful to the seller who wants to increase consumption by present users and to convince and induce non users to become users.

- **User Status:** Market can be segmented on the basis of user status such as: non-user, ex-user, potential user, first-time user, regular-user and so on.

- **Readiness Stage:** Market can be segmented on the basis of people's readiness to buy the product. Some people are well informed and are interested to buy the product. Some other may be well informed but not interested to buy the product.

- **Buying Motives:** Buyers buy the product with different buying motives such as economy, convenience, prestige, etc. Accordingly promotional appeals can be directed to the target audience.

CRITERIA FOR SELECTING MARKET SEGMENTS

Measurable - A segment should be measurable. It means you should be able to tell how many potential customers and how many businesses are out there in the segment.

Accessible - A segment should be accessible through channels of communication and distribution like: sales force, transportation, distributors, telecom, or internet.

Durable - Segment should not have frequent changes attribute in it.

Substantial - Make sure that size of your segment is large enough to warrant as a segment and large enough to be profitable

Unique Needs - Segments should be different in their response to different marketing efforts (Marketing Mix). Consumer and business markets cannot be segmented on the bases of same variables because of their inherent differences.

6.7 SUMMARY

Market segmentation can be defined as the process of dividing a market into different homogeneous groups of consumers. Market consists of buyers and buyers vary from each other in different ways. Variation depends upon different factors like wants, resources, buying attitude, locations, and buying practices. By **segmentation**, large heterogeneous markets are divided into smaller segments that can be managed more efficiently and effectively with products and services that match to their unique needs. So, market segmentation is beneficial for the companies serving larger markets.

6.8 SELF ASSESSMENT QUESTION

1. Define ‘market’?
2. What is a market segment?
3. Relate and explain Product Differentiation and Segmentation.
4. What is the process of Formation of segments?
5. How Selection of segments is done of various products?

6.9 FURTHER READINGS

1. Stanton, J.W. Fundamentals of Marketing, Mc Graw Hill, New York 1994.

2. Rewoldt, S.H. J.D. and Warshaw, W.R. Introduction to Marketing Management.

3. Staudt T.A. and Taylor, D.A., A Managerial Introduction to Marketing Management, 1973.

UNIT-7

MARKET ORGANIZATIONS

Objectives:

This unit will focus and provide coverage on following topics:

- What is a market Organization?
- Role of Marketing Organization
- Types of Market Organization
- Designing an Organization

Structure:

7.1 INRODUCTION

An organization is made up of group of individuals working together to achieve its goals and mission. The survival and effectiveness of an organisation would largely depend upon the combined effort of this endeavor. Since Marketing is a process of identifying the needs, designing a product and selling it in the market place so a marketing organisation is a big one having various faces and diversified people working together. . Marketing organization provides a vehicle for making decisions on products, marketing channels, physical distributions, promotions and prices. So this unit makes you understand the structure, principles, roles and methods of designing this organisation.

7.2 PRINCIPLES OF DESIGNING AN ORGANIZATION

A successful Marketing Organisation structure always has certain principles involved in making or converting it to a ‘Hit’ Organisation. Some of the important Principles are as follows:

1. **Organisational Orientation** : The major aim of any Marketing Organisation is to serve its customers, so the orientation of a Marketing Organisation should be from the bottom rather than the top because the market is at the bottom of all activities. The employees working at the bottom level are the once who take care of the customers’ needs. And its structuring should reflect the company’s philosophy.

2. **Functional Definition and Division of Work** : Every Marketing organisation works towards the attainment of certain objectives and goals. So the activities of marketing department should be so divided and grouped so that they contribute most effectively to the attainment of these objectives. Grouping of similar activities should have synergistic effect and cost saving too.

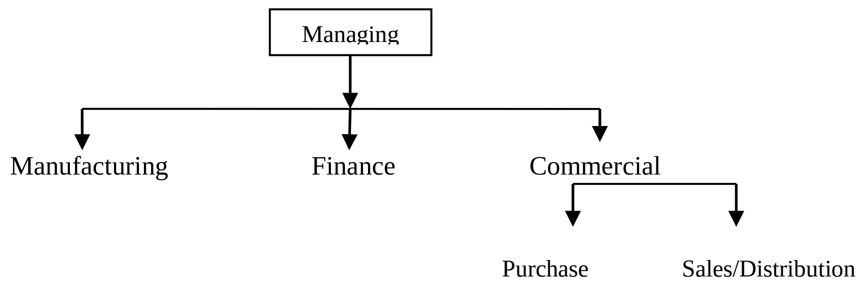
3. **Line and Staff Relationship** : The Line of authority and responsibilities should be clearly marked and the staff functions should be divided in such a way that the conflict should be avoided. This is only achieved by clearly defining job position, job description, line of authority and communication.

7.3 MARKETING ORGANIZATIONS – CHANGING ROLE

As discussed in Unit II we have seen that what are the different philosophies in an Organisation, which are based on various aspects such as Production, Selling, Marketing etc.. Hence the Marketing Organisations have to change their roles as per the existing situation of the market. Initially, for almost four decades, the principle of central planning was implemented in India. Marketing is of very recent origin in India.

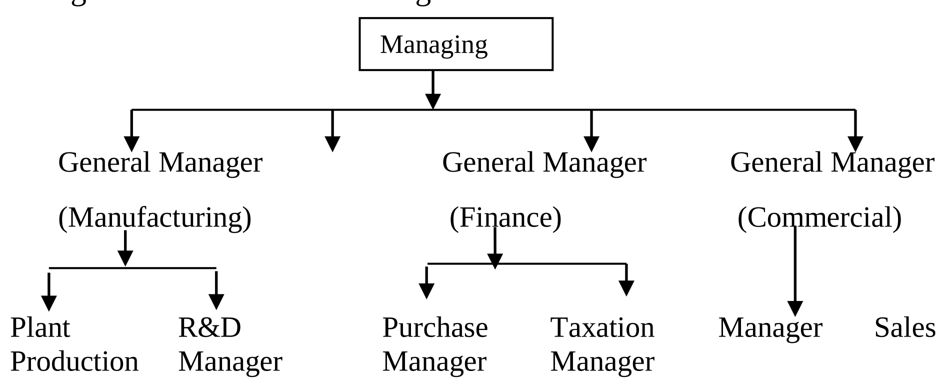
Previously, it was government which decided that how much to be produce and sold. Most companies sold only one basic product.

If we take example of four wheeler Industry, Indian market had just two players Fiat and Hindustan motors offering only one variant with them. There were no other models available and people had to select amongst them only. These companies had limited manufacturing resources and the production was limited. These companies had no hearing for the customers and only focused on that production. Similar was the case in other industries such as two wheelers, gas production etc. where people had to wait for more than 10 years to own a product or else pay premium on the purchase. That was solely the production concept and marketing companies played that role.



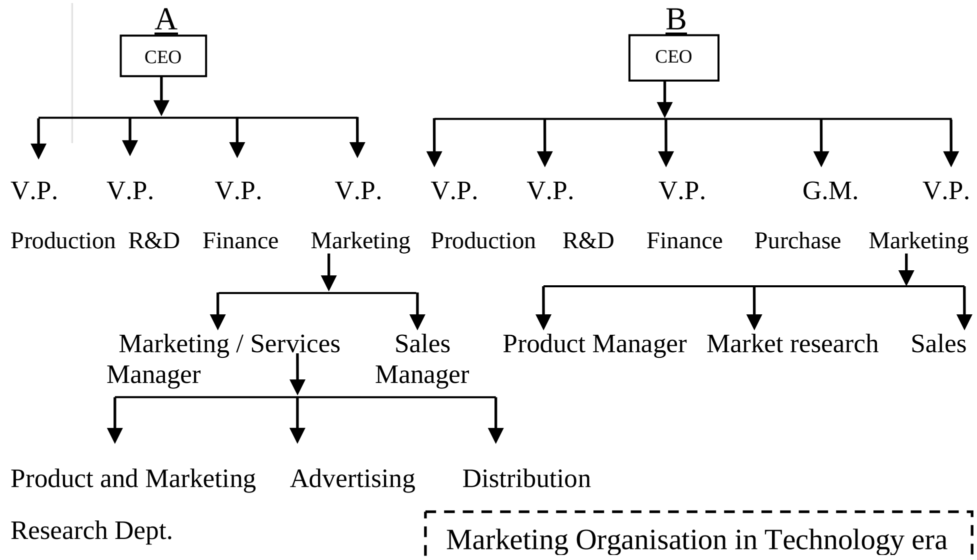
Marketing Organisation in a manufacturing era

In 1970's India entered a new era where Post Independence educated class was developing and Government allowed a restricted Indian companies to enter in many sectors such as Tata, Birla, etc. to explore the Indian market and compete the existing foreign companies. Now the role of prospecting the future customer, R&D, distribution, advertising and sales promotion started coming into prominence because this new educated class was increasing and was required to be catered. So despite of shortages and rationing selling was the main approach in this decade. The organizational structure changed as follows:



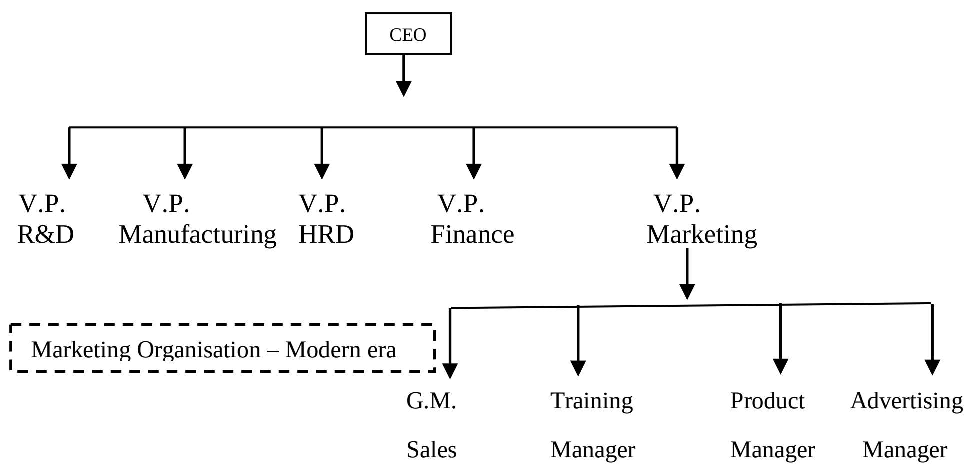
Marketing Organisation in Sales era

1980's brought some major changes in Indian market. It was characterized by technology push, a desire to upgrade one's standard of living and also increase in income creating more demand and competition in all industries. Consumerism started increasing and Indian companies responded this changing environment by improving distribution network, offering low priced products, heavy advertising and increasing sales promotion activities. These became the essential part of marketing. Since good sales were essential so for the survival all the companies had to become aggressive sellers. Now the Marketing organisations looked like as given below:



Marketing Organisation in Technology era

1990's showed way for Economic liberalization and Globalization made the Marketing Organisation more competitive and aggressive, as there was an international challenge and hence there was marketing effort through trained and competitive sales force. So, the modern Marketing organisation looks like as follows:



Marketing Organisation – Modern era

7.4 CONSIDERATIONS INVOLVED AND METHODS OF DESIGNING MARKETING ORGANIZATION

In the present scenario and for the future , the marketers and the management have maintain a perfect precision of being competitively satisfying customers needs and which type of marketing organisation will suit their purpose. There are various methods of designing an organizational structure and considerations to make it operative but all of them have their advantages and disadvantages. It is the Company's business goals and the resources available that determines the precision of the organizational structuring. Following are some of the types of Organisational structuring:

A - Functional Organisation: This is the simplest yet very efficient form of organizational structure. In this form all the functions like product management, sales, organizing, distribution and advertisements are given equal importance. This provides a better management as well as reduces the chances of internal inter departmental conflicts. Here all the functions are controlled by the marketing chief so this organisational design makes everyone to follow a single goal – increased market share and profitability. Since sales is the major function to attain profitability, hence the sales team has a great part to play and other specialist see frustrations developing in them. In functional form, profits are considered on a cumulative basis, so every unit and whole firm as a unit is considered as a profit centre. All functions are cost centers. Some companies may deviate this by making their factories, business divisions or even marketing as profit centers. And here the accounting system reflects how successful these profit centers are. These types of organisations also ignore the possibilities of new market segments emerging.

B - Territorial Organisations: This type of marketing organisation treat geographically defined market segments as profit centers. Regional or the branch offices are considered as Small Business Units {SBU} and they become the profit centers. The Branch Manager heads the supervision of sales, product management, distribution, advertising, and after sales service. In this it is assumed that the environmental factors are different across all parts of the country and hence each part requires an individual attention and monitoring. This allows the marketing efforts to be more responsive to the customers' needs. The strategies and tactics can be changed by SBU head locally as per the situation demands. Production at factory level is also easily coordinated, even regional factory units can be set up to cater the regional customers.

The major problem arises here is at factory level as prioritizing the different regional orders are very difficult. Even the production comes under pressure in these circumstances. This even worsens if the factory has to produce simultaneously for national and foreign markets. Other problem is the motivational lack in the Sales department as all the regions are not the same in coverage and sales revenues; hence the remunerations of the Sales personnel are different in different areas, which create dissatisfaction among the lower paid staff. But, still territorial approach is design which works on the principles of market segmentation and responds very well to environmental factors. It provides right products to right customers.

C - Matrix Form: In this form of marketing organizations, the products are the profit centers and each product manager is related to each zonal manager when the country is divided North, South, East, and West. This helps in pushing each product across the country and also in evolving product strategies for different geographical regions. This is possible by making tactical changes in pushing products across different regions without diluting the core product and communication strategy. This caters the customers well and also induces healthy competition among the product manager.

The major disadvantages are: first is prioritizing the product choice which to push or which not. This creates a conflict and misunderstanding among product and Sales manager. Another problem is the difficulty to bring together objectives like profits across products, segments or regional sales.

7.5 VARIOUS TYPES OF MARKETING ORGANIZATIONS

The different types of marketing organizations are already explained in unit 7.5 and these types of marketing organizations form the crux of modern business. Today and the time to come these types of marketing oriented organizations will be operative. If we closely monitor we find that the characteristics of successful, excellent and innovative organizations are that they are always ready for actions, very close to customers, well knit unit and are productivity based. Any form of design can be decided as functional, matrix structural as per the envoirmental requirements.

7.6 SUMMARY

To summarise the unit we find that the growth and development of a proactive marketing organization depends upon the envoirmental factors. As the firm’s envoirment becomes more competitive and complex because of ever increasing products and markets, marketing comes into play as an important function and hence the issue of organization design and structure arises. An organization succeeds only if the organization is customer oriented means it has the core values of customer satisfaction.

7.7 SELF ASSESSMENT QUESTION

1. What is a market Organization? Explain in Detail.

2. What is the Role of Marketing Organization in current Business scenario?

3. Which are different Types of Market Organization? Explain each.

4. How one designs an Organization and what are its different types?

7.8 FURTHER READINGS

1. Stanton, J.W. Fundamentals of Marketing, Mc Graw Hill, New York 1994.
2. Rewoldt, S.H. J.D. and Warshaw, W.R. Introduction to Marketing Management.
3. Staudt T.A. and Taylor, D.A., A Managerial Introduction to Marketing Management, 1973.

UNIT- 8

MARKETING RESEARCH AND ITS APPLICATION

Objectives:

This unit will focus and provide coverage on following topics:

- The context of Marketing decisions
- Scope of Marketing Research
- Marketing Research Process
- Marketing Research benefits and problems

Structure:

8.1 INTRODUCTION

By just remembering management principles can't learn management. Management is best learned through handling it methodically. A realistic experience of management principles is the base of the career growth of any management student. When the theories are actually applied in the market, many external environments factors affect it, thereby, changing its dimensions. Theories provide the basic stone for direction of practice examines the element of the truth lying in the theory.

The purpose of marketing research is to improve marketing and business decision making. This module gives you a firm basis in the principles of marketing management and an introduction into its relationship with marketing research.

8.2 IN CONTEXT TO MARKETING DECISIONS

Usually, marketing researchers were in charge for providing the related information and marketing decisions were made by the managers. However, the roles are shifting and marketing researchers are becoming more concerned in decision making, whereas marketing managers are becoming more involved with research. The task of marketing research (MR) is to offer management with applicable, exact, consistent, convincing, and recent information. Competitive marketing environment and the rising costs ascribed to poor decision making require that marketing research provide sound information. Sound decisions are not based on gut reaction, perception, or even pure judgment. Marketing managers make several strategic and tactical decisions in the course of identifying and fulfilling customer needs. They make decisions about probable opportunities, target market selection, market segmentation, planning and implementing marketing programs, marketing performance, and control. These decisions are complicated by relations between the suitable marketing variables of product, pricing, advertising, and supply. Further complications are added by unmanageable environmental factors such as general financial situation, technology, public policies and laws, political environment, competition, and social and cultural changes. Another factor in this mix is the complexity of consumers. Marketing research helps the marketing manager link the marketing variables with the environment and the consumers. It helps remove some of the uncertainty by providing relevant information about the marketing variables, situation, and customers. In the absence of relevant information, consumers' response to marketing programs cannot be predicted reliably or accurately. Ongoing marketing research programs provide information on controllable and non-controllable factors and consumers; this information enhances the effectiveness of decisions made by marketing managers. Usually, marketing researchers were in charge for providing the related information and marketing decisions were made by the managers. However, the roles are changing and marketing researchers are becoming more involved in decision making, whereas marketing managers are becoming more involved with research.

8.3 DEFINITION, PURPOSE AND SCOPE OF MARKETING RESEARCH

- Marketing Research is a systematic and objective study of problems related to the marketing of goods and services. It is not limited to any particular area of marketing but is applicable to all its phases and aspects.
- The traditional definition of Marketing Research by American Marketing Association (AMA) -the systematic gathering, recording and analyzing of data about problems relating to the marketing of goods and services.

- Also defined as the function which links the consumer, customer and public to the marketer through information used to identify and define marketing opportunities and problems. It involves the use of surveys, tests, and statistical studies to analyze consumer trends and to forecast the size and location of markets for specific products or services.

Market Research Vs Marketing Research :

'Market' research is simply research into a specific market. It is a very narrow concept. 'Marketing' research is much vast. It not only includes 'market' research, but also areas such as research into new products, or modes of distribution such as via the Internet.

Scopes of business research include:

- Marketing research is broader in scope and examines all aspects of a business environment. It asks questions about competitors, market structure, government regulations, economic trends, technological advances, and numerous other factors that make up the business environment .Sometimes the term refers more particularly to the financial analysis of companies, industries, or sectors. In this case, financial analysts usually carry out the research and provide the results to investment advisors and potential investors.

- Product research - This looks at what products can be produced with available technology, and what new product innovations near-future technology can develop.

- Advertising research - is a specialized form of marketing research conducted to improve the efficacy of advertising. Copy testing, also known as "pre-testing," is a form of customized research that predicts in-market performance of an ad before it airs, by analyzing audience levels of attention, brand linkage, motivation, entertainment, and communication, as well as breaking down the ad’s flow of attention and flow of emotion.

8.4 MARKETING RESEARCH PROCEDURE

The **market research process** involves a on all sides of separate stages of data interpretation, management and collection. These stages could be considered as a level of market research, but it depends on an organization how they have formulate their strategies to follow this process. Hence some of the related stages could be conducted repeatedly and some of the stages can also be removed. Given below is a classic market research process which is arranged stage-wise:

Identifying the Problem - The starting phase is always identifying the reason or problem for which research is to be conducted. This includes collecting of related initial information and how this information will affect decision making process. It also includes defining problems after discussing with decision makers of the organization. Once the problem is defined accurately and the need of research is discussed, the further process could be conducted in a professional manner.

Identifying the researcher - Once the initial stage of defining the problem and the need of research is done, it is important to determine who will do the research and what will be the approaches to resolve these problems. This involves creating a problem solving structure and logical models after discussing it organization experts. In this mock-up case studies are formed according to the defined structure by enforcing the relevant information and secondary data.

Identifying the right methodology - A specific methodology is entailed by the research professional after identifying the specific needs and exploring the case studies. It may include a combination of specific approaches like telephone survey, net or email survey, one-to-one interviews, secondary research etc. This methodology acts as a proposal of research process and following basic steps:

- ❖ Methods for collecting and preparing quantitative information.
- ❖ Determining the need of this information.
- ❖ Scaling and measuring procedures.
- ❖ Designing sample Questionnaire.
- ❖ Formulating case studies and sampling process.
- ❖ Planning information analysis.

Market Research definitely plays a vital role in exploring the business. The above process if conducted in an efficient manner could help predicting and correlating customer needs and then modeling or modifying the business strategies accordingly.

8.5 APPLICATIONS AND PROBLEMS OF MARKETING RESEARCH IN INDIA

Applications of Market Research

Pricing Research

Researchers provide pricing strategy consulting backed by strong pricing research capabilities. Their perspective is broad when dealing with pricing research and pricing strategy decisions, and focus on finding for company’s business optimum price-product-feature configurations in the context of market positioning opportunities. We employ both qualitative and quantitative pricing research tools.

Product Research

Product market research serves several goals: new product design and market validation research, or assessing existing product strength and line extension potential. Researchers follow the product development cycle integrating research with creative positioning and technical product design efforts.

Concept Testing

Concept testing research evaluates advertising concepts, ad theme concepts and appeals, new product concepts, pricing, brand concepts, brand names, and positioning strategy concepts. Researchers select techniques -- qualitative and quantitative -- to both develop concepts, refine, and screen to assess market potential.

Positioning Research

Researchers offer experienced market positioning and creative branding research capabilities to define and go-to-market with a high-impact positioning strategy. First, it requires understanding the market positioning concept, company’s current and potential markets, and the process needed to generate brand name impact.

Customer Satisfaction Research

The buzz and interest around customer satisfaction research sometimes deflates if the research design does not lead to actionable results. Also, customer expectations generally rise overtime as advances in technology in many categories boost the consumer consciousness of what to expect. Researchers build into our customer satisfaction study design "action indicators" to point to immediate use of customer satisfaction results.

Branding Research

Branding decisions drive branding marketing research strategy. Corporate, product and advertising brand development is a mix of creativity and marketing information to uncover brand positioning opportunities in messy market spaces.

Brand Equity Research

Brand equity research measures the breadth and depth of brand power in your target markets. Researchers use both standard and custom tailored brand equity survey measurements. A key to research design is the goal of a brand equity measurement study.

Advertising Research

Advertising research design is determined by specific advertising goals and the stage of ad development, or campaign. Use a broad range of advertising research techniques including ad recall surveys, message and theme salience and impact measures, buying motivation and association with the ad message or positioning theme. They employ both qualitative and quantitative pricing research tools.

Market Segmentation

Market segmentation research maintains focus and delivers needed marketing information in today's moving economy where new markets and new product categories emerge and traditional market segments fade away. Market segmentation research is a way to keep 'your eye on the ball.' Often they start the market segmentation process with qualitative research to the variety and width of customers. Then we follow with quantitative research using appropriate multivariate analysis to define meaningful segments.

Sales Analysis

Data mining -- finding gems of insight from sophisticated or basic analysis of your internal customer and sales and margin trend data -- is a key first step in product and brand analysis. Simply put, a marketing analysis data mining effort searches for meaning and insight among the stacks of sales data and marketing data already within a sales and marketing organization. Through these tools researchers can better target company’s best customers, find which advertising and promotion methods are most efficient and effective.

PROBLEMS OF MARKET RESEARCH IN INDIA

Conducting marketing research in India is not a problem, but a challenge. -lack of awareness.

- ❖ Lack of understanding of the usage.
- ❖ Lack of understand of the benefits.
- ❖ Treating it as a cost, instead of an investment.

1. The top management is not market oriented.

2. The top management are not sensitive to the marketing needs.

3. In case of organization financial crisis, the first axe falls on the marketing budget.

4. The allocation of resources is limited to the marketing research budget.

5. The marketing research personnel lack the visibility / credibility in the organization.

6. The effective communication between the top management and the marketing is very limited.
7. The marketing personnel are not trained to use the marketing research information effectively.
8. The marketing research project/ investment are not assessed for their ‘‘ROI’’ -return on investment.
9. Lack of trained personnel in marketing research.
10. Lack of skill in interpreting the marketing research data by the users. Once you overcome these hurdles, with proper/effective education /communication, the demand will spread quickly.

8.6 SUMMARY

A research is a step-by-step process. It is very difficult for any researcher to master all these steps without proper guidance. Application of management principles in all branches whether marketing, sales, personnel, finance and others alike in more effective utilization of available resources enlightens us with deeper knowledge of marketing. Hence, Marketing Research is the search for knowledge through various systematic and scientific instruments. Marketing research does not only occur in huge corporations with many employees and a large budget. Marketing information can be derived by observing the environment of their location and the competitions location. Small scale surveys and focus groups are low cost ways to gather information from potential and existing customers.

8.7 SELF ASSESSMENT QUESTION

1. What are the different contexts of marketing decisions?
2. What is the Scope of Marketing Research?
3. List down and explain different steps in Marketing Research Process.
4. What are the benefits and problems in any Marketing Research?

8.8 FURTHER READINGS

1. Stanton, J.W. Fundamentals of Marketing, Mc Graw Hill, New York 1994.
2. Rewoldt, S.H. J.D. and Warshaw, W.R. Introduction to Marketing Management. 1973.
3. Staudt T.A. and Taylor, D.A., A Managerial Introduction to Marketing Management, 1973.

Uttar Pradesh Rajarshi Tandon
Open University

Marketing Management

B.B.A.-105

BLOCK

3

Consumer Behaviour

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BLOCK- III

This block consists of four units, which explains the Consumer behaviour which is the target basis of all marketing activities. Consumer is the King in the view point of all marketers and all the activities are targeted to please and satisfy the consumers. All the customers are different because of their human nature so the study of Consumer behaviour is the most important aspects and all strategies and implementation are dependent on this factor.

UNIT-9

DETERMINANTS OF CONSUMER BEHAVIOUR

The objectives of this unit are to understand the importance of consumer behaviour in the marketing modern marketing concepts. It explains you about the term consumer, his types and behaviour patterns and the factors influencing them. Since we all are human beings and a born consumer, so this Block and unit will be more interesting and connected to every reader.

Structure :

9.1 INTRODUCTION

This chapter provides an introduction to consumer behaviour. “Consumer is the most important person. The business revolves around the consumer. All of us are consumers. We consume things of daily use; we also consume and buy these products according to our needs, preferences and buying power. These can be consumable goods, durable goods, specialty goods or, industrial goods. What we buy, how we buy, where and when we buy, in how much quantity we buy depends on our opinion, self-concept, social and cultural background and our age and family cycle, our attitudes, beliefs values, motivation, personality, social class and many other factors that are both internal and external to us. While buying, we also consider whether to buy or not to buy and, from which source or seller to buy. In some societies there is a lot of affluence and, these societies can afford to buy in greater quantities and at shorter intervals. In poor societies, the consumer can barely meet his barest needs. The marketers therefore try to understand the needs of different consumers and having understood his different behaviours which require an in-depth study of their internal and external environment, they formulate their plans for marketing.

9.2 IMPORTANCE OF CONSUMER BEHAVIOUR

Who is a Consumer?

Any individual who purchases goods and services from the market for his/her end-use is called a consumer. In simpler words a consumer is one who consumes goods and services available in the market.

Example – Mr. X might purchase a toy for his son or Mr. Y might buy a shoe for himself. In the above examples, both Mr. X and Mr. Y are consumers.

What is consumer Interest?

Every customer shows inclination towards particular products and services. Consumer interest is nothing but willingness of consumers to purchase products and services as per their taste, need and of course pocket.

For example : Pooja and Sonia went to the nearby shopping mall to buy dresses for themselves. The store manager showed them the best dresses available with him. Pooja immediately purchased two dresses but Sonia returned home empty handed. The dresses were little too expensive for Sonia and she preferred simple and subtle designs as compared to designer wears available at the store. In the above example Sonia and Pooja had similar requirements but there was a huge difference in their taste, mind set and ability to spend.

There are in fact several factors which influence buying decision of a consumer ranging from psychological, social, and economic and so on.

The study of consumer behaviour explains as to:

- ❖ Why and why not a consumer buys a product?
- ❖ When a consumer buys a product?
- ❖ How a consumer buys a product?

During Diwali, the buying tendencies of consumers increase as compared to other months. In the same way during Valentines week, individuals are often seen buying gifts for their partners. Fluctuations in the financial markets and slump decrease the buying capacity of individuals.

In a layman's language consumer behaviour deals with the buying behaviour of individuals.

The main catalyst which triggers the buying decision of an individual is need for a particular product/service. Consumers purchase products and services as and when need arises.

9.3 TYPES OF CONSUMERS- BUYER VERSUS USER

Customers are of basically two categories:

- ❖ Industrial Customer
- ❖ Individual Customer

In the first case, it is the products which are bought for production or manufacturing purposes and are often in the form of bulk purchases. The sellers in this case are often the companies which make supporting tools and goods may be in big or small scale sectors. These type of customers are interested in a mass buying so Cost and delivery schedule are the most important factors other than the comparative quality of the supplies.

The second type customers i.e. the Individual customer is the category which we are concerned and discussing in the chapters to follow. Talking about this factor is the fact that he is the person who is concerned about his own usage and for his family. In this discussion comes the factor of Buyer versus User. Often the person who purchases the product is not the person who actually consumes or uses the product. A Father buys toys and clothes for his young children. The father is the buyer but the actual consumers are the children. A car is purchased by the husband or the wife but it is used by all the members of the family. Thus, in the family context, you may either have the situation where the buyer is distinct from the consumer or the buyer is only one of the many consumers.

The question that arises is: Who should be the subject of study in consumer behaviour? Should we study the buyer or the consumer? To overcome this problem, in many instances it is the household or the family and not the individual who is considered the subject of the study. However, a person involved in marketing, should have a very sharply defined focus for marketing strategy, especially promotional strategy. You must identify the best prospect for your products-whether it is the buyer or the user. But even when the consumer is distinct from the buyer, the consumer's likes and dislikes, taste, etc influence the buyer's decision to purchase a specific product or brand. Thus many companies play it safe and focus their promotion at both the user and the buyer.

The family unit is usually considered to be the most important “buying” organisation in society. It has been researched extensively.

Marketers are particularly interested in the roles and relative influence of the husband, wife and children on the purchase of a large variety of products and services. There is evidence that the traditional husband-wife buying roles are changing. Almost everywhere in the world, the wife is traditionally the main buyer for the family, especially in the areas of food, household products and clothing. However, with increasing numbers of women in full-time work and many men becoming “home workers” the traditional roles are reversing.

The challenge for a marketer is to understand how this might affect demand for products and services and how the promotional mix needs to be changed to attract male rather than female buyers.

9.4 A MODEL OF CONSUMER BEHAVIOUR

The model shows the interaction of stimuli, consumer characteristics, and decision process and consumer responses. It can be distinguished between interpersonal stimulus (between people) or intrapersonal stimulus (within people). The model is related to the theory of behaviorism, where the focus is not set on the processes *inside* a consumer, but the *relation* between the stimuli and the response of the consumer. The marketing stimuli are planned and processed by the companies, whereas the environmental stimulus is given by social factors, based on the economical, political and cultural circumstances of a society. The buyers contain the buyer characteristics and the decision process, which determines the buyer’s response.

Environmental factors		**Buyer's perspective**		**Buyer's response**
Marketing Stimuli	**Environmental Stimuli**	**Buyer Characteristics**	**Decision Process**	
Product Price Place Promotion	Economic Technological Political Cultural Demographic Natural	Attitudes Motivation Perceptions Personality Lifestyle Knowledge	Problem recognition Information search Alternative evaluation Purchase decision Post-purchase behaviour	Product choice Brand choice Dealer choice Purchase timing Purchase amount

This model considers the buyers response as a result of a conscious, rational decision process, in which it is assumed that the buyer has recognized the problem. However, in reality many decisions are not made in awareness of a determined problem by the consumer.

9.5 FACTORS INFLUENCING CONSUMER BEHAVIOUR

A consumer's buyer behaviour is influenced by four major factors:

(1) Cultural,

(2) Social

(3) Personal

(4) Psychological.

These factors cause consumers to develop product and brand preferences. Although many of these factors cannot be directly controlled by marketers, understanding of their impact is essential as marketing mix strategies can be developed to appeal to the preferences of the target market.

The length of this decision process will vary. A consumer may not act in isolation in the purchase, but rather may be influenced by any of several people in various roles. The number of people involved in the buying decision increases with the level of involvement and complexity of the buying decision behaviour.

Consumer's buyer behaviour and the resulting purchase decision are strongly influenced by cultural, social, personal and psychological characteristics. An understanding of the influence of these factors is essential for marketers in order to develop suitable marketing mixes to appeal to the target customer.

CULTURAL factors include a consumer's culture, subculture and social class. These factors are often inherent in our values and decision processes.

SOCIAL factors include groups (reference groups, aspirational groups and member groups), family, roles and status. This explains the outside influences of others on our purchase decisions either directly or indirectly.

PERSONAL factors include such variables as age and lifecycle stage, occupation, economic circumstances, lifestyle (activities, interests, opinions and demographics), personality and self concept. These may explain why our preferences often change as our `situation' changes. PSCHOLOGICAL factors affecting our purchase decision include motivation (Maslow's hierarchy of needs), perception, learning, beliefs and attitudes.

9.6 SUMMARY

Customer behavior study is based on consumer buying behavior, with the customer playing the three distinct roles of user, payer and buyer. Research has shown that consumer behavior is difficult to predict, even for experts in the field. **Consumer behavior** is the study of individuals, groups, or organizations and the processes they use to select, secure, and dispose of products, services, experiences, or ideas to satisfy needs and the impacts that these processes have on the consumer and society.

9.7 SELF ASSESSMENT QUESTION

1. What is the importance of Consumer Behavior in modern day Marketing?
2. List down different Types of Consumers and explain their features.
3. Present and explain a model of Consumer Behavior.
4. What are the factors which influence Consumer buying behavior?

9.8 FURTHER READINGS

1. Stanton, J.W. Fundamentals of Marketing, Mc Graw Hill, New York 1994.
2. Rewoldt, S.H. J.D. and Warshaw, W.R. Introduction to Marketing Management. 1973.
3. Staudt T.A. and Taylor, D.A., A Managerial Introduction to Marketing Management, 1973.

UNIT-10

MODELS OF CONSUMER BEHAVIOUR

The objectives of this unit are to understand the decision process of a consumer who is also known as Buyer and user. We will study different levels, process and models of Consumer buying behaviour. When a consumer makes up his mind to buy anything there are different levels in his decision making and after this unit study this will be quiet clear.

Structure :

10.1 INTRODUCTION

Consumer is a human being and all his decisions in life are based on many factors such as emotions, status, financial conditions and social circle etc.. In this unit we try to understand all these factors, also the process of this decision making and its types. There are many stages in Buyer decision process and needs to be elaborated. There are different levels and stages in the consumer decision process. The further study of this unit will explain the total context.

10.2 LEVELS OF CONSUMER DECISION

The levels of consumer decision are mainly dependent upon the stages of life, motivation and status of the person. This was explained by Maslow in his Hierarchy of needs theory. Abraham Maslow is well renowned for proposing the Hierarchy of Needs Theory in 1943. This theory is a classical depiction of human motivation. This theory is based on the assumption that there is a hierarchy of five needs within each individual. The urgency of these needs varies. These five needs are as follows-

1. **Physiological needs-** These are the basic needs of air, water, food, clothing and shelter. In other words, physiological needs are the needs for basic amenities of life.

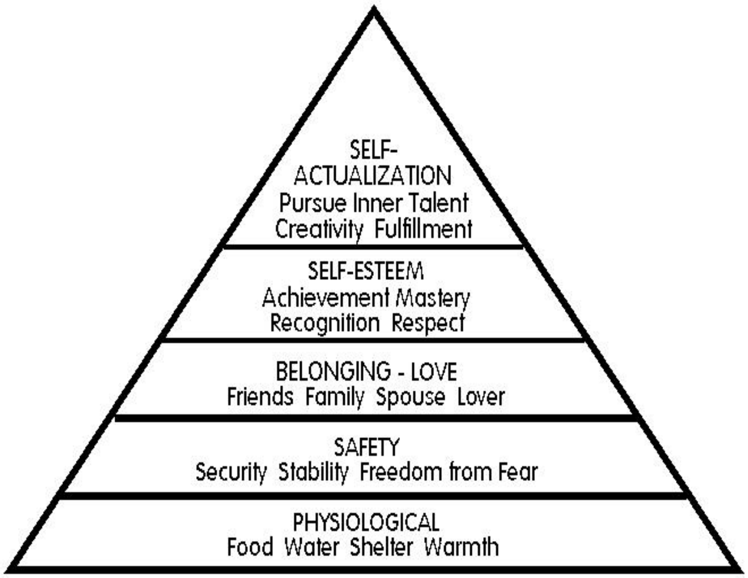
2. **Safety needs-** Safety needs include physical, environmental and emotional safety and protection. For instance- Job security, financial security, protection from animals, family security, health security, etc.

3. **Social needs-** Social needs include the need for love, affection, care, belongingness, and friendship.

4. **Esteem needs-** Esteem needs are of two types: internal esteem needs (self- respect, confidence, competence, achievement and freedom) and external esteem needs (recognition, power, status, attention and admiration).

5. **Self-actualization need-** This include the urge to become what you are capable of becoming / what you have the potential to become. It includes the need for growth and self-contentment. It also includes desire for gaining more knowledge, social- service, creativity and being aesthetic. The self- actualization needs are never fully satiable. As an individual grows psychologically, opportunities keep cropping up to continue growing.

According to Maslow, individuals are motivated by unsatisfied needs. As each of these needs is significantly satisfied, it drives and forces the next need to emerge. Maslow grouped the five needs into two categories Higher-order needs and Lower-order needs. The physiological and the safety needs constituted the lower-order needs. These lower-order needs are mainly satisfied externally. The social, esteem, and self-actualization needs constituted the higher-order needs. These higher-order needs are generally satisfied internally, i.e., within an individual. Thus, we can conclude that during boom period, the employees lower-order needs are significantly met.



So we find that consumer decision levels depend on the motivational level which is dependent on his financial conditions also.

10.3 PROCESS OF DECISION MAKING

An individual who purchases products and services from the market for his/her own personal consumption is called as consumer.

To understand the complete process of consumer decision making, let us first go through the following example:

Rehan went to a nearby retail store to buy a laptop for himself. The store manager showed him all the latest models and after few rounds of negotiations, Rehan immediately selected one for himself.

In the above example Rehan is the consumer and the laptop is the product which Rehan wanted to purchase for his end-use. Why do you think Rehan went to the nearby store to purchase a new laptop?

The answer is very simple. *Rehan needed a laptop*. In other words it was actually Rehan's need to buy a laptop which took him to the store.

The Need to buy a laptop can be due to any of the following reasons:

- ❖ His old laptop was giving him problems.
- ❖ He wanted a new laptop to check his personal mails at home.
- ❖ He wanted to gift a new laptop to his wife.
- ❖ He needed a new laptop to start his own business.

The store manager showed Rehan all the samples available with him and explained him the features and specifications of each model. This is called information. Rehan before buying the laptop checked few other options as well. The information can come from various other sources such as newspaper, websites, magazines, advertisements, billboards etc.

This explains the consumer buying decision process. A consumer goes through several stages before purchasing a product or service.

NEED
↓
INFORMATIONGATHERING/SEARCH
↓
EVALUATION OF ALTERNATIVES

↓
PURCHASE OF PRODUCT/SERVICE

↓
POST PURCHASE EVALUATION

1. **Step 1 -** Need is the most important factor which leads to buying of products and services. Need in fact is the catalyst which triggers the buying decision of individuals.

   An individual who buys cold drink or a bottle of mineral water identifies his/her need as thirst. However in such cases steps such as information search and evaluation of alternatives are generally missing. These two steps are important when an individual purchases expensive products/services such as laptop, cars, and mobile phones and so on.

2. **Step 2 -** When an individual recognizes his need for a particular product/service he tries to gather as much information as he can.

An individual can acquire information through any of the following sources:

- ❖ Personal Sources - He might discuss his need with his friends, family members, coworkers and other acquaintances.
- ❖ Commercial sources - Advertisements, sales people (in Rehan's case it was the store manager), Packaging of a particular product in many cases prompt individuals to buy the same, Displays (Props, Mannequins etc)
- ❖ Public sources - Newspaper, Radio, Magazine
- ❖ Experiential sources - Individual's own experience, prior handling of a particular product (Rehan would definitely purchase a Dell laptop again if he had already used one)

3. **Step 3 -** The next step is to evaluate the various alternatives available in the market. An individual after gathering relevant information tries to choose the best option available as per his need, taste and pocket.

4. **Step 4 -** After going through all the above stages, customer finally purchases the product.

5. **Step 5 -** The purchase of the product is followed by post purchase evaluation. Post purchase evaluation refers to a customer's analysis whether the product was useful to him or not, whether the product fulfilled his need or not?

10.4 TYPES OF PURCHASE DECISION BEHAVIOUR

Purchase Decision differs from person to person. Deepening upon the need of the person, the decision gets change; Even if the product is small. There are different factors which influences the nature of buying. Hence buying decision has been classified into four different categories. These are classified depending upon the degree of involvement and degree of difference among brands.

1. **Complex Buying behavior :**

This situation involves the high level of involvement from consumers and the same with the difference among brands. These cases arise when the product is of high price, risky, high for servicing, and so on. For Ex: Buying a laptop/Car. Here the product is expensive and there is a significant difference among the brands.

2. **Conflict reducing behavior :**

This involves high involvement of the buyer but a less significance difference among the brands. For ex: Buying an Air Conditioner. Here the product is highly priced but almost all every brand gives the same features. Sometimes this may involve the post purchase conflict behavior. Here the consumer looks at the disadvantages of the product after purchase.

3. **Habitual Buying Behavior :**

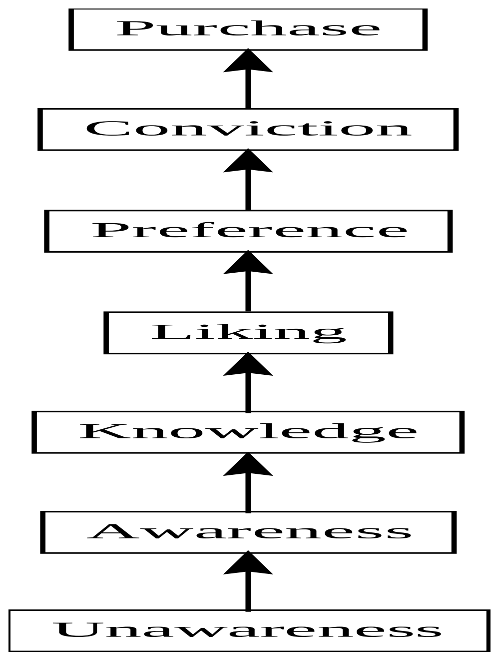
Here there will not be any kind of involvement from the consumer. Here the purchase happens depending upon the Brand familiarity. Here the consumer involvement is low and less differences among brands. This happens based on the habits of buying. For Ex: Buying of a liquid soap . Most of the people prefer Dettol because of the brand. But there are other products like Lifebuoy with less significant difference.

4. **Variety Seeking Buying Behavior :**

Here the consumer involvement is low but there will be significant difference among brands. For Ex: Biscuits, when we buy a biscuit we do not know the taste hence after consumption only we can tell that whether to go for the brand or not for the next time. Here the companies try to change the nature to Habitual Buying behavior by different strategies. Sometimes this depends upon the retailers too.

10.5 STAGES IN THE BUYER DECISION PROCESS

Another widely-used model in marketing that attempts to explain consumer decision making process is called the *hierarchy of effects model*. Although different researchers developed slightly different models, the basic idea is the same: people experience a sequence of psychological stages before purchasing a product. Such a model is provided in Figure:



A General Model of the Hierarchy of Effects
Source: Adopted from Delozier (1976)

Originally conceived to explain how advertising affects consumer's purchase decisions, the hierarchy of effects (HOE) model focuses on consumer learning that takes place as he/she processes information from the external world. The HOE model begins with the state where a consumer has no awareness about the brand (unaware) then develops awareness triggered by external stimuli, such as advertising message or "word of mouth." As he/she obtains and processes more information, the consumer develops more specific knowledge about the brand. The knowledge, then, is used as basis to form a liking (or disliking), leading to a preference of brand(s) relative to the others. However, people need to be pushed beyond the preference stage to actually buy the brand of preference. The preference stage, after all, simply means that the consumer has formed a preference *psychologically*. Now it takes conviction for him/her before actually buying the brand.

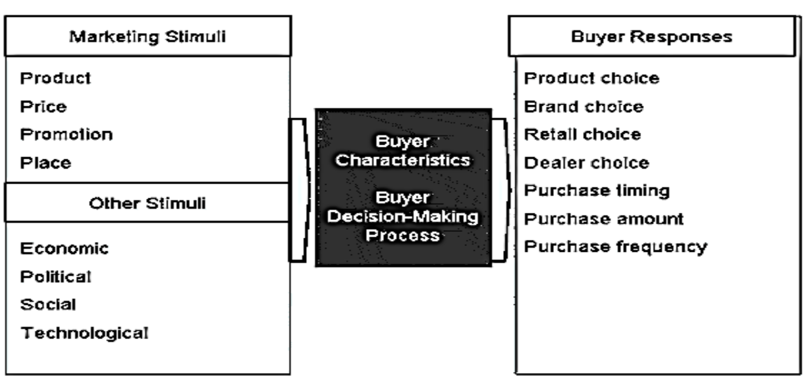
By now, you might have realized at least two points. One, it seems reasonable that not all the consumers are at the same stage. For example, Susan may be in the unawareness stage relative to Samuel Adams beer, but Melissa may be in the preference stage. Two, it also seems reasonable that not all people at one stage move onto the next stage. For example, some consumers who have formed preference to Contadina pasta may not form any conviction to buy the product. Furthermore, some people may need more time before moving onto the next stage than others.

The HOE model is quite similar to the consumer information processing model because it also assumes that people are cognitively driven, thinking information processors. Controversy exists, of course, as to whether that is necessarily true. Some may claim that they often form liking and preference (emotional response or *feeling*) toward brands before developing cognitive judgment (knowledge or *thinking*) on them. Others argue that people form preference and knowledge simultaneously. Although each argument has its own support, the general model (cognition first, preference second) seems to be valid especially in relatively complex – or *high-involvement* – decision making situations (e.g., cars, computers), providing a conceptual framework for thinking about the sequence of events which begins from the initial awareness to the final action (i.e., purchasing).

10.6 MODELS OF BUYER BEHAVIOUR

Consumers make many buying decisions every day. Most large companies research consumer buying decisions in great detail to answer questions about what consumers buy, where they buy, how and how much they buy, when they buy, and why they buy. Marketers can study actual consumer purchases to find out what they buy, where, and how much. But learning about the whys of consumer buying behavior is not so easy--the answers are often locked deep within the consumer's head. The vital question for marketers is: How do consumers respond to various marketing efforts the company might use? The company that really understands how consumers will respond to different product features, prices, and advertising appeals has a great advantage over its competitors. The starting point is the stimulus-response model of buyer behavior shown in Figure. This figure shows that marketing and other stimuli enter the consumer's "black box" and produce certain responses. Marketers must figure out what is in the buyer's black box.

Stimulus-Response Model of Buyer Behaviour



Marketing stimuli consist of the four Ps: product, price, place, and promotion. Other stimuli include major forces and events in the buyer's environment: economic, technological, political, and cultural. All these inputs enter the buyer's black box, where they are turned into a set of observable buyer responses: product choice, brand choice, dealer choice, purchase timing, and purchase amount.

The marketer wants to understand how the stimuli are changed into responses inside the consumer's black box, which has two parts. First, the buyer's characteristics influence how he or she perceives and reacts to the stimuli. Second, the buyer's decision process itself affects the buyer's behavior.

10.7 SUMMARY

We summarise this unit by the statement that Consumer is a human being and a very complicated case when we study the buying behaviour. There are too many factors like social, psychological, economical, envoirmental which effect the buying decisions of a consumer. This is a non ending process to analyses these factors as many other unknown factors keep on adding to the existing ones and so on. We have tried to touch the some factors which are popularly available. These models can never be said to be complete and fulfilled. Many processes are still on the verge of being evolved and implemented, so let’s keep updated and learning.

10.8 SELF ASSESSMENT QUESTION

1. List down and explain different levels of Consumer decision.
2. What is the Process of decision making by any consumer?
3. What are the different levels of Purchase decision behavior?
4. What are the different stages in the buyer decision process?
5. Draw and explain various models of Buyer Behaviour.

5.9 FURTHER READINGS

1. Stanton, J.W. Fundamentals of Marketing, Mc Graw Hill, New York 1994.
2. Rewoldt, S.H. J.D. and Warshaw, W.R. Introduction to Marketing Management, 1973.
3. Staudt T.A. and Taylor, D.A., A Managerial Introduction to Marketing Management, 1973.

UNIT-11

INDIAN CONSUMER ENVOIRNMENT

The objectives of this unit we will understand the Indian environment in the business sector. The study till now had been a generalized view of the business environment and customers. But Indian market is a still more complex place and consists of a varied customer base which can even constitute a global market. So this unit helps in understanding these factors and overall scenario of Indian Consumers present and future.

Structure :

11.1 INTRODUCTION

The Indian consumers are noted for the high degree of value orientsation. Such orientation to value has labeled Indians as one of the most sensitive consumers in the world. Even, luxury brands have to devise a unique pricing strategy in order to get a grip in the Indian market. Indian consumers have a high degree of family orientation. This orientation in fact, extends to the extended family and friends as well. Brands with identities that support family values tend to be popular and accepted easily in the Indian market.

Indian consumers are also associated with values of fostering, concern and fondness. These values are far more central that values of ambition and achievement. Product which communicates feelings and emotions sets with the Indian consumers.

Apart from psychology and economics, the role of history and tradition in shaping the Indian consumer behavior is quite unique. Perhaps, only in India, one sees traditional products along side modern products. For example, hair oils and tooth powder existing with shampoos and toothpaste.

11.2 DEMOGRAPHIC CHARACTERISTICS

The demographic feature of Indian economy states characteristics of population constitutes the human resources of a country. The population is vital from the point of economic growth and resources of the country. India's population is rising geometrically where as production rises arithmetically, according to 2001 census the population is about 102 cores. The demography of India's population is like the density of population, age composition, sex composition, literacy rate, life expectancy and rural-urban ratio etc.

Important Demographic Features of Indian Economy

Density of population:

The density of population calculated as a ratio of the number of persons per square kilometer of land area. Normally the density of population is very high in the urban and industrial areas and it is quite low in the rural areas, according 2001 census the density of population in India is 324. The density of Population was as low as 7.7 persons per square kilometers in 1901.

In 2001 density of population further creased to 324 people per square kilometer. India is one of the dense populated countries in the world. The density of population determines the magnitude of the burden that India is being called upon to carry and to determine the future potential of growth. The availability of natural resources and the use of technology determine the density of population with higher standard of living. So the density of population is an index of either prosperity or poverty of a country.

Sex composition:

In India there is trend in favor of masculine population. The sex distribution of population of India shows two things:

(a) A higher ratio males in the population and a rising tendency towards masculinity. The proportion of females per 100 males has fallen from 962 in 1901 to 933 in 2001. In Kerala females are 1040 in 1991 per 1000 males.

Current Sex Ratio of India 2013	940 females for every 1,000 males
Sex Ratio of India in 2012	940 females for every 1,000 males
Total Male Population in India 2012	628,800,000 (628.8 million)
Total Female Population in India 2012	591,400,000 (591.4 million)
Currently, there are about 51 births in India in 1 minute.	
Source : census of India > Indiaonline.com	

(b) In India 103 female babies are born against 100 male babies and loss of female babies after birth is much higher than that of male. This led to fall in sex ratio. There are a number of factors which are responsible for the fall in sex ration. They are of more female folks due to insufficient attention and care after birth. The death rates of women are high during reproductive age group 11-19 due to the practice in early marriage.

Age composition:

The analysis of age composition of population can determine the proportion of labor force in the total population of the country. The population in India is divided into three groups on the basis of age structure such as 0-14, 15-59 and 60 and above. The higher child population in India has resulted from higher birth rate and fall in the infant mortality rate. Populations on 0-14 age groups are dependent. The proportion on working population in the age group of 55-60 has been declining from 60.2 percent in 1921 to 57.1 percent in 1951 and then 54.1 percent in 1981. Again, the proportion of age and old population in the age group to 60 and above has also been increasing from 1.2 percent in 1921 to 5.5 percent in 1951 and then to 6 A percent in 1981 . Thus, the proportion of child, and the old people are increasing in number.

Rural – Urban Composition:

The rural urban composition of India population reflects on the model of living of the country's population. 'In India majority of the population lives in rural areas. However, there is growing trend for gradual shift of population from rural to urban areas. The urban population increased by 41 percent during 194.51. The percentage of urban population in total population has gone up from 17 percent in 1951 to 25.72 percent in 1991 and 27.8 percent in 2001 2011 is hoped.

Life Expectancy:

The average life expectancy of birth in India has been gradually increasing the average life experience was 41.2 years in 1951-61 and increase to 46.4 years in 1961-71. The increases in the life expectancy have become possible due full in the infant mortality. So although the life expectancy in Mila increased in recent years but it compares on favorable with the level of the expectancy attained in some other countries.

Literacy rate in India:

In India the level of literacy which was only 18.3 percent in 1951 gradually increased to 23 percent in 1961 and 34.5 percent 1971. The sate literacy was mentioned was measured in India excluding the children in the age groups of 0-4 till 1981.

As per Population Census of India 2011, the **Literacy rate of India** has shown as improvement of almost 9 percent. It has gone up to 74.04% in 2011 from 65.38% in 2001, thus showing an increase of 9 percent in the last 10 years. It consists of male literacy rate 82.14% and female literacy rate is 65.46%. Kerala with 93.9% literacy rate is the top state in India. Lakshadweep and Mizoram are at second and third position with 92.3% and 91.06% literacy rate respectively. Bihar with 63.08% literacy rate is the last in terms of literacy rate in India, if the growth of literacy to remove literacy totally net before 2040 AD.

11.3 INCOME AND CONSUMPTION CHARACTERISTICS

Indian market is a typical example of different income levels their characteristics and their choices. The buying pattern is exclusive in every case and is quiet unique. We will discuss each one separately as follows:

❖ **The Socialites**

Socialites belong to the upper class. They prefer to shop in specialty stores, go to clubs on weekends, and spend a good amount on luxury goods. They are always looking for something different. They are the darlings of exclusive establishments. They go for high value, exclusive products. Socialites are also very brand conscious and would go only for the best known in the market.

❖ **The Conservatives**

` The Conservatives belong to the middle class. The conservative segment is the expression of the true Indian culture. They are traditional in their outlook, cautious in their approach towards purchases; spend more time with family than in partying and focus more on savings than spending. Slow in decision making, they seek a lot of information before making any purchase. They look for durability and functionality but at the same time is also image conscious. They prefer high value consumer products, but often have to settle for the more affordable one. These habits in turn affect their purchasing habits where they are trying to go for the middle and upper middle level priced products.

❖ India's Rich

India's rich can be categorized into five major categories as follows:

✓ The Rich

The rich have income greater than US$11,000/- per annum. Total household having such incomes are 1,058,961. These people are upwardly mobile. Some of them in this category are Double Income No Kids (DINK) households. They spend more on leisure and entertainment-activities than on future looking investments. Across the category, backgrounds are distinctly middle class. They aspire, therefore, to attain the super-rich status.

✓ The Great Rich

The Super Rich have income greater than US$22,000/- per annum. Total number of households is 320,900. There are less DINK families here than in the rich category. The Super Rich are mainly professionals and devoted to consumerism. They buy many durables and are status conscious.

✓ The Mega Rich

The mega Rich have income greater than US$44,000/- per annum. The number of households in this category is 98,289. There is no typical profile of the ultra-rich. There are some DINK households of middle-level executives. Some single earning households are of first generation entrepreneurs. Some rich farmers, who have been rich for a long time, belong to this category.

✓ The Complete Rich

The Complete Rich is made up by households having income exceeding US$110,000/- per annum. Such households are 20,863. They do not have a homogenous profile. There are joint families as well as nuclear families in this category. They consume services greatly. They own multiple cars and houses. They aspire to social status and power.

✓ The Obscenely Rich

The Obscenely Rich is made up of households having income exceeding US$222,000/- per annum. There are hardly 6,515 such households in India. They are first-generation entrepreneurs who have made it big. Some of them are techies. A variety of people belong to this category. They are just equivalent to the rich in the developed countries. They crave for exclusivity in what they buy. Most premium brands are relevant to them.

- **The Working women**

  The working woman segment is the one, which has seen a terrific growth in the late nineties. This segment has opened the floodgates for the Indian retailers. The working woman today has grown out of her long-standing image of being the homemaker. Today, she is rubbing shoulders with men, proving herself to be equally good, if not better. Working women have their own mind in decision to purchase the products that appeal to them.

- **The Rural Consumer**

  About three quarters of the Indian population are in the rural areas and with the growing middle class, especially in the Indian cities; the overflow effect of the growing urban middle class is also felt in the rural areas. The Indian rural market has been growing at 3-4% per annum, adding more than 1 million new consumers every year and now accounts for close to 50% of the volume consumption of fast-moving consumer goods (FMCG) in India. The market size of the fast moving consumer goods sector is projected to more than double to US$ 23.25 billion by 2010 from the present US$ 11.16 billion. As a result, it is becoming an important market place for fast moving consumer goods as well as consumer durables.

11.4 CHARACTERISTICS OF ORGANISATIONAL CONSUMERS

The organizational buying process is entirely different from the consumer buying process. While buying decisions are made relatively easily and quickly by individual customers, organisational buying involves thorough and deep analysis. Organizations purchase products ranging from highly complex machinery to small components. In an organization, the purchase decisions are influenced by several individuals and are not made in isolation by an individual. Organizational buyers are more concerned about the price and quality of the product along with the service being provided by the vendor. Price plays a major role, since the price of the raw materials is the investment from which profits are generated. Thus, price is a major factor which affects the profitability of the firm. Service also plays an important role, because no organization would like to buy goods from a vendor who cannot provide timely and efficient service.

Organizations adopt certain methods for buying products such as checking a sample before the actual purchase. Most organizational purchases involve purchase of products in large lots. So it is not feasible to individually inspect each and every item in the lot. In such situations, a sample is checked assuming that this sample represents the entire lot. Like the consumer markets, organizational markets also possess certain demand characteristics. The organizational demand for products or services may be inelastic, derived, joint or fluctuating in nature. Organizational markets

normally purchase the goods or services for producing other goods and services, using these as raw materials. There are also resellers, who purchase the products to sell directly to other customers without any modifications. Apart from producers and resellers, there are also government and institutional customers who buy the goods. Government buys goods for public utility or for use in their departments or for production purposes.
The buying decisions of organizations are influenced by environmental factors, organizational factors, social factors and personal factors. Participants in the organizational buying process play as many as seven different roles, namely those of initiator, influencer, user, decider, approver, buyer and gatekeeper. Although organizations differ significantly from each other in their purchasing process, the various stages of industrial buying comprise problem recognition, general need recognition, product specification, value analysis, vendor analysis, order routine specification, multiple sourcing and performance review. Marketers need relevant information about the characteristics of the industries for marketing their goods and services effectively. To search for such information, the prime sources are government and industrial publications. The Standard Industrial Classification is a process where such characteristics of manufacturing, financial and service sectors are depicted in a coded format.

11.5 GEOGRAPHICAL CHARACTERISTICS

Consumer markets also have different geographic characteristics. These geographic characteristics are often based on market size, region, population density and even climate, according to the article "Market Segmentation" at netmba.com, a online business reference site. 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.

Politically, India is a sovereign republic. It is made up of 28 states with 23 official languages. As a consumer marketer, you're much better off thinking of India as a continent, much like any other.

If you sell skin care products, for example, chilly winters in northern states create dry skin conditions that simply don't exist in humid cities such as Mumbai and Chennai. Skin textures also vary radically from Haryana in the northwest to Kerala in the south. So do preferences for fragrance: The largest selling soap in southern India is Santoor (from India's own Wipro) which uses turmeric and sandal as key ingredients. But Unilever's Lux and other brands are much more popular in the north and the east.

Furthermore, Indian consumers look at many product categories through the prism of social class. For example, vehicles such as Toyota's Innova resemble the typical minivan or SUV favored by Americans. But in India they are perceived as commercial vehicles or taxis, and few self-respecting mothers who can afford one would choose to buy it. It's beneath her class. Don't rely on a single India strategy. Understand the enormous differences across the country.

11.6 MARKET POTENTIAL

India is traditionally a mixed economy. Many of the important sectors especially in the infrastructure and Industrial Sectors were in the hands of the government and other sectors were in the hands of private sector. But with the liberalization of the economy since 1991.India has really understood the importance of the global players and the relevant growth affects on the local suppliers and customers of India. The government previously had a considerable control over the private sector through licensing for additional manufacturing, Import of capital goods, Raw material and technology but with after liberalization & considerable changes and government has rationalised the norms for many licensing activities and even abolished completely in certain cases. These economic reforms have changed the business environment in India and a new economic freedom is in the process of bringing the change. Regular economic reforms are aimed to de regulate the country and stimulate the foreign Investment.
So the overall environment is improving but it need to be speeding up in order to attract more foreign investment and high growth rate.

The most important factor for a successful market is that it should have the buyers who are willing to purchase. This plays a most important role in making India a very attractive market. India have huge and varied customer base which is the second largest population base in the world. The availability of all types of religion,cast and creed and the diversified culture makes it a more complicated market and hard to understand behaviors of buyer. But as far as huge population is concerned we can be sure that the potential exists for the various types of consumer goods therefore many foreign countries have been successful so far in establishing them self in India. In the presence of the huge population it gives scope to all other sectors also such as education, smedical, agriculture and various other industries. Further as India is one of the fastest growing economy it also give scope for various other heavy industries such as shipping, bulk Machinery, refineries, infrastructure and real estate etc. Hence with an increasing education level and economic development India promises to be a great source of buyer for all types of industry and attraction for the foreign investors.

11.7 SOCIAL CULTURAL CHARACTERISTICS

Socio-cultural dynamics would mean the change in the social and cultural attributes of a society. Though in really these two attributes are inseparable like the two sides of a coin but for analytic convenience that can be treated separately.

Social denotes structural aspects i.e. it emphasizes on the nature of patterned interaction actually obtaining within and among various types of groups that exist in society. Some examples of such group being family, caste, economic organisation and distribution of power and dominance.

Cultural aspects denote the collectively shared values, ideas and symbols that are associated with these groups and the pattern of social interactions existing therein. Some of the example being the value of inequality or hierarchy conveyed through the idea of purity-pollution, the idea of unity meaning that different parts are united in one body, social. The fatalistic belief in the ideas of rebirth and various themes conveyed through literature of different periods.

Being an Oriental ancient civilization, India has a history of 5000 years. And its culture, extensive, profound and mysterious, has made vast contributions to the world progress and civilization. Its distinct characteristics and personalities have made scholars and experts of academia today excited and confused, arousing their interest in probing the mysteries inside. But no consensus has been reached among them up to now. Some experts divide the characteristics of Indian culture into eight aspects, while others argue that there are no more than three. The Indian cultural system is made up of numerous cultural elements. So the characteristics of Indian culture must be incarnated in each of the cultural elements with their own personalities, representing the mainstream of Indian culture. The other is individuality that represents the uniqueness of Indian culture and plays the role irreplaceable in the system. Characteristics of Indian culture can be divided into four categories, using the two criteria mentioned above. They are religiosity, diversity, inclusiveness and regionalism. Religion and custom are two of the most important factors impacting a business. Every organization has to adapt itself to the prevalent customs and traditions in a region. A uniform business policy cannot be implemented throughout the world, as allowances need to be made for the religious sensibilities of the local population.

One of the most important socio-cultural trends which have an impact on a business is the constantly changing preferences of customers. A business may build a brand name for itself and model its core strategies in a certain manner, but if it fails to recognize and adapt to the changing preferences of the customers, it is doomed to fail.

Demographics is another socio-cultural factor that has an impact on the fortunes of a business. The number of people living in a region, their ethnicity, age, gender, race, sex, etc., is important factors to consider for any business organization. An understanding of the demographics of the customer base can provide a business with invaluable pointers towards launching new products, pricing, marketing strategies, etc.

Socio-cultural factors play a major role in the marketing strategy of a business. In fact, the whole idea of marketing is to connect with the existing customers, and to reach out to potential customers. The way a society is composed, and the manner in which it views itself culturally, plays an important role in the development of a robust marketing strategy.

11.8 PSYCHOGRAPHIC CHARACTERISTICS

The term demographics refer to specific physical and social personality of people, the term "psychographics" refers to people's lifestyle characteristics. Marketers realized that the emotional and emotional associations people make with particular brands frequently occur starting with the brands fitting into the lives of consumers. Market researchers were presented with the challenge of measuring consumer lifestyles, and the term psychographics was inducted. Psychographics was never planned to substitute demographics as a way of predicting and explaining consumer marketplace behavior. Instead, psychographics supplement demographics by adding the richness of the social and behavioral sciences to standard demographic descriptions of people. This way marketers could not only describe the types of people that buy their products, they could also consider more systematically the reasons why those people buy them.

***What is lifestyle*?**

Lifestyle is one of those terms that we understand intuitively but may find difficultly coming up with our own definition. One definition states that lifestyle is "the patterns in which people live and spend time and money." This definition is useful to marketers because it casts lifestyle in terms of consumption patterns.

In other words, the definition is largely behavioral. Behind the behaviors that encompass lifestyle, however, lie a numerous of complex influences, particularly from consumers' personalities and values. In most people, the relationships between personality, values, and lifestyle behaviors are relatively stable, which suggests that the relationships are also predictable to some degree. Thus, by establishing reliable connections between the social, psychological, and the behavioral, many marketers have come to rely heavily on lifestyle information as an important component to predicting and building brand loyalty.

Activities represent the behavioral portion of lifestyle. Because the range of human activities seems virtually limitless, the variable may seem too broad to be of real value to marketers. However, to the extent that engaging in many human activities requires some kind of purchased good or service, then studying activities represents a valuable means of understanding consumers.

11.9 SUMMARY

This unit gives an overview of the Indian Consumer types and Varieties which is quite diverse and unique. So while Planning or Marketing any Product or the Product line the Marketers have to consider various assessment types and levels so as to where these products have to be positioned and promoted. As wrong Positioning or Placement can ruin the future of the concerned Product. Reader can understand as to how understand the real needs and wants of the customer and plan accordingly.

11.10 SELF ASSESSMENT QUESTION

1. What are the Demographic Characteristics in India context?

2. List down the different Income and consumption characteristics affecting the Indian buyers.

3. What are the major and different Geographical Characteristics of Indian Consumers?

4. What are the different Social Cultural Characteristics of Indian Consumers?

11.10 FURTHER READINGS

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UNIT-12

PRODUCT DECISION AND STRATEGIES FOR CONSUMERS

The objectives of this unit we will understand the term Product and its various kinds. Marketing decisions are also made according to the various types of products and its different types of kinds and lines. This unit further clarifies the Marketing decision process depending upon the Product. It will help you understand the importance of Product and its kinds in making any business venture successful.

Structure:

12.1 INTRODUCTION

A good, idea, method, information, object or service created as a result of a process and serves a need or satisfies a want. It has a combination of tangible and intangible attributes (benefits, features, functions, uses) that a seller offers a buyer for purchase.

12.2 PRODUCTS AND ITS TYPES

In marketing, a product is something that can be presented to a market that might satisfy a want or need. In retailing, products are called merchandise. Products are bought as raw materials and sold as finished goods, in Manufacturing. Commodities are usually unprocessed materials such as metals and agricultural products, but a commodity can also be something generally existing in the open market. In project management, products are the official description of the project deliverables that construct or add to delivering the objectives of the project. In insurance, the policies are considered products offered for sale by the insurance company that produced the deal. A product can be classified as tangible or intangible. A tangible product is a physical object that can be perceived by touch such as a building, vehicle, gadget, or clothing. An intangible product is a product that can only be perceived indirectly such as an insurance policy.

Products to as a family have their branches and are classified under different sections on the basis of their features. They are as follows:

The differentiated product – The differentiated product enjoys a distinction from other similar products/brands in the market. The differential claimed may be 'real', with a real distinction on ingredient, quality, utility, or service, or it may be 'psychological' brought about through subtle sales appeals.

The customised product - Customer specific requirements are taken into account while developing the product. Commonly practised in the industrial product marketing, where the manufacturer and the user are in direct contact and the product gets customised to the requirements of the customer.

The augmented product – The augmented product is the result of voluntary improvements brought about by the manufacturer in order to enhance the value of the product, which are neither suggested by the customer nor expected by them. The marketer on his own augments the product, by adding an extra facility or an extra feature to the product.

The potential product – The potential product is tomorrow's product carrying with it all the improvements and finesse possible under the given technological, economic and competitive condition. There are no limits to the 'potential product'. Only the technological and economic resources of the firm set the limit.

Product classifications help marketers focus their efforts using consumers' buying behavior. Your business can use these buying habits to design your marketing efforts for a clearly defined target audience. Consumer products are often classified as convenience goods, shopping goods, specialty products or unsought goods. Although these classifications are named as types of products, focusing on how your customers buy these goods is equally important as you classify products and develop your marketing campaigns.

Convenience Goods - Those products your customers buy often and without much thought or planning are classified as convenience goods. Soap, condiments and toothpaste are common examples of convenience goods. Consumers typically make a choice once on their brand preference for these products and repeat that choice over many purchases. Making your convenience goods available for impulse or emergency purchases can be particularly effective. You'll see this marketing tactic in the placement of candy near the cash register of your grocery store for impulse buys. Another version is to place umbrellas, boots or snow shovels near a store exit when sudden weather changes call for them.

Shopping Goods **-** Buying detailed considerations of price, quality and value for products classified as shopping goods. Think about the amount of time you put into picking out a clothing purchase, a car or appliances. Successful marketing of your shopping goods can come from positioning as a better buy than your competitors -- for example, presenting better value with higher quality for the price or vice versa. Products in the shopping goods classification tend to rely on heavy advertising and even trained salespeople to influence consumer choicedecisions are

Specialty Products **-** Goods in the specialty products classification tend to promote very strong brand identities, often resulting in strong brand loyalty among consumers. Examples include stereos, computers, cameras and the most high-end brands of cars and clothing. While used cars are classified as shopping goods, a brand-new Mercedes is classified as a specialty good. Buyers for your specialty goods generally spend more time seeking the product they want than on comparing brands or products to make a value decision. Your marketing of specialty goods can be successful by promoting what you have on hand and where your costumers can find it.

Unsought Goods **-** The products classified as unsought goods are those that your consumers don’t put much thought into and generally don’t have compelling impulse to buy. Examples include batteries or life insurance. Your consumers essentially buy unsought goods when they have to, almost as an inconvenience rather than the newest, latest, greatest product they can’t wait to purchase. Marketing your unsought goods will likely be most effective with lots of advertising and salespeople promoting the idea of unresolved need for your unsought products.

12.3 MARKETING STRATEGY FOR DIFFERENT TYPES OF PRODUCTS

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:

- Market Expansion - This strategy looks to grow overall sales in one of two ways:
- Grow Sales with Existing Products - With this approach the marketer seeks to actively increase the overall sales of products the company currently markets. This can be accomplished by: 1) getting existing customers to buy more; 2) getting potential

customers to buy (i.e., those who have yet to buy); or 3) selling current products in new markets.

- Grow Sales with New Products - With this approach the marketer seeks to achieve objectives through the introduction of new products. This can be accomplished by: 1) introducing updated versions or refinements to existing products; 2) introducing products that are extensions of current products; or 3) introducing new products not previously marketed.
- Market Share Growth - This strategy looks to increase the marketer's overall percentage or share of market. In many cases this can only be accomplished by taking sales away from competitors. Consequently, this strategy often relies on aggressive marketing tactics.
- Niche Market - This strategy looks to obtain a commanding position within a certain segment of the overall market. Usually the niche market is much smaller in terms of total customers and sales volume than the overall market. Ideally this strategy looks to have the product viewed as being different from companies targeting the larger market.
- Status Quo - This strategy looks to maintain the marketer's current position in the market, such as maintaining the same level of market share.
- Market Exit - This strategy looks to remove the product from the organization's product mix. This can be accomplished by: 1) selling the product to another business, or 2) eliminating the product.
- 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 associated 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.

- **Close Range Marketing (CRM)** - Also known as Proximity Marketing, CRM uses bluetooth technology or Wifi 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, utilise 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 organisations 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 customised 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.

- **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.

12.4 PRODUCT LINE DECISION AND DIVERSIFICATION

A *product line* refers to a number of products that are related and developed by the same manufacturer. Product lines are not to be confused with product bundling, which combines various items into one type of product. Items within a product line generally share the same basic theme, and with the help of a successful marketing plan these products can be entirely effective.

Frequently, a product line includes different products that are offered to the public at varying price points. This way, a manufacturer or company can ensure that all products within a line will be purchased by all kinds of people. Product line extension refers to any additional products that may be added to a current product line.

Most of the time, product extensions are introduced to the public in order to ward off competitors. By creating products that match other, competitive products, manufacturers are able to keep customers interested in a product that they are familiar with. Since most people purchase brands that they know, these same consumers are more likely to purchase a new product from a brand that they are comfortable with rather than purchase a product from an unknown brand.

Marketers create target markets based upon age groups, geographical locations, and ethnicity. Target markets refer to a group, or groups, of people that are likely to purchase one product. Thus, even though products might be related, some products may look different, smell different, and even appear unrelated in order to appeal to different types of people.

For example, many air freshener manufacturers offer a variety of products ranging from flameless candles, targeted to parents with young children; to simple aerosol air fresheners, targeted to consumers who don't want to spend a lot of money on an air freshener. While these products are related, they are vastly different.

Clearly, a great deal of strategy goes into marketing various products. Marketers must be aware of competition at all times in order to advise manufacturers on new products that should be added to an existing product line. In addition, a marketing agency should be aware of those products that sell, and those that remain unpopular.

Through the collection of statistical data, marketers can effectively determine what products should be kept within a product line, and what products should be phased out. Pricing is used to create a large barrier between different products, and higher-priced products are usually justified based upon certain ingredients.

DIVERSIFICATION IN THE CONTEXT OF GROWTH STRATEGIES

Diversification is a form of growth strategy. Growth strategies involve a significant increase in performance objectives (usually sales or market share) beyond past levels of performance. Many organizations pursue one or more types of growth strategies. One of the primary reasons is the view held by many investors and executives that "bigger is better." Growth in sales is often used as a measure of performance. Even if profits remain stable or decline, an increase in sales satisfies many people. The assumption is often made that if sales increase, profits will eventually follow.

Rewards for managers are usually greater when a firm is pursuing a growth strategy. Managers are often paid a commission based on sales. The higher the sales level, the larger the compensation received. Recognition and power also accrue to managers of growing companies. They are more frequently invited to speak to professional groups and are more often interviewed and written about by the press than are managers of companies with greater rates of return but slower rates of growth. Thus, growth companies also become better known and may be better able, to attract quality managers.

Growth may also improve the effectiveness of the organization. Larger companies have a number of advantages over smaller firms operating in more limited markets.

1. Large size or large market share can lead to economies of scale. Marketing or production synergies may result from more efficient use of sales calls, reduced travel time, reduced changeover time, and longer production runs.
2. Learning and experience curve effects may produce lower costs as the firm gains experience in producing and distributing its product

or service. Experience and large size may also lead to improved layout, gains in labor efficiency, redesign of products or production processes, or larger and more qualified staff departments (e.g., marketing research or research and development).

3. Lower average unit costs may result from a firm's ability to spread administrative expenses and other overhead costs over a larger unit volume. The more capital intensive a business is, the more important its ability to spread costs across a large volume becomes.

4. Improved linkages with other stages of production can also result from large size. Better links with suppliers may be attained through large orders, which may produce lower costs (quantity discounts), improved delivery, or custom-made products that would be unaffordable for smaller operations. Links with distribution channels may lower costs by better location of warehouses, more efficient advertising, and shipping efficiencies. The size of the organization relative to its customers or suppliers influences its bargaining power and its ability to influence price and services provided.

5. Sharing of information between units of a large firm allows knowledge gained in one business unit to be applied to problems being experienced in another unit. Especially for companies relying heavily on technology, the reduction of R&D costs and the time needed to develop new technology may give larger firms an advantage over smaller, more specialized firms. The more similar the activities are among units, the easier the transfer of information becomes.

6. Taking advantage of geographic differences is possible for large firms. Especially for multinational firms, differences in wage rates, taxes, energy costs, shipping and freight charges, and trade restrictions influence the costs of business. A large firm can sometimes lower its cost of business by placing multiple plants in locations providing the lowest cost. Smaller firms with only one location must operate within the strengths and weaknesses of its single location.

CONCENTRIC DIVERSIFICATION

Concentric diversification occurs when a firm adds related products or markets. The goal of such diversification is to achieve strategic fit. Strategic fit allows an organization to achieve synergy. In essence, synergy is the ability of two or more parts of an organization to achieve greater total effectiveness together than would be experienced if the efforts of the independent parts were summed. Synergy may be achieved by combining firms with complementary marketing, financial, operating, or management efforts. Breweries have been able to achieve marketing synergy through national advertising and distribution. By combining a number of regional breweries into a national network, beer producers have been able to produce and sell more beer than had independent regional breweries.

Financial synergy may be obtained by combining a firm with strong financial resources but limited growth opportunities with a company having great market potential but weak financial resources. For example, debt-ridden companies may seek to acquire firms that are relatively debt-free to increase the lever-aged firm's borrowing capacity. Similarly, firms sometimes attempt to stabilize earnings by diversifying into businesses with different seasonal or cyclical sales patterns.

Strategic fit in operations could result in synergy by the combination of operating units to improve overall efficiency. Combining two units so that duplicate equipment or research and development are eliminated would improve overall efficiency. Quantity discounts through combined ordering would be another possible way to achieve operating synergy. Yet another way to improve efficiency is to diversify into an area that can use by-products from existing operations. For example, breweries have been able to convert grain, a by-product of the fermentation process, into feed for livestock.

Management synergy can be achieved when management experience and expertise is applied to different situations. Perhaps a manager's experience in working with unions in one company could be applied to labor management problems in another company. Caution must be exercised, however, in assuming that management experience is universally transferable. Situations that appear similar may require significantly different management strategies. Personality clashes and other situational differences may make management synergy difficult to achieve. Although managerial skills and experience can be transferred, individual managers may not be able to make the transfer effectively.

CONGLOMERATE DIVERSIFICATION

Conglomerate diversification occurs when a firm diversifies into areas that are unrelated to its current line of business. Synergy may result through the application of management expertise or financial resources, but the primary purpose of conglomerate diversification is improved profitability of the acquiring firm. Little, if any, concern is given to achieving marketing or production synergy with conglomerate diversification.

One of the most common reasons for pursuing a conglomerate growth strategy is that opportunities in a firm's current line of business are limited. Finding an attractive investment opportunity requires the firm to consider alternatives in other types of business. Philip Morris's acquisition of Miller Brewing was a conglomerate move. Products, markets, and production technologies of the brewery were quite different from those required to produce cigarettes.

Firms may also pursue a conglomerate diversification strategy as a means of increasing the firm's growth rate. As discussed earlier, growth in sales may make the company more attractive to investors. Growth may also increase the power and prestige of the firm's executives. Conglomerate growth may be effective if the new area has growth opportunities greater than those available in the existing line of business.

Probably the biggest disadvantage of a conglomerate diversification strategy is the increase in administrative problems associated with operating unrelated businesses. Managers from different divisions may have different backgrounds and may be unable to work together effectively. Competition between strategic business units for resources may entail shifting resources away from one division to another. Such a move may create rivalry and administrative problems between the units.

Caution must also be exercised in entering businesses with seemingly promising opportunities, especially if the management team lacks experience or skill in the new line of business. Without some knowledge of the new industry, a firm may be unable to accurately evaluate the industry's potential. Even if the new business is initially successful, problems will eventually occur. Executives from the conglomerate will have to become involved in the operations of the new enterprise at some point. Without adequate experience or skills (Management Synergy) the new business may become a poor performer.

Without some form of strategic fit, the combined performance of the individual units will probably not exceed the performance of the units operating independently. In fact, combined performance may deteriorate because of controls placed on the individual units by the parent conglomerate. Decision-making may become slower due to longer review periods and complicated reporting systems.

DIVERSIFICATION: GROW OR BUY?

Diversification efforts may be either internal or external. Internal diversification occurs when a firm enters a different, but usually related, line of business by developing the new line of business itself. Internal diversification frequently involves expanding a firm's product or market base. External diversification may achieve the same result; however, the company enters a new area of business by purchasing another company or business unit. Mergers and acquisitions are common forms of external diversification.

INTERNAL DIVERSIFICATION.

One form of internal diversification is to market existing products in new markets. A firm may elect to broaden its geographic base to include new customers, either within its home country or in international markets. A business could also pursue an internal diversification strategy by finding new users for its current product. For example, Arm & Hammer marketed its baking soda as a refrigerator deodorizer. Finally, firms may attempt to change markets by increasing or decreasing the price of products to make them appeal to consumers of different income levels.

Another form of internal diversification is to market new products in existing markets. Generally this strategy involves using existing channels of distribution to market new products. Retailers often change product lines to include new items that appear to have good market potential. Johnson & Johnson added a line of baby toys to its existing line of items for infants. Packaged-food firms have added salt-free or low-calorie options to existing product lines.

It is also possible to have conglomerate growth through internal diversification. This strategy would entail marketing new and unrelated products to new markets. This strategy is the least used among the internal diversification strategies, as it is the most risky. It requires the company to enter a new market where it is not established. The firm is also developing and introducing a new product. Research and development costs, as well as advertising costs, will likely be higher than if existing products were marketed. In effect, the investment and the probability of failure are much greater when both the product and market are new.

EXTERNAL DIVERSIFICATION.

External diversification occurs when a firm looks outside of its current operations and buys access to new products or markets. Mergers are one common form of external diversification. Mergers occur when two or more firms combine operations to form one corporation, perhaps with a new name. These firms are usually of similar size. One goal of a merger is to achieve management synergy by creating a stronger management team. This can be achieved in a merger by combining the management teams from the merged firms.

Acquisitions, a second form of external growth, occur when the purchased corporation loses its identity. The acquiring company absorbs it. The acquired company and its assets may be absorbed into an existing business unit or remain intact as an independent subsidiary within the parent company. Acquisitions usually occur when a larger firm purchases a smaller company. Acquisitions are called friendly if the firm being purchased is receptive to the acquisition. (Mergers are usually "friendly.") Unfriendly mergers or hostile takeovers occur when the management of the firm targeted for acquisition resists being purchased.

DIVERSIFICATION: VERTICAL OR HORIZONTAL?

Directions of diversification decide the diversification strategies. When company undertakes operations at different stages of production Vertical integration takes place. Association in the diverse stages of production can be devised within the company (internal diversification) or by acquiring another firm (external diversification). When the company moves into operations at the same stage of production Horizontal integration or diversification occurs. Vertical integration is usually related to current operations and would be considered concentric diversification.

Concentric or a conglomerate form of diversification can be Horizontal integration.

VERTICAL INTEGRATION.

The steps that a product goes through in being transformed from raw materials to a finished product in the possession of the customer constitute the various stages of production. When a firm diversifies closer to the sources of raw materials in the stages of production, it is following a backward vertical integration strategy. *Avon's* primary line of business has been the selling of cosmetics door-to-door. *Avon* pursued a backward form of vertical integration by entering into the production of some of its cosmetics. Forward diversification occurs when firms move closer to the consumer in terms of the production stages. Levi Strauss & Co., traditionally a manufacturer of clothing, has diversified forward by opening retail stores to market its textile products rather than producing them and selling them to another firm to retail.

Backward integration allows the diversifying firm to exercise more control over the quality of the supplies being purchased. Backward integration also may be undertaken to provide a more dependable source of needed raw materials. Forward integration allows a manufacturing company to assure itself of an outlet for its products. Forward integration also allows a firm more control over how its products are sold and serviced. Furthermore, a company may be better able to differentiate its products from those of its competitors by forward integration. By opening its own retail outlets, a firm is often better able to control and train the personnel selling and servicing its equipment.

Since servicing is an important part of many products, having an excellent service department may provide an integrated firm a competitive advantage over firms that are strictly manufacturers.

Some firms employ vertical integration strategies to eliminate the "profits of the middleman." Firms are sometimes able to efficiently execute the tasks being performed by the middleman (wholesalers, retailers) and receive additional profits. However, middlemen receive their income by being competent at providing a service. Unless a firm is equally efficient in providing that service, the firm will have a smaller profit margin than the middleman. If a firm is too inefficient, customers may refuse to work with the firm, resulting in lost sales.

Vertical integration strategies have one major disadvantage. A vertically integrated firm places "all of its eggs in one basket." If demand for the product falls, essential supplies are not available, or a substitute product displaces the product in the marketplace, the earnings of the entire organization may suffer.

HORIZONTAL DIVERSIFICATION.

Whenever a company enters the new business either related or non-related, if it uses the existing channels the Horizontal Integration takes place. For example, Nestle move to market ready to eat food through its door-to-door sales force involved marketing new products through existing channels of distribution. An alternative form of horizontal integration that Nestle has also undertaken is selling its products by small retailers and through big retail stores (e.g., Spencer's). In both cases, Nestle is still at the retail stage of the production process.

12.5 SUMMARY

By the above study we hope that the concept of product and product line and diversification is being explained. The marketing strategies are different for every situation and decisions. Product diversification also helps you understand the different types of product decisions. So this completes this Block and wishing you happy reading,

Uttar Pradesh Rajarshi Tandon
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Marketing Management

B.B.A.-105

BLOCK

4

Product & Branding Decisions

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UNIT-13

PRODUCT LIFE CYCLE & NEW PRODUCT DEVELOPMENT

Objectives:

The objective of this unit is to help the students understand:

- The concept of PLC
- Marketing Mix at Different Stages of PLC.
- Option in Decline Stage & New Product Development Strategy.
- Marketing Strategies at Various Levels of Product Life Cycle.

Structure:

13.1 Introduction

13.2 The concept of PLC

13.3 Marketing Mix & Strategies at Different Stages of PLC.

13.4 Option in Decline Stage & New Product Development Strategy.

13.5 Summary

13.6 Key words

13.7 Self-assessment Test

13.8 References

13.1 INTRODUCTION

The study of Product Life Cycle Management aims to reduce time to market, enhance product quality, reduce prototyping costs, and identify potential sales opportunities and revenue contributions. PLC reduces environmental impacts at end-of-life. To create successful new products the company must understand its customers, markets and competitors.

13.2 THE CONCEPT OF PLC

Product life-cycle (or PLCM) is the series of strategies used by business management as a product goes through its life-cycle. The condition in which a product is sold (advertising, saturation) changes over time and must be managed as it moves through its various stages of life.

PLC, attempts to identify a set of familiar stages in the life of commercial or any product like FMCG or electronic goods. Unlike human life cycle [HLC], the PLC shares the similar stages through which a product has to pass for example, introduction, growth, maturity and decline.

<u>Introduction</u>

In the life of the product, the introduction stage is characterized by low growth [rate] of the product in terms of sales, as the product is newly launched in the market. Monopoly can be created, depending upon the effectiveness and need of the product to the customers. Organizations usually incur losses rather than profit in this stage. If the product is in the new product class, the users may not be aware of benefits. In order to create dent in the market, extra information about the product should be provided to consumers through various media.

The stage has the following characteristics:

1. Low competition [due to product innovation]
2. Firm mostly incurs losses and not profit [due to lack of information to the customers].

<u>Growth</u>

Growth comes with the recognition of the innovation in the market and profit starts to flow due to product awareness among the customers in the market place. If the monopoly exists, companies can experiment with new ideas and innovation in order to maintain the sales growth.

This stage is the best time to introduce effective products with innovations in the market, creating an image in the product class in the presence of its competitors who try to copy or improve the product and present it as a substitute.

<u>Maturity</u>

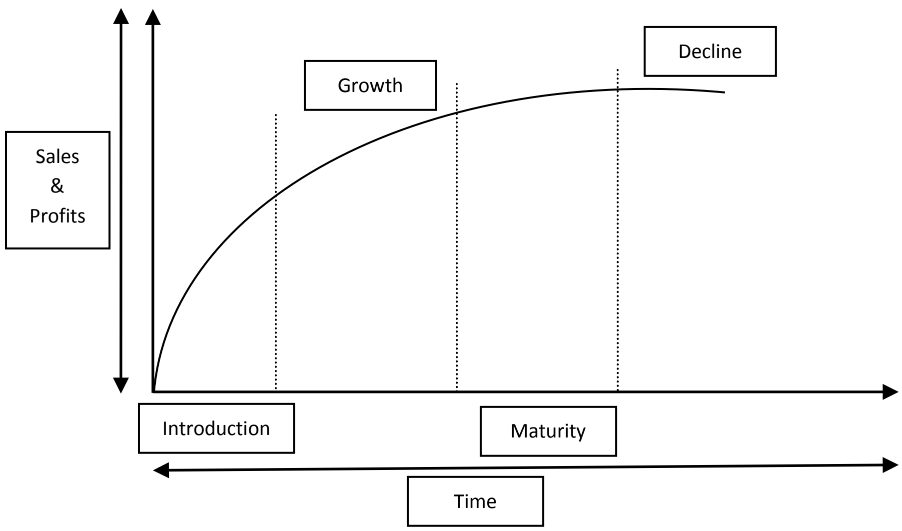
Maturity, is the succession growth stage identified by reduced growth rate and sales slowdown in the market. This is the time when new firms start experimenting in order to compete by innovating new models of the product. With many companies in the market, competition for customers becomes severe, despite the increase in growth rate of sales at the initial part of this stage.

Persistent, aggressive competition in the market results in decreasing profits at the end of the growth stage thus initiating the maturity stage in the life cycle of the product. In addition to this, the maturity stage of the innovation process is the most vital.

<u>Decline</u>

The decline stage is where most of the product class usually dies due to low growth rate in sales. A number of companies share the same market, making it difficult for all entrants to maintain sustainable sales levels. Not only is the efficiency of the company an important factor in the decline, but also the product category itself becomes a factor, as the market may perceive the product as "old" and loses its demand.

It is not always necessary that a product should go through these stages. It depends on the type of product, its competitors, scope of the product, etc.



Product Life Cycle Stages

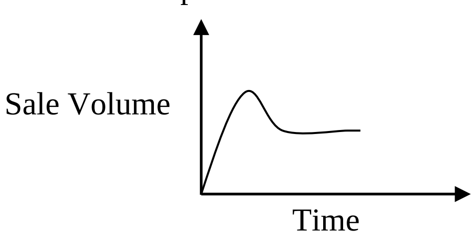
The PLC concept can be used to analyze a product category [like fabric washing products], a product form [washing detergents], a product [liquid detergents] or a brand [Goderej Ezee]. Not all products exhibits bell shaped PLC.

The other three common alternate patterns are as under:

a. Growth – Slump Maturity Pattern

b. Cycle-Recycle Pattern

c. Scalloped Pattern



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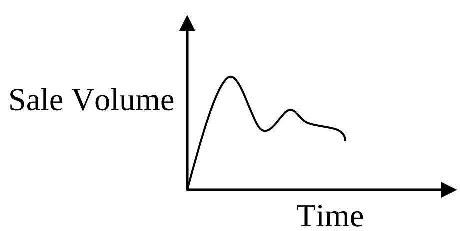

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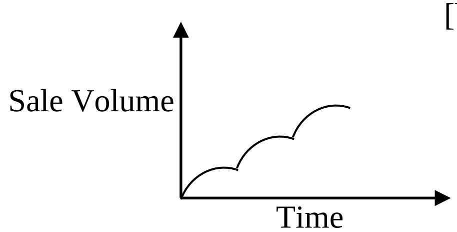

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13.3 MARKETING MIX & STRATEGIES AT DIFFERENT STAGES OF PLC

Hofer (1975) argues that "the most fundamental Variable in determining an appropriate business strategy is the stage of the product life cycle." Likewise, Biggadike (1981) identified the product life cycle as one of the five major contributions that marketing has made to strategic management.

The Boston Consulting Group's [BCG] famous portfolio approach is implicitly based on the product life cycle concept. Michael Porter (1980) recognizes the product life cycle as "the grandfather of concepts for predicting the probable course of industry evolution."

Muhs (1985) in his attempt to trace the history of the Product Life Cycle reports that the first full exposition of the Product Life Cycle as we know it today was reported by Jones in 1957.

The available Marketing Strategies that are predominant at different levels of PLC are as under:

A. Marketing Strategies at Introduction Stage

Profits are negative or low in the Introduction stage, Promotional Expenditure is high in the ratio of sales hence following measures can be adopted by the company:

1. Inform potential consumer

2. Introduce product trials

3. Ensure proper distribution in retail outlets

4. Speedy innovation required in case products like mobile phones, Tv etc.

5. Can have a pioneer’s advantage in the market place.

B. Marketing Strategies at Growth stage

The growth stage is marked by a swift climb in sales. Early adopters like the product and new customer’s starts buying it. But, at the same time the level of competition increases, to exploit the opportunity prevailing in the market place, they introduce new products, expand distribution or add new features thus enhancing the value of the products.

During this stage, the organization uses several strategies to sustain the swift, rapid market growth as under:

1. Add value to the products by improving overall quality, features **and styling.**

2. Introduce new models.

3. Enter new market segments

4. Identify new distribution channels and optimize cost.
5. Shift in overall marketing communication objectives like from product awareness' campaigns to Product-preference campaigns.
6. Attract price sensitive buyers.

These market expansion strategies will strengthen the firm's competitive position.

C. Marketing Strategy at Maturity Stage

This stage normally last longer in comparison to previous stages and pose big challenges to marketers. The sale starts declining and customer starts departing from the product / brand, giving worries to the marketing managers to sustain for longer duration of time.

During this stage companies adopt the following strategies to sustain:

1. Intensify advertising and promotional campaigns
2. Focus on product improvement & development to enhance the life of the product in the stage.
3. Focus on quality and enhancing features of the product, thus creating differentiation in the customers mind.
4. Reposition the product.
5. Try market modification, either converting non user to user or increase the usage rate [per user] or identify different segments eg. Shampoos in sachet increase the overall sales of the product in that market place.

The product managers also try to stimulate sales by modifying other marketing program elements based on the following factors:

1. Prices
2. Distribution
3. Advertising
4. Sales promotions
5. Personal selling
6. Services.

D. Marketing Strategies at Decline stage

The stage of decline is en-marked with the decline of the sales, may be due to number of reasons, including technological advancements, shift in consumer tastes, increase in competition.

The condition prevailing in the market may lead to excess numbers [of product], increased price cutting and profit depletion. In such a situation some of the firms decline to operate in the market and withdraw. Those remaining may reduce the number of products they offer, withdraw from the unprofitable or less profitable markets and weaker trade channels.

Companies cut the promotional budget and reduces price further. Unless strong reasons for retention exist, carrying a weak product is a very costly affair for the firm and creates a unbalanced product mix, long on yesterday's breadwinners and short on tomorrow's.

Depending on the competitive strengths in the market place the overall companies may adopt harvest or divest strategy with regards to the product or the brand operating the market.

13.4 OPTION IN DECLINE STAGE & NEW PRODUCT DEVELOPMENT STRATEGY.

The product life cycle focuses on what is happening to a particular product or brand rather than on what is happening to the overall market, thus has a focus on product-oriented picture rather than a market-oriented picture. Firm needs to visualize a market's evolutionary path as it is affected by new needs, competitors, technology, channels and other developments in the market.

In handling aging products, is a big challenge for a company to organize number of tasks and decisions related to the product, R&D, manufacturing and finance. Some firm abandon decline markets earlier than other.

For the firms in the decline stage five strategies are available as under to adopt as per the conditions of the market:

1. Increase the firm's investment [to dominate the market or strengthen its competitive position]
2. Maintain the firm's investment level until the uncertainties about the industry are resolved
3. Decreasing the firm's investment level selectively by dropping unprofitable customer groups while strengthening the firm's investments in the lucrative niches.
4. Harvesting the firm's investment to recover the cash quickly.
5. Divesting the business quickly by disposing of its assets as advantageously as possible.

Besides, being in the decline stage, when the company decides to drop a product, it faces further decisions. If the product has strong distribution and residual goodwill, the company can probably sell it to another firm. If the company can't find any buyer, it must decide whether to liquidate the brand quickly or slowly [eg Maruti 800]. It must also decide on how much inventory and service to maintain for past customers.

Overall PLC concept helps marketers interpret product and market dynamics and can be used for planning and control. It also enlightens the way for the firm to think for the New Product Development as an offering to the market to sustain its position.

In business and engineering, new product development (NPD) is the complete process of bringing a new product to market. A product is a set of benefits offered for exchange and can be tangible (that is, something physical you can touch) or intangible (like a service, experience, or belief). There are two parallel paths involved in the NPD process: one involves the idea generation, product design and detail engineering; the other involves market research and marketing analysis. Companies typically see new product development as the first stage in generating and commercializing new product within the overall strategic process of product life cycle, used to maintain or grow their market share.

The new product development takes place in 8 states as under:

1. **Idea Generation :** is often called the "NPD" of the NPD process.

   - Ideas for new products can be obtained from basic research using a SWOT analysis (Strengths, Weaknesses, and Opportunities & Threats). Market and consumer trends, company's R&D department, competitors, focus groups, employees, salespeople, corporate spies, trade shows, or ethnographic discovery methods (searching for user patterns and habits) may also be used to get an insight into new product lines or product features.
   - Lots of ideas are generated about the new product. Out of these ideas many are implemented. The ideas are generated in many forms. Many reasons are responsible for generation of an idea.
   - Idea Generation or Brainstorming of new product, service, or store concepts - idea generation techniques can begin when you have done your OPPORTUNITY ANALYSIS to support your ideas in the **Idea Screening Phase** (shown in the next development step).

2. **Idea Screening :** The object is to eliminate unsound concepts prior to devoting resources to them.

   - The screeners should ask several questions:
   - Will the customer in the target market benefit from the product?
   - What is the size and growth forecasts of the market segment / target market?
   - What is the current or expected competitive pressure for the product idea?

- What are the industry sales and market trends the product idea is based on?
- Is it technically feasible to manufacture the product?
- Will the product be profitable when manufactured and delivered to the customer at the target price?

3. Concept Development and Testing

- Develop the marketing and engineering details
- Investigate intellectual property issues and search patent databases
- Who is the target market and who is the decision maker in the purchasing process?
- What product features must the product incorporate?
- What benefits will the product provide?
- How will consumers react to the product?
- How will the product be produced most cost effectively?
- Prove feasibility through virtual computer aided rendering and rapid prototyping
- What will it cost to produce it?
- Testing the Concept by asking a number of prospective customers what they think of the idea - usually via Choice Modeling.

4. Business Analysis

- Estimate likely selling price based upon competition and customer feedback
- Estimate sales volume based upon size of market and such tools as the Fourt-Woodlock equation
- Estimate profitability and break-even point

5. Beta Testing and Market Testing

- Produce a physical prototype or mock-up
- Test the product (and its packaging) in typical usage situations
- Conduct focus group customer interviews or introduce at trade show
- Make adjustments where necessary
- Produce an initial run of the product and sell it in a test market area to determine customer acceptance

6. Technical Implementation

- New program initiation
- Finalize Quality management system
- Resource estimation
- Requirement publication
- Publish technical communications such as data sheets
- Engineering operations planning
- Department scheduling
- Supplier collaboration
- Logistics plan
- Resource plan publication
- Program review and monitoring
- Contingencies - what-if planning

7. Commercialization (often considered post-NPD)

- Launch the product
- Produce and place advertisements and other promotions
- Fill the distribution pipeline with product
- Critical path analysis is most useful at this stage

8. New Product Pricing

- Impact of new product on the entire product portfolio
- Value Analysis (internal & external)
- Competition and alternative competitive technologies
- Differing value segments (price, value and need)
- Product Costs (fixed & variable)
- Forecast of unit volumes, revenue, and profit

These steps may be iterated as needed. Some steps may be eliminated depending upon the necessity and conditions. To reduce the time that the NPD process takes, many companies are completing several steps at the same time.

Most industry leaders see new product development as a *proactive* process where resources are allocated to identify market changes and seize upon new product opportunities before they occur. Many industry leaders see new product development as an ongoing process in which the entire organization is always looking for opportunities.

Because the NPD process typically requires both engineering and marketing expertise, cross-functional teams are a common way of organizing projects.

Besides, a new product pricing process is as important as other activities to reduce risk and increase confidence in the pricing and marketing decisions to be made. Bernstein and Macias describe an integrated process that breaks down the complex task of new product pricing into manageable elements.

The Path to Developing Successful New Products points out three key processes that can play critical role in product development:

1. Talk to the customer;
2. Nurture a project culture; &
3. Keep it focused.

13.5 SUMMARY

Each stage of the product life cycle calls for different marketing strategies. The introduction stage is marked by slow growth and minimal profit. If successful, the product enters a growth stage marked by rapid sales growth and increasing profits. There follows a maturity stage in which sales growth slows and profit stabilize. Finally product enters a decline stage. The company’s task is to identify the truly weak products; develop a strategy for each one; and phase out weak products in a way that minimizes the hardship to company profits, employees and customers.

13.6 KEY WORDS

Product Life Cycle, New Product Development, Marketing Strategies

13.7 SELF-ASSESSMENT TEST

Q1. Why the study of PLC is important for the product managers?

Q2. At different stages of PLC the strategy changes, giving live example justify the statement?

Q3. Is new product development is important for the company? Give example to support your answer.

Q4. Explain various stages in New Product development.

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UNIT-14

BRANDING & PACKAGING DECISIONS

Objectives:

The objective of this unit is to help the students understand:

- Brand Name & Trade Mark
- Branding Decisions
- Advantages & Disadvantages of Branding
- Branding Strategies
- Packaging & its functions

Structure:

14.1 INTRODUCTION

Proper branding can result in higher sales of not only one product, but for other products associated with the same brand. For example, if a customer loves Pillsbury biscuits and trusts the brand, he or she is more likely to try other products offered by the company such as chocolate chip cookies.

Brand is defined as the personality *that identifies* a product, service or company (name, term, sign, symbol, or design, or combination of them) and it's relation to key constituencies: customers, staff, partners, investors etc.

Some people distinguish the psychological aspect, brand associations like thoughts, feelings, perceptions, images, experiences, beliefs, attitudes, and so on that become linked to the brand. These psychological aspect, sometimes referred to as the **brand image**, is a symbolic construct created within the minds of people, consisting of all the information and expectations associated with a product, service or the company(ies) providing them.

14.2 BRAND NAME & TRADE MARK

The word "brand" is derived from the Old Norse *brandr* meaning "to burn." It refers to the practice of producers burning their mark (or brand) onto their products.

The oldest generic brand, which is in continuous use in India since the Vedic period (ca. 1100 B.C.E to 500 B.C.E), is known as 'Chyawanprash', an herbal paste consumed for its ostensible health benefits and attributed to a revered *rishi* (or seer) named Chyawan. This brand was developed at Dhosi Hill, an extinct volcano in northern India.

The Italians were among the first to use brands, in the form of watermarks on paper in the 1200s. Blind Stamps, hallmarks and silver maker's marks are different types of brand.

Although connected with the history of trademarks and including earlier examples which could be deemed "proto-brands", brands in the field of mass-marketing originated in the 19th century with the advent of packaged goods.

Industrialization resulted in the aggressive production of many household items, such as soap, from local communities to centralized factories. When shipping their items, the factories would literally brand their logo or insignia on the barrels used, extending the meaning of "brand" to that of 'trademark'.

Bass & Company, the British brewery, claims their red triangle brand was the world's first trademark. Lyle's Golden Syrup makes a similar claim, having been named as Britain's oldest brand, with its green and gold packaging having remained almost unchanged since 1885. Another example comes from Antiche Fornaci Giorgi in Italy, whose bricks are stamped or carved with the same proto-logo since 1731, as found in Saint Peter's Basilica in Vatican City.

Factories established during the Industrial Revolution introduced mass-produced goods and needed to sell their products to a wider market, to customers previously familiar only with locally-produced goods. It quickly became apparent that a generic package of soap had difficulty competing with familiar, local products. The packaged goods manufacturers needed to convince the market that the public could place just as much trust in the non-local product. Pears Soap, Coca-Cola, Juicy Fruit gum, and Quaker Oats etc. were among the first products to be 'branded', in an effort to increase the consumer's familiarity with their products.

Around 1900, James Walter Thompson published a house advertisement explaining trademark advertising. This was an early commercial explanation of what we now know as branding. Companies soon adopted slogans, mascots, and jingles that began to appear on radio and early television. By the 1940s, manufacturers began to recognize the way in which consumers were developing relationships with their brands in a social / psychological / anthropological sense.

From there, manufacturers took a quick initiative to build their brand's identity and personality, such as youth-fullness, fun or luxury. This began the practice we now know as "branding" today, where the consumers buy "the brand" instead of the product. This trend continued to the 1980s, and is now quantified in concepts such as **brand value** and **brand equity**.

The brand name is quite often used interchangeably with "brand", although it is more correctly used to specifically denote written or spoken linguistic elements of any product. In this context a "brand name" constitutes a type of trademark, if the brand name exclusively identifies the brand owner as the commercial source of products or services. A brand owner may seek to protect proprietary rights in relation to a brand name through trademark registration and such trademarks are called "Registered Trademarks".

Bass Brewery's logo became the first image to be registered as a trademark, in 1875

14.3 BRANDING DECISIONS

Branding is one of the most significant aspects of business strategy, creating customer value and competitive advantage in the market place. It is not something that can be isolated from the main business and given as a task to the advertising / communication team as a set of activities. Marketers believe that customer value is more perceptual than real and that it depends on subjective understanding of customers and less about objective facts. For example, Dettol, for instance some images that come to once mind perhaps would be: a doctor in a white coat, a strong protector with a sword, a caring and protective mother and so on.

As Douglas Holt had written, branding is a perspective that focuses on shaping perceptions. Brands are cultures that circulate in society as conventional stories. Cultures are shared, taken for granted stories, images and associations. These stories [brand] get authored by companies themselves, customers and influencers. Sometimes, we experience that even if we forget the product, we attribute stories and images to a brand for example Amul ‘Utterly Butterly Girl’, mascot of ‘Maharaja’, owned by Air India. As these stories interact with other similar stories daily, a common view point / a common story emerges, which is in a sense a consensus view about a brand,” says Holt. At this point a brand becomes what Holt calls a “cultural artifact”.

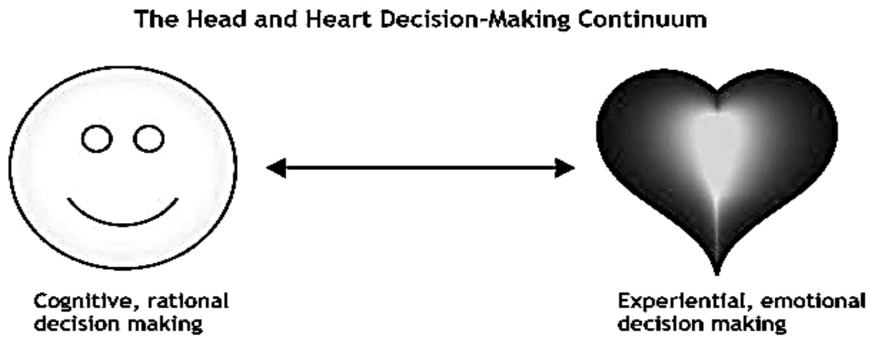
Psychological research demonstrates brand cultures are durable because people are so overloaded with information they rely upon a few heuristics to simplify the world. Brand cultures work as one such heuristic. Aaker and Joachimaster, compare and contrast between a branded house strategy (a Samsung, for example) and a house of brands strategy (like P&G) as two extremes of alternative brand architectures. While a branded house uses a single master brand to extent a set of offerings, the other involves an independent set of standalone brands, each maximizing the impact on the market

Croma, for instance is a 100 per cent subsidiary of Tata Sons. “When Croma first came to India, the grey market for electronics was dominant and hence we had to depend on the strength of our mother brand [Tata]for credibility. Even the ‘touch, feel and try' retailing was new to India. People would not know what Croma meant but they would associate strongly with the Tata brand,” recalls Ajit Joshi, Managing Director, Croma. “The success of our brand is also strongly because of our private labels’.

One of the key determinants of a consumer’s relationship with the brand is how the consumer perceives the brand [Fournier 1998]. Thus, for marketers it is extremely important to build a strong perception about their brand [Morris 1996].

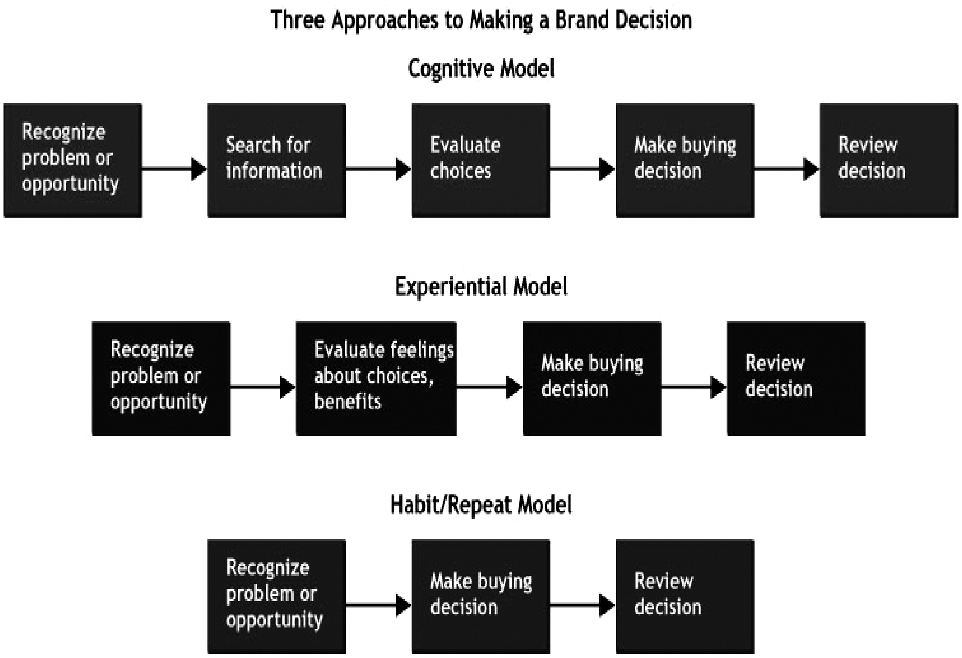
The factors that influence decision-making while purchase are:

- Level of involvement (high to low)
- Customers (retention) versus Prospects (acquisition)
- Consumers versus Businesses



Following are approaches / models to make 'A Brand' decision are:

1. Cognitive Model
2. Experiential Model
3. Habit / Repeat Model



Brands are built over a period of time and it is a complex phenomenon involving consumers' interaction with the brands, both direct and indirect. Thus, both identity and the brand image are equally important while taking a decision regarding 'Branding'.

The color, letter font and style of the Coca-Cola and Diet Coca-Cola logos in English were copied into matching Hebrew logos to maintain brand identity in Israel.

The visual brand identity manual for Mobil Oil (developed by Chermayeff & Geismar), one of the first visual identities to integrate

14.4 ADVANTAGES & DISADVANTAGES OF BRANDING

In the present competitive scenario companies are investing lot of time and money to build Brands, before the discussion moves ahead let some of the following key questions kept in mind:

1. Is it worth for organizations to invest time and money in building brands when they already have a product that can be offered to the market?
2. Are the benefits of building strong brands restricted to organizations alone, or the consumers get benefit too?

While exploring the answers to the questions one must acknowledge that, 'A strong brand is an asset for an organization. It can help the firm by acting as:

1. An identifier – of the maker of the brand and helps in assigning responsibility during the distribution stage whether it be for storing, sorting, selling or after sales service [eg. Honda / 5 Star].
2. Delivers first hand information – helps consumers to recall & co-relate information related to the brand and thus helps them cope with the 'deluge of marketing information', provided to them.
3. Legal Protection – A brand name uniquely identifies the brand, its distinctive features and aspects, thereby providing legal protection for the branded product through trademarks, patents and copyrights.
4. Differential Advantage – It help in differentiating a product from other competitors in the product category [eg. Lux & Dove].
5. Unique Association- Brand creates association with the customers, creating feeling and sense of belongingness [eg Reid & Taylor].
6. Price Premium – once a strong brand is built, an organization can charge premium price of the products [eg. Mercedes Benz].

7. Enhance Customer Loyalty – brand equity and trust are the most influential factors that led to brand loyalty among customers [eg Amul, Dabur].

8. Act as a barrier to entry – A strong band always act as a strong barrier for the other brands entering in the market, as brand loyal customers will take a longer time to switch to another brand [eg Colgate, Closeup, Lux, Dettol].

For the consumers, branding act as following:

1. Source of identification [of the product & company]
2. Heuristic or proxy for quality [assurance of quality]
3. Source of evaluation [identify producer or manufacturer]
4. A tool to simplify decision making [helps customer in buying decision]
5. Risk Reducer [in terms of assurance, service & quality]
6. Tool to express self-image [provide association and identification to the customer in the society]

The Indian market saw a flood of new brands between February 2009 and July 2010; the period witnessed 1500 brand launches in every major sector like telecom, retail, automotive, FMCG, apparels etc. There were approximately three brands being launched in a day, but 5% of these survived. Some brands like Marico suspended its test run of the brand Saffola Zest due to poor market response.

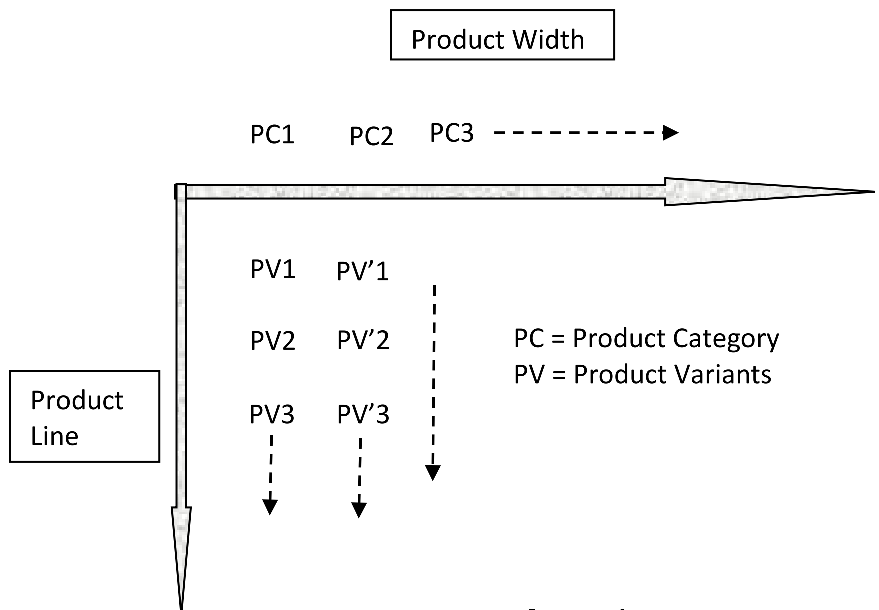
Hence, besides having advantages there are number of challenges that the brand faces over a period of time in the market. Brand managers need to constantly ensure the success of their brands. Otherwise, once successful brand can extinct from the market [eg Onida, Weston, BPL, Akai, and Aiwa]. Following are some of the challenges that a brand faces:

1. Quality aspect [or Assurance]
2. Changing consumer trends / choice.
3. Introducing technologically advanced products like LED Televisions.
4. Growing number of private labels, retailers brand like DJ & C.
5. Brand becoming generic eg Paracetamol.
6. Lack of effective & consistent communication.
7. Keeping the brand young & rejuvenated eg Cadburys, Lux etc.

14.5 BRANDING STRATEGIES

Human efforts, time, and money are required in plenty to build a brand from scratch. Once the brand is established and accepted well, companies become conscious to stay competitive and tap other opportunities in the market, they need to come out with more products [or services] to attract consumers.

New product can be branded under the existing brand [eg Lifebuoy – bathing soap, hand wash etc] or the organization can give an entirely new brand name to the same [Maruti 800 to Alto 800]. These decisions are strategic and have implications for the organization as a whole. Thus over a period of time, a company can have a number of brands in its basket of offering for consumers in the same or different product categories. This is called brand portfolio and includes all the brands and brand lines that a company has to offer in the market, also be known as product mix.



Product Mix

Thus while devising a branding strategy to ensure product mix remain profitable, organizations need to answer the following questions:

1. How many brands can an organization effectively and efficiently offer to the market?
2. Whether to come out with new brand launches or not?
3. Where to place these brands launches as line extension or category extension?
4. Which brand elements to use – existing, new, or a combination of the two?

When HUL launched their shampoos, they named them after their famous brand of beauty bathing soap – LUX. The Lux soap was the parent brand and Lux shampoo was the sub-brand.

Another strategic decision, while branding, a company need to take is regarding nomenclature. The general strategies discussed by Keller [2004] and Kotler & Keller [2006] for naming brands are as under:

1. Corporate brand name combined with individual name [eg Tata Nano, Tata Cs, Tata Indica].

2. Individual name [eg Aashirvaad / John Player of ITC].

3. Blanket family names [eg Samsung, Sony].

4. Separate family names for all products [eg Bravia for TV, Cyber-shot for cameras].

To create a buzz, excitement and remain relevant at all times, brands need to consistently innovate and come out with new variants of products [PV1, PV2, PV3…etc.]. Taking brand and product to be the two important factors around which organizations can strategize, following scenarios can arise:

1. Launch a new brand in an existing product category – Flanker Brand

2. Launch a new brand in a new product category – New Product

3. Launch an existing brand in an existing product category – Line Extension

4. Launch an existing brand name in a new product category – Category Extension / Brand Extension.

Brands that are successful in a product category invite tough competition. This leads to the entry of other players and competition heats up. The brand, therefore, needs to reiterate, remind and reinforce itself to the customers, so that they are constantly reminded about the brand benefits, the needs it satisfy, and it's superiority to other brands in the same category.

There are various examples of brands that were once prominent and performing well but could not maintain the same performance over period of time and faded from consumers memories. For example Forhan's, a non-foaming fluoride toothpaste brand, was successful brand of the 1960's. It was positioned as the 'toothpaste created by a dentist', but failed to continue appealing to consumers when confronted with the aggressive marketing moves of the companies like Colgate-Palmolive and Unilever.

To sustain the market and remain competitive, brand has to revitalize itself; a brand has to start from the branding strategy that it is following. This would include segmentation-targeting-positioning [STP], the four / 7 P's, the brand elements etc. To revitalize the brand, the organization can strategize at two levels; manage the current brand portfolio or extend the brand. The decision being strategic remains with the brand managers.

14.6 PACKAGING & ITS FUNCTIONS

Packaging is the science, art, and technology of enclosing or protecting products for distribution, storage, sale, and use. Packaging also refers to the process of design, evaluation, and production of 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, and institutional, industrial, and personal use.

The second most important part of packaging is package labeling (American English) or labeling (British English) referred as any written, electronic, or graphic communications on the packaging or on a separate but associated label to a product.

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 from oxygen, water vapor, dust, etc., is often required. Permeation is a critical factor in design. Some packages contain desiccants or Oxygen absorbers to help extend shelf life [eg packaging of processed foods]. Modified atmospheres or controlled atmospheres are also maintained in some food packages [eg packaged milk]. Keeping the contents clean, fresh, sterile and safe for the intended shelf life is a primary function.
- **Containment or agglomeration –** Small objects are typically grouped together in one package for reasons of 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 governments. Some packages and labels also are used for track and trace purposes.
- **Marketing –** The packaging and labels can be used by marketers to encourage potential buyers to purchase the product

[act as visual merchandising]. Package graphic design and physical design have been important and constantly evolving phenomenon for several decades. Marketing communications and graphic design are applied to the surface of the package and (in many cases) the point of sale display.

- **Security –** Packaging can play an important role in reducing the security risks of shipment. Packages can be made with improved tamper resistance to deter tampering and also can have tamper-evident features to help indicate tampering.
- **Anti-counterfeiting Packaging** - 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 and some have pilfered indicating seals. Counterfeit consumer goods, unauthorized sales (diversion), material substitution and tampering can all be prevented with these 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 loss prevention.
- **Convenience –** Packages can have features that add convenience in distribution, handling, stacking, display, sale, opening, reclosing, use, dispensing, reuse, 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 is 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 may be looked at as being 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 materiel packaging, pharmaceutical packaging, etc.

It is sometimes convenient to categorize packages by layer or function: "Primary" or "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, perhaps used 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 combining smaller packages, and tertiary packaging on some distribution packs.

Various household packaging types for

Aluminum can with an easy open lid

14.7 SUMMARY

Brand identity is, a vision of how the brand should be perceived by the targeted audience, it's a vehicle that guides and inspires the brand-building program. If the brand identity is confused or ambiguous, there is little chance that effective brand building will occur.

To broaden the scope of identity conceptualization, the framework provided by Aaker [1996] can be considered. This framework helps conceptualize the brand from the following prospective.

1. Brand-as-product
2. Brand-as-organization
3. Brand-as-person
4. Brand-as symbol

Brand identity structure consists of the following:

1. Core identity of the brand
2. Extended identity of the brand
3. Brand essence.

The brand essence provides a value proposition and a differentiation for the customer. This value proposition shows how a brand is unique from its competitors.

14.8 KEY WORDS

Branding, Packaging, Product Differentiation

14.9 SELF-ASSESSMENT TEST

Q1. What do you understand by Brand Name and Trade Name?

Q2. How Brand creates a difference in the minds of customers?

Q3. Discuss various Branding Strategies?

Q4. Is packaging plays an important role in product differentiation? Discuss giving examples.

Q5. Discuss different types of Packaging?

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UNIT-15

PRICING POLICY & PRACTICES

Objectives:

The objective of this unit is to help the students understand:

- Determinants of Pricing
- Pricing Methods & Objectives
- Consumer Psychology & Pricing
- Pricing & Product Life Cycle
- Pricing Discounts
- Product Positioning & Pricing
- Non Price Competition

Structure :

15.1 INTRODUCTION

Pricing is defined as the process of determining what a company will receive in exchange for its products. Pricing factors are manufacturing cost, market place, competition, market condition, and quality of product. Pricing is also a key variable in microeconomic price allocation theory.

Pricing is a fundamental aspect of financial modeling and is one of the four Ps of the marketing mix. Price is the only revenue generating element amongst the four Ps, the rest being cost centers.

15.2 DETERMINANTS OF PRICING

The final price for a product may be influenced by many factors known as determinants, which can be categorized into two main groups:

1. Internal Factors

2. External Factors

The factors that affect the overall pricing decision of the firm are elaborated as under.

- **Internal Factors** - When setting price, marketers must take into consideration several factors which are the result of company decisions and actions. To a large extent these factors are controllable by the company being internal in nature and, thus can be altered if needed. However, while the organization may have control over these factors making a quick change is not always practical. For instance, product pricing may depend heavily on the productivity of a manufacturing facility (e.g. quantity produced within a given time period). The marketer knows that increasing productivity can reduce the cost of producing each unit of product and thus allow the marketer to potentially lower the product's price. But increasing productivity may require major changes at the manufacturing facility that will take time (& have a cost implication) and will not translate into lower price products for a considerable period of time.

The detailed discussion on major internal factors affecting the pricing is as under:

Marketing Objectives :

Marketing decisions are guided by the overall objectives of the company. It is important to understand that all marketing decisions, including price, work to help achieve company's objectives.

Corporate objectives can be wide-ranging and include different objectives for different functional areas (e.g., production, human resources, finance etc). While pricing decisions are influenced by many types of objectives set up for the marketing functional area, there are four key objectives in which price plays a central role. In most situations only one of these objectives will be followed, though the marketer may have different objectives for different products.

The four main marketing objectives affecting price include:

- **Return on Investment (ROI) –** A firm may set as a marketing objective the requirement that all products attain a certain percentage return on the organization's spending on marketing the product. This level of return along with an estimate of sales will help determine appropriate pricing levels needed to meet the ROI objective.

- **Cash Flow –** Firms may seek to set prices at a level that insure the sales revenue that at least cover product production and marketing costs. This is most likely to occur with new products where the organizational objectives allow a new product to simply meet its expenses while efforts are made to establish the product in the market. This objective allows the marketer to worry less about product profitability and focus to building a market for the product.
- **Market Share –** The pricing decision may be important when the firm has an objective of gaining a hold in a new market or retaining a certain percent of an existing market. For new products under this objective the price is set artificially low in order to capture a sizeable portion of the market and will be increased as the product becomes more accepted by the target market. For existing products, firms may use price decisions to insure they retain market share in instances where there is a high level of market competition and competitors who are willing to compete on price.
- **Maximize Profits –** Older products that appeal to a market that is no longer growing may have a company objective requiring the price be set at a level that optimizes profits. This is often the case when the marketer has little incentive to introduce improvements to the product (e.g., demand for product is declining) and will continue to sell the same product at a price premium for as long as customers in the market is willing to buy.

Marketing Strategy:

Marketing strategy concerns the decisions marketers make to help the company satisfy its target market and attain its business and marketing objectives. Price, of course, is one of the key marketing mix decisions and since all marketing mix decisions must work together, the final price will be impacted by how other marketing decisions are made. For instance, marketers selling high quality products would be expected to price their products in a range that will add to the perception of the product being at a high-level.

It should be noted that not all companies view price as a key selling feature. Some firms, for example those seeking to be viewed as market leaders in product quality, will deemphasize price and concentrate on a strategy that highlights non-price benefits (e.g., quality, durability, service, etc.). Such non-price competition can help the company avoid potential price wars that often break out between competitive firms that follow a market share objective and use price as a key selling feature.

Costs:

For many, for-profit companies, the starting point for setting a product's price is to first determine how much it will cost to get the product to their customers. Obviously, whatever price customer's pay must exceed the cost of producing a good or delivering a service otherwise the company will lose money.

When analyzing cost, the marketer will consider all costs needed to get the product to market including those associated with production, marketing, distribution and company administration (e.g., office expense). These costs can be divided into two main categories:

- **Fixed Costs** - Also referred to as overhead costs, these represent costs the marketing organization incurs that are not affected by level of production or sales. For example, for a manufacturer of writing instruments that has just built a new production facility, whether they produce one pen or one million they will still need to pay the monthly mortgage for the building. From the marketing side, fixed costs may also exist in the form of expenditure for fielding a sales force, carrying out an advertising campaign and paying a service to host the company's website. These costs are fixed because there is a level of commitment to spending that is largely not affected by production or sales levels.
- **Variable Costs –** These costs are directly associated with the production and sales of products and, consequently, may change as the level of production or sales changes. Typically variable costs are evaluated on a per-unit basis since the cost is directly associated with individual items. Most variable costs involve costs of items that are either components of the product (e.g., parts, packaging) or are directly associated with creating the product (e.g., electricity to run an assembly line). However, there are also marketing variable costs such as coupons, which are likely to cost the company more as sales increase (i.e., customers using the coupon). Variable costs, especially for tangible products, tend to decline as more units are produced. This is due to the producing company's ability to purchase product components for lower prices since component suppliers often provide discounted pricing for large quantity purchases.

Determining individual unit cost can be a complicated process. While variable costs are often determined on a per-unit basis, applying fixed costs to individual products is less straightforward. For example, if a company manufactures five different products in one manufacturing plant how would it distribute the plant's fixed costs (e.g., mortgage, production workers' cost) over the five products? In general, a company will assign fixed cost to individual products if the company can clearly associate the cost with the product, such as assigning the cost of operating production machines based on how much time it takes to produce each item. Alternatively, if it is too difficult to associate to specific products the company may simply divide the total fixed cost by production of each item and assign it on percentage basis.

External Factors - There are a number of influencing factors which are not controlled by the company but will impact pricing decisions. Understanding these factors requires the marketer conduct research to monitor what is happening in each market the company serves since the effect of these factors can vary by market.

The detailed discussion on external factors affecting the pricing is as under:

Elasticity of Demand:

Marketers should never rest on their marketing decisions. They must continually use market research and their own judgment to determine whether marketing decisions need to be adjusted. When it comes to adjusting price, the marketer must understand what effect a change in price is likely to have on target market demand for a product.

Understanding how price changes impact the market requires the marketer have a firm understanding of the concept of economics, elasticity of demand that defines how purchase quantity changes as prices change. Elasticity is evaluated under the assumption that no other changes are being made (i.e., "all things being equal") and only price is adjusted. The logic is to see how price by itself will affect overall demand. Obviously, the chance of nothing else changing in the market but the price of one product is often unrealistic. For example, competitors may react to the marketer's price change by changing the price on their product. Despite this, elasticity analysis does serve as a useful tool for estimating market reaction.

Elasticity deals with three types of demand scenarios:

- **Elastic Demand –** Products are considered to exist in a market that exhibits elastic demand when a certain percentage change in price results in a larger and opposite percentage change in demand. For example, if the price of a product increases (decreases) by 10%, the demand for the product is likely to decline (rise) by greater than 10%.
- **Inelastic Demand –** Products are considered to servive in an inelastic market when a certain percentage change in price results in a smaller and opposite percentage change in demand. For example, if the price of a product increases (decreases) by 10%, the demand for the product is likely to decline (rise) by less than 10%.
- **Unitary Demand –** This demand occurs when a percentage change in price results in an equal and opposite percentage change in demand. For example, if the price of a product increases (decreases) by 10%, the demand for the product is likely to decline (rise) by 10%.

For marketers the important issue with elasticity of demand is to understand how it impacts company revenue. In general the following scenarios apply to making price changes for a given type of market demand:

- **For Elastic Markets –** increasing price lowers total revenue while decreasing price increases total revenue.
- **For Inelastic Markets –** increasing price raises total revenue while decreasing price lowers total revenue.
- **For Unitary Markets –** there is no change in revenue when price is changed.

Customer Expectations:

Possibly the most obvious external factors that influence price settings are the expectations of customers and channel partners. As we discussed, when it comes to making a purchase decision customers assess the overall “value” of a product much more than they assess the price. When deciding on a price marketers need to conduct customer research to determine what “price points” are acceptable. Pricing beyond these price points could discourage customers from purchasing.

Firms within the marketer’s channels of distribution also must be considered when determining price. Distribution partners expect to receive financial compensation for their efforts, which usually means they will receive a percentage of the final selling price [as commission / share]. This percentage or margin between what they pay the marketer to acquire the product and the price they charge their customers must be sufficient for the distributor to cover their costs and also earn a desired profit.

Competitive and Other Products:

Organizations, undoubtedly look at competitors for indications of how price should be set. For many marketers of consumer products researching competitive pricing is relatively easy, particularly when Internet search tools are used. Price analysis can be somewhat more complicated for products sold to the business market since final price may be affected by a number of factors including if competitors allow customers to negotiate their final price.

Analysis of competition will include pricing by direct competitors, related products and primary products.

Direct Competitor Pricing – Nearly all marketing decisions, including pricing, will let a judgment of competitors' offerings. The result of this accumulation on the true stage of terms instrument depend on the emulous nature of the marketplace. For instance, products that dominate markets and are viewed as market leaders may not be heavily influenced by competitor pricing since they are in a commanding position to set prices as they see fit. On the other hand in markets where a clear leader does not exist, the pricing of competitive products will be carefully considered. Marketers must not only research competitive prices but must also pay close attention to how these companies will respond to various pricing decisions. For instance, in highly competitive industries, such as gasoline or airline travel, competitors may respond quickly to competitors' price adjustments thus reducing the effect of such changes.

- **Related Product Pricing** - Products that offer new ways for solving customer needs may look to pricing of products that customers are currently using even though these other products may not appear to be direct competitors. For example, a marketer of a new online golf instruction service that allows customers to access golf instruction via their computer may look at prices charged by local golf professionals for in-person instruction to gauge where to set their price. While on the surface online golf instruction may not be a direct competitor to a golf instructor, marketers for the online service can use the cost of in-person instruction as a reference point for setting price.

- **Primary Product Pricing** – Organizations sometime could sell products viewed as complementary to a primary product. As an example, Bluetooth headsets are thought of complementary to the first product cell phones. The pricing of complementary products may be plagued by pricing changes created to the first product since customers could compare the value for complementary products based on the first product price. For example, firms that sell accent products for the Apple iPod could do therefore at a value that is solely 100 percent of the acquisition price of the iPod. However, if Apple were to dramatically drop the worth, for instance by 50%, the accessory at its present price would now be 20% of the of iPod price. This could be perceived by the market as a doubling of the accessory's value. To maintain its perceived value the accessory marketer may need to respond to the iPod price drop by also lowering the price of the accessory.

Government Regulation:

Marketers must be aware of regulations that impact how price is set in the markets in which their products are sold. These laws primarily may have legal ramifications if the principles aren't followed. Price laws will come from any level of state and vary wide in their necessities. For example, in some industries, government regulation may set price ceilings (high Limits) whereas in different industries there may be price floors (low price limits). Extra areas of potential regulation include: deceptive pricing, price discrimination, predatory pricing and price fixing.

Finally, when commercialize beyond their home market, marketers should recognize that native laws may create pricing selections completely different for each market. This is notably a priority when commercialism to international markets where failure to contemplate laws can lead to severe penalties. Consequently marketers should have a clear understanding of laws in every market they serve.

Other External Factors:

Other external factors that affect as a determent to pricing are-

a. Economic conditions: Affect production costs, Affect buyer perceptions of price and value.

b. Reseller reactions to prices

c. Social considerations may be taken into account

15.3 PRICING METHODS & OBJECTIVES

While going into the discussion of pricing strategies one should recognize the consideration involved in pricing or the elements in pricing. These might help the organization in determining the pricing objective whereas pricing a product.

Pricing involves asking several queries like:

- How much to charge for a product or service? This question is a typical starting point for discussions about pricing, however, a better question for a vendor to ask is - How much do customers *value* the products, services, and other intangibles that the vendor provides.
- What are the pricing objectives?
- Do we use profit maximization pricing?
- How to set the price?: (fixed pricing, cost-plus pricing, demand-based or value-based pricing, rate of return pricing, or competitor indexing)
- Should there be one price or multiple pricing?
- Should prices modification in various geographical areas, noted as zone pricing?
- Should there be quantity discounts?
- What prices are competitors charging?
- Do you utilize a price skimming strategy or a penetration pricing strategy?
- What image do you need the worth to convey?
- Do you use psychological pricing?
- How important are customer price sensitivity (e.g. "sticker shock") and elasticity issues?
- Can period of time pricing be used?
- Is price discrimination or yield management appropriate?

- Are there legal restrictions on retail price maintenance, price collusion, or price discrimination?
- Do price points already exist for the merchandise category?
- How versatile we be in pricing? The more competitive the industry, the less flexibility we have.
  - **a.** The price floor is set by production factors like costs (often solely variable costs are taken into account), economies of scale, monetary value, and degree of operational leverage
  - **b.** The price ceiling is determined by demand factors like price elasticity and price points
- Are there transfer pricing considerations?
- What is the chance of getting involved in a price war?
- How visible should the price be? - should the price be neutral? (i.e.: not a vital differentiating factor), should or not it's highly visible? (to help promote a coffee priced economy product, or to bolster the status image of a high quality product), or should or not it's hidden? (so as to allow marketers to get interest within the product unrestrained by worth considerations).
- Are there joint product valuation considerations?
- What are the non-monetary costs of buying the product? (e.g. travel time to the shop, wait time within the store, disagreeable components associated with the product purchase)
- What type of payments should be accepted? (cash, check, MasterCard, barter)

A well chosen price should do three things:

- Achieve the financial goals of the company (i.e. profitability)
- Fit the realities of the marketplace (Will customers buy at that price?)
- Support a product's positioning and be consistent with the other variables in the marketing mix
- price is influenced by the type of distribution channel used, the type of promotions used, and the quality of the product
- price will usually need to be relatively high if manufacturing is expensive, distribution is exclusive, and the product is supported by extensive advertising and promotional campaigns
- a low cost price can be a viable substitute for product quality, effective promotions, or an energetic selling effort by distributors

From the marketer's point of view, an efficient price is a price that is very close to the maximum that customers are prepared to pay. In economic terms, it is a price that shifts most of the consumer surplus to the producer. A good pricing strategy would be the one which could balance between the price floor (the price below which the organization ends up in losses) and the price ceiling (the price beyond which the organization experiences a no-demand situation).

While considering the pricing, organizations may adopt any of the following methods to price their products:

Cost-plus pricing

Cost-plus pricing is the simplest pricing technique. The firm calculates the cost of producing the product and adds on a share (profit) to it price to administer the price. This technique although easy has 2 flaws; it takes no account of demand and there's no method of determinative if potential customers can purchase the product at the calculated value.

This appears in 2 forms, full cost pricing which takes into consideration both variable and stuck prices and adds a share as markup. The other is direct cost pricing which is variable prices and a share as markup. The latter is barely employed in periods of high competition as this technique sometimes ends up in a loss within the long run.

Creaming or skimming

In most skimming, merchandise is sold-out at higher costs so that fewer sales are required to break even. Merchandising a product at a high price, sacrificing high sales to gain a high profit is therefore known as "skimming" the market. Skimming is typically utilized to reimburse the value of investment of the initial analysis into the product: usually used in electronic markets when a new product is launched, like videodisk players, are first of all sent into the market at a high price. This strategy is commonly used to target "early adopters" of a product or service. Early adopters generally have a relatively lower price-sensitivity - this will be attributed to: their need for the product outweighing their need to economies; a greater understanding of the product's value; or simply having a higher disposable income.

This strategy is utilized just for a limited duration to recover most of the investment created to create the product. To gain additional market share, a vender must use alternative valuation techniques like economy or penetration. This method will have some setbacks because it might leave the product at a high price against the competition.

Limit pricing

A limit price is the price set by a monopolist to discourage economic entry into a market, and is illegal in many countries. The limit price is the price that the entrant would face upon entering as long as the incumbent firm did not decrease output. The limit price is commonly lower than the typical value of production or simply low enough to make entering not profitable. The number produced by the present firm act as a deterrent to entry, is sometimes larger than would be optimal for a monopolist, however may still manufacture higher economic profits than would be attained under good competition.

The problem with limit pricing as a technique is that when the entrant has entered the market, the number used as a threat to deter entry isn't any longer the present firm's best response. This implies that for limit pricing to be an effective deterrent to entry, the threat should in some way be created credible. The simplest way to achieve this is for the present firm to constrain itself to provide an explicit quantity whether entry happens or not. Associate example of this might be if the firm signed a union contract to employ an explicit (high) level of labor for a protracted period of your time. During this strategy price of the product becomes the limit per budget.

Loss leader

A loss leader or leader is a product sold at a low price (i.e. at cost or below cost) to stimulate other profitable sales. This would help the companies to expand its market share as a whole.

Market-oriented pricing

Setting a price based upon analysis and research compiled from the target market. This means that marketers will set prices depending on the results from the research. For instance if the competitors are pricing their products at a lower price, then it's up to them to either price their goods at an above price or below, depending on what the company wants to achieve .

Penetration pricing

Penetration pricing includes setting the price low with the goals of attracting customers and gaining market share. The price will be raised later once this market share is gained.

Price discrimination

Price discrimination is the practice of setting a different price for the same product in different segments to the market. For example, this can be for different classes, such as ages, or for different opening times.

Premium pricing

Premium pricing is the practice of keeping the price of a product or service artificially high in order to encourage favorable perceptions among buyers, based solely on the price. The practice is intended to exploit the (not necessarily justifiable) tendency for buyers to assume that expensive items enjoy an exceptional reputation, are more reliable or desirable, or represent exceptional quality and distinction.

Predatory pricing

Predatory pricing, also known as aggressive pricing (also known as "undercutting"), intended to drive out competitors from a market. It is illegal in some countries.

Contribution margin-based pricing

Contribution margin-based pricing maximizes the profit derived from an individual product, based on the difference between the product's price and variable costs (the product's contribution margin per unit), and on one’s assumptions regarding the relationship between the product’s price and the number of units that can be sold at that price. The product's contribution to total firm profit (i.e. to operating income) is maximized when a price is chosen that maximizes the following: (contribution margin per unit) X (number of units sold)..

Psychological pricing

Pricing designed to have a positive psychological impact. For example, selling a product at Rs.99 or Rs399, rather than Rs.400. There are certain price points where people are willing to buy a product. If the price of a product is RS.100 and the company prices it as Rs.99, then it is called psychological pricing. In most of the consumers mind RS.99 is psychologically ‘less’ than Rs.100. A minor distinction in pricing can make a big difference is sales. The company that succeeds in finding psychological price points can improve sales and maximize revenue

Dynamic pricing

A flexible pricing mechanism created doable by advances in info technology, and employed principally by internet based mostly firms. By responding to plug fluctuations or large amounts of knowledge gathered from customers - starting from wherever they live to what they obtain to what quantity they have spent on past purchases - dynamic pricing permits on-line firms to adjust the prices of identical product to correspond to a customer’s willingness to pay. The airline business is usually cited as a dynamic pricing success story. In fact, it employs the technique therefore artfully that the majority of the passengers on any given airplane have paid different price ticket prices for an equivalent flight

Price leadership

An observation made of oligopolistic business behavior in which one company, usually the dominant competitor among several, leads the way in determining prices, the others soon following. The context is a state of limited competition, in which a market is shared by a small number of producers or sellers.

Target pricing

Pricing technique whereby the selling price of a product is calculated to produce a selected rate of return on investment for a selected volume of production. The target pricing technique is employed most frequently by public utilities, like electrical and gas companies, and corporations whose capital investment is high, like automobile makers.

Target pricing isn't helpful for companies whose capital investment is low as a result of, in keeping with this formula, the selling price are going to be unostentatious. Additionally the target pricing technique isn't keyed to the demand for the product, and if the complete volume isn't sold-out, a corporation may sustain Associate in nursing overall fund loss on the product.

Absorption pricing

This method of pricing considers all possible costs to be recovered. The price of the merchandise includes the variable value of each item plus a proportionate amount of the mounted costs and could be a variety of undetermined pricing

High-low pricing

This method of pricing holds good for an organization where the goods or services offered by the organization are regularly priced higher than competitors, but through promotions, advertisements, and or coupons, lower prices are offered on key items. The lower promotional prices are designed to bring customers to the organization where the customer is offered the promotional product as well as the regular higher priced products.

Premium decoy pricing

This method of pricing considers artificially sets one product price high by an organization, in order to boost sales of a lower priced product.

Marginal-cost pricing

Marginal cost pricing in business is the practice of setting the price of a product to equal the extra cost of producing an extra unit of output. By this policy, a producer charges, for each product unit sold, only the addition to total cost resulting from materials and direct labor. Businesses often set prices close to marginal cost during periods of poor sales. If, for example, an item has a marginal cost of Rs10 and a normal selling price is Rs20, the firm selling the item might wish to lower the price to Rs.5 if demand has waned. The business would choose this approach because the incremental profit of Rs. 15 from the transaction is better than no sale at all.

Value-based pricing

Pricing a product primarily based on the price the product has for the client and not on its costs of production or any alternative issue. This rating strategy is usually used wherever the value to the client is repeatedly the price of producing the item or service. For instance, the price of producing a software package CD is concerning identical independent of the software package on that, but the costs vary with the perceived price the customers ar expected to have. The perceived price can depend upon the alternatives receptive the client. In business these alternatives are victimization competitor's software package, employing a manual work around, or not doing Associate in nursing activity. So as to use value-based rating you have to grasp your customer's business, his business costs, and his perceived alternatives.

Pay what you want

Pay what you would like, could be a system where buyers pay any desired amount for a given artifact, sometimes including zero. In some cases, a minimum (floor) value may be set, and/or a suggested value may be indicated as steerage for the client. The client can also select AN amount over the standard value for the artifact.

Giving buyers the liberty to pay what they need could seem to not create abundant sense for a merchant, however in some situations it can be terribly winning. While most uses of pay what you would like have been at the margins of the economy, or for special promotions, there square measure emerging efforts to expand its utility to broader and a lot of regular use.

Premium

Premium is a business model that works by providing a product or service free of charge (typically digital offerings such as computer code, content, games, web services or other) whereas charging a premium for advanced features, practicality, or related products and services. The word "freemium" is a portmanteau combining the two aspects of the business model: "free" and "premium". it's become a extremely widespread model, with notable success

Odd pricing

In this variety of valuation, the vendor tends to fix a value whose last digits are odd numbers. this is done so as to give the buyers/consumers no gap for bargaining because the costs seem to be less associated nevertheless in an actual sense are too high, and takes advantage of human psychology. A good example of this can be noticed in most supermarkets wherever rather than valuation at Rs.10, it might be written as Rs.9.99. This valuation policy is common in economies exploitation the free market policy

Decoy pricing

This method of pricing is where the seller offers at least three products, and where two of them have a similar or equal price. The two products with the similar prices should be the most expensive ones, and one of the two should be less attractive than the other. This strategy will make people compare the options with similar prices, and as a result sales of the most attractive choice will increase

15.4 CONSUMER PSYCHOLOGY & PRICING

Psychological Pricing, considers the scientific discipline of prices and not simply the social science. Customers use price less when they will choose quality of a product. Price becomes an important quality signal when customers can't choose quality; price is employed to say one thing a couple of product.

Besides, the companies like Bata used the tactic of psychological evaluation to price their product very often like Slippers in Rs 199, Shoes in Rs 999 etc.

In the book, *The Strategy and Tactics of Pricing*, Thomas Nagle and Reed Holden outline nine laws or factors that influence how a consumer perceives a given price and how price-sensitive s/he is likely to be with respect to different purchase decisions:

1. **Reference price effect** : Buyer's price sensitivity for a given product increases the higher the product's price relative to perceived alternatives. Perceived alternatives can vary by buyer segment, by occasion, and other factors.

2. **Difficult comparison effect :** Buyers are less sensitive to the price of a known / more reputable product when they have difficulty comparing it to potential alternatives.

3. **Switching costs effect** : The higher the product-specific investment a buyer must make to switch suppliers, the less price sensitive that buyer is when choosing between alternatives.

4. **Price-quality effect** : Buyers are less sensitive to price the more that higher prices signal higher quality. Products for which this effect is particularly relevant include: image products, exclusive products, and products with minimal cues for quality.

5. **Expenditure effect** : Buyers are more prices sensitive when the expense accounts for a large percentage of buyers' available income or budget.

6. **End-benefit effect** : The effect refers to the relationship a given purchase has to a larger overall benefit, and is divided into two parts:

   a. **Derived demand** : The more sensitive buyers are to the price of the end benefit, the more sensitive they will be to the prices of those products that contribute to that benefit.

   b. **Price proportion cost** : The price proportion cost refers to the percent of the total cost of the end benefit accounted for by a given component that helps to produce the end benefit (e.g., think CPU and PCs). The smaller the given components share of the total cost of the end benefit, the less sensitive buyers will be to the component's price.

7. **Shared-cost effect** : The smaller the portion of the purchase price buyers must pay for themselves, the fewer prices sensitive they will be.

8. **Fairness effect** : Buyers are more sensitive to the price of a product when the price is outside the range they perceive as "fair" or "reasonable" given the purchase context.

9. **Framing effect** : Buyers are more prices sensitive when they perceive the price as a loss rather than a forgone gain, and they have greater price sensitivity when the price is paid separately rather than as part of a bundle.

15.5 PRICING & PRODUCT LIFE CYCLE

All products go through five stages of the product life cycle: Development, introduction, growth, maturity and decline. the consumer is simply conscious of four of those stages, as a result of the product has not been introduced throughout the development stage. Some PLC diagrams even embody a sixth stage referred to as the withdrawal stage, once the product is removed from the market. However, worth ways solely affect four stages of the product life cycle.

When the product is introduced, an organization can use a worth skimming or penetration strategy, according to the article. Worth skimming entails introducing the product at a high worth. Some customers can likely get the product at the high worth as a result of no one else offers it. Contrarily, an organization may want to capture an outsized share of the market early on, before competitors have an opportunity to introduce their products. Consequently, company promoting managers might attempt to start with an especially low worth to get lots of initial orders.

If the product is made, it'll enter into a amount of remarkable growth. Sales are going to be very high, plus more consumers can become conscious of the product through advertising and promotions. The lead company, usually still relatively tiny in size if introducing their first product can sometimes continues with the same worth strategy. If the company launched with a high worth, it'll most likely continue commercialism their product at that worth to extend their margin of profit. Moreover, an organization that is making an attempt to make market share can likely keep its worth low.

There can come back a time once product sales will continue to increase, however grow at a slower pace. This product life cycle stage is termed the maturity stage. Profits can likely be higher throughout the maturity stage than any other stage, however competition can create it difficult to acquire several new users. As a result, the lead company may have to lower its prices in line with the competition. Increasing market share becomes the priority throughout the maturity stage, which ordinarily needs discounting.

At some point, sales for a specific product can start declining, once reaching saturation. An organization has many choices throughout this stage: Maintain the product, harvest or stop promoting it, or discontinue the product. A lead company can likely continue commercialism the product, however at a reduced worth.

Weaker competitors might attempt to withdrawal from the market throughout the decline stage. This could help the lead company extend its product life cycle, notably if the technology or product isn't passes. An organization may also extend the product life cycle by finding new uses or markets for his or her products.

Besides, in the classical case of Maruti 800, the company delayed the maturity and the decline stage of the product by adding value to the product, keeping the price of the product almost constant till it was taken out from the market due to various other external environmental constraints like euro norms.

15.6 PRICING DISCOUNTS

Discount and Allowance, price adjustments are done on the essential price to reward customers for sure response. cash discount, seasonal discount, amount discount, material possession allowance, functional discount promotional discount are common in various sectors like seasonal discounts are very common just in case of apparels. corporations conjointly use price discount strategy for stock clearance etc. corporations conjointly select price adjustments by giving offers to the customers like purchase one & get one free etc. The strategy is helpful for short term or immediate gains in terms of sales by the organizations.

15.7 PRODUCT POSITIONING & PRICING

There are numerous strategies specific to pricing the organizations do adopt while taking a decisions pertaining to pricing as under:

Line pricing

Line pricing is that the use of a limited variety of prices for all product offerings of a seller. This is a convention started within the previous dime stores within which everything value either Rs. 5 or Rs. 10. Its underlying explanation is that these amounts are seen as appropriate price points for a whole range of product by prospective customers. It has the advantage of ease of administering, however the disadvantage of inflexibility, significantly in times of inflation or unstable costs.

Loss leader

A loss leader is a product that has a price set below the operating margin. This result in a loss to the enterprise on that particular item in the hope that it will draw customers into the store and that some of those customers will buy other, higher margin items.

Price/quality relationship

The value/quality relationship refers to the perception by most customers that a comparatively high price could be a sign of excellent quality. The idea in this relationship is most significant with complex product that are onerous to test, and experiential product that cannot be tested till used (such as most services). The greater the uncertainty encompassing a product, a lot of customers depend on the price/quality hypothesis and also the greater premium they're prepared to pay. The classic example is the rating of Twinkies, a snack cake which was viewed as inferiority once the price was lowered. Excessive reliance on the price/quality relationship by customers could lead to an increase in costs on all product and services, even those of inferiority, which causes the price/quality relationship to not apply.

Premium pricing

Premium pricing (also called prestige pricing) is the strategy of consistently pricing at, or near, the high end of the possible price range to help attract status-conscious consumers. The high pricing of premium product is used to enhance and reinforce a product's luxury image. Examples of companies which partake in premium pricing in the marketplace include Rolex and Bentley.

As well as brand, product attributes such as eco-labeling and provenance (e.g. 'certified organic' and 'product of Australia') may add value for consumers and attract premium pricing. A component of such premiums may reflect the increased cost of production. People will buy a premium priced product because:

1. They believe the high price is an indication of good quality;
2. They believe it to be a sign of self-worth - "They are worth it;" it authenticates the buyer's success and status; it is a signal to others that the owner is a member of an exclusive group;
3. They require flawless performance in this application - The cost of product malfunction is too high to buy anything but the best - example: heart pacemaker.

Demand-based pricing

Demand-based pricing is any pricing methodology that uses client demand - supported perceived price - because the central element. These embrace Price skimming, Price discrimination and yield management, price points, psychological pricing, bundle pricing, penetration pricing, price lining, value-based pricing, geo and premium pricing.

15.8 NON PRICE COMPETITION

Non-price competition is a selling strategy "in which one firm tries to distinguish its product or service from competitive products on the premise of attributes like style and workmanship" (McConnell-Brue, 2002, p. 43.7-43.8). The firm may also distinguish its product giving through quality of service, intensive distribution, customer focus, or the other property competitive advantage than value. It may be contrasted with price competition, which is where a corporation tries to distinguish its product or service from competitive products on the premise of low value. Non-price competition usually involves promotional expenditures (such as advertising, marketing staff, the locations convenience, sales promotions, coupons, special orders, or free gifts), marketing research, new product development, and brand management prices.

Firms can interact in non-price competition, in spite of the extra prices involved, because it is typically a lot of profitable than marketing for a lower price, and avoids the chance of a price battle.

Although any company will use a non-price competition strategy, it is most typical among oligopolies and non-competitive competition, because companies may be extraordinarily competitive.

15.9 SUMMARY

Pricing is the simplest profit lever. Pricing can be approached at 3 levels: the industry, market, and transaction level.

1. Pricing at the business level focuses on the political economy of the business, as well as supplier price changes and customer demand changes.

2. Pricing at the market level focuses on the competitive position of the price as compared to the worth differential of the merchandise to it of comparative competing merchandise.

3. Pricing at the dealings level focuses on managing the implementation of discounts away from the reference, or list price, which occur both on and off the invoice or receipt.

Many companies make common pricing mistakes. Bernstein's article "Use Suppliers Pricing Mistakes" outlines several which include:

- Weak controls on discounting
- Inadequate systems for tracking competitor selling prices and market share
- Cost-plus pricing

- Price increases poorly executed
- Worldwide price inconsistencies
- Paying sales representatives on dollar volume vs. addition of profitability measures

15.10 KEY WORDS

Pricing, Determinants of pricing, Pricing Strategies, Price Discounts / Adjustments, Pricing Methods

15.11 SELF-ASSESSMENT TEST

Q1. Pricing plays an important role in the success or the failure of the product in the market place. State various strategies / methods adopted by the companies for pricing the products?

Q2. State the relationship between product life cycle and product pricing? How would you like to price a product say cell phone at different stages in the PLC?

Q3. Define the determents of Pricing?

Q4. Bata always price its product in the odd figures [Rs 999…]. Why the companies adopt such strategy to price the product?

Q5. How the customer does relate itself with the product in terms of pricing?

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UNIT-16

SALES FORECASTING

Objectives:

The objective of this unit is to help the students understand:

- Definition, Process & Approaches of Sales Forecasting
- Product Sales Determinants
- Usage of Sales Forecasting & Evaluation
- Computerized Sales Forecasting
- Relating Sales Forecasting with Sales Budget & Profit Planning.

Structure:

16.1 Introduction

16.2 Definition, Process & Approaches

16.3 Product Sales Determinants

16.4 Usage of Sales Forecasting & Evaluation

16.5 Computerized Sales Forecasting

16.6 Relating Sales Forecasting with Sales Budget & Profit Planning

16.7 Summary

16.8 Key words

16.9 Self-assessment Test

16.10 References

16.1 INTRODUCTION

Forecasting is that the process of creating statements about events whose actual outcomes (typically) has not yet been discovered. A commonplace example may well be estimation of some variable of interest at some such as future date. Prediction could be a similar, however additional general term. Each might check with formal statistical ways employing time series, cross-sectional or longitudinal information, or instead to less formal faultfinding ways. Usage can dissent between areas of application: as an example in case of marketing, the term prognostication is suffixed with sales thereby predicts the long run sales for a corporation.

Risk and uncertainty are central to forecasting and prediction; it is generally considered good practice to indicate the degree of uncertainty attaching to forecasts. In any case, the data must be up to date in order for the forecast to be as accurate as possible

16.2 DEFINITION, PROCESS & APPROACHES

According to Barron's Marketing dictionary, Sales forecasting is a Prediction of the future sales of a particular product over a specific period of time based on past performance of the product, inflation rates, unemployment, consumer spending patterns, market trends, and interest rates.

In the preparation of a comprehensive marketing plan, sales forecasts help the marketer develop a marketing budget, allocate marketing resources, and monitor the competition and the product environment.

The sales forecast may be a prediction of a business's unit and dollars sales for some future amount of your time, up to several years or a lot of. These forecasts area unit typically primarily based primarily on recent sales trends, competitive developments, and economic trends in the business, region, and/or nation within which the organization conducts business. Sales foretelling is management's primary tool for predicting the volume of possible sales. Therefore, the whole budget method hinges on A correct, timely sales forecast.

These technical projections of likely customer demand for specific product, goods, or services for a particular company among a particular time horizon area unit created in conjunction with basic selling principles. For instance, sales forecasts area unit typically viewed among the context of total market potential, which can be understood as a projection of total potential sales for all companies. Market potential relates to the total capability of the market to soak up the entire output of a particular business. On the opposite hand, sales potential is that the ability of the market to soak up or purchase the output from one firm.

Many agencies and organizations publish indexes of market potential. They base their findings on extensive analysis and analysis of bound relationships that exist among basic economic data—for example, the location of potential shoppers by age, education, and income for product that demonstrate a high correlation between those variables and therefore the purchase of specific product. This information permits analysts to calculate the market potential for client or industrial product. Sales and selling Magazine publishes shopping for power indexes. Its business indexes combine estimates of population, income, and retail sales to derive composite indicators of client demand in keeping with U.S. office regions, by state, or by the bureau's organized system of metropolitan areas. The buying-power index (BPI) provides only a relative value which an analyst accommodates verify the market potential for local areas.

Forecasting ways and levels of sophistication vary greatly. Each portends to assess future events or things which can impact either positively or negatively on a business's efforts. Managers prepare forecasts to see the sort and level of demand for each current and potential new product.

They contemplate a broad spectrum of information for indications of growing and profitable markets. Foretelling, however, involves not only the collection and analysis of arduous information, however additionally the application of business judgment in their interpretation and application. for instance, foretelling requires business house owners and managers to not only estimate expected units sold, however additionally to see what the business's production (materials, labor, equipment) costs are to supply those items.

16.3 PRODUCT SALES DETERMINANTS

Sales forecasts are conditional in this a company prepares the forecast before developing strategic and military science plans. The forecast of sales potential could cause management to adjust a number of its assumptions concerning production and selling if the forecast indicates that: 1) current production capacity is insufficient or excessive, and 2) sales and selling efforts want revisions. Management, therefore, has the opportunity to look at a series of alternate plans that propose changes in resource commitments (such as plant capacity, promotional programs, and market activities), changes in prices and/or changes in production scheduling.

Through forecasting the corporate determines markets for merchandise, plans corporate strategy, develops sales quotas, determines the quantity and allocation of salespeople, decides on distribution channels, prices merchandise or services, analyzes merchandise and product potential in numerous markets, decides on product options, determines profit and sales potential for different merchandise, constructs advertising budgets, determines the potential edges of marketing programs, decides on the utilization of assorted parts of the selling combine, sets production volume and standards, chooses suppliers, defines financing needs, and determines inventory standards. For the forecasting to be accurate, managers got to take into account all of the following factors:

HISTORICAL PERSPECTIVE : As a starting point, management analyzes previous sales experience by product lines, territories, categories of customers, and alternative relevant details. Management must take into account a time line long enough to observe trends and patterns in the growth and also the decline of greenback sales volume. This era is generally five to 10 years. If the company's experience with a specific product category is shorter, management can embrace discernible experience of like firms.

The longer the view, the better management is ready to observe patterns which follow cycles. Patterns which repeat themselves, despite how unpredictably, are thought of to be "normal," whereas variations from these patterns are "deviant." a number of these deviations could have resulted from significant societal developments that carried a bearing that filtered all the manner down to your business's sales performance. Management could catch up on these abnormalities by adjusting the figures to replicate normal trends below normal conditions.

BUSINESS COMPETENCY : The ability of a company to reply to the results of a sales forecast depends on its production capacity, selling methods, financing, and leadership, and its ability to vary each of these to maximize its profit potential.

MARKET POSITION : Forecasting conjointly considers the competitive position of the corporate with reference to its market share; research and development; quality of service, valuation and financing policies; and public image. In addition, forecasters conjointly evaluate the standard and quantity of the client base to determine whole loyalty, response to promotional efforts, economic viability, and credit worthiness.

GENERAL ECONOMIC CONDITIONS : Although client markets are often characterized as being progressively at risk of segmentation in recent years, the condition of the general economy continues to be a primary determinant of general sales volume, even in several niche markets. Forecasters incorporate relevant information that correlate well or demonstrate a causal relationship with sales volume.

PRICE INDEX : If the prices for merchandise have changed over the years, changes in dollar volume of sales might not correlate well with volume of units. At one point in time when demand is robust, a company raises its prices. At all over again, a company could interact in discounting to draw down inventories. Therefore, accountants devise a index for every year which compensates for price increases. By dividing the dollar volume by the price indexes, a company will track its "true" volume growth. This process associate degree is comparable to an inflation index, which provides prices in constant dollars. As a result, management is ready to match the price-adjusted greenback sales volumes.

SECULAR TRENDS : The secular trend depicts:

(1) General economic performance, or

(2) The performance of the precise product for all firms. If a company's trend line rises quicker than the secular trend line, a company would be experiencing a a lot of ascent in the rate of sales. Conversely, if a company's trend line is below the secular trend line, its performance is below the market's average. Management conjointly uses this type of comparison to evaluate and management annual performance.

TREND VARIATIONS: although the secular trend represents the common for the trade, it may not be "normal" for a specific company. The comparison of company trends to secular trends could indicate that the corporate is serving a specialized market, or that the corporate isn't faring well. Forecasters study the underlying assumptions of trend variations to know the important relationships in decisive the amount of sales. Although markets may be sturdy, the business department might get to be adjusted.

"**INTRA-COMPANY" TRENDS:** By analyzing month-to-month trends and seasonal differences over both the long and short terms, little business house owners and managers will change the sales forecast to anticipate variations that traditionally repeat themselves during budget periods. Management could then construct a budget reflective these variations, perhaps increasing volume discounts during historically slow periods, exploring new territories, or having sales representatives solicit product and repair ideas from current customers.

PRODUCT TRENDS: Forecasters conjointly trend individual merchandise, victimization indexes to adjust for seasonal fluctuations and price changes. Product trends are important for understanding the life cycle of a product.

SOURCES AND MAGNITUDE OF PRODUCT DEMAND: In past eras, the introduction of new and improved products drove much of the demand. Currently, consumer attitudes and lifestyles anticipate product introductions and technological changes. Individual consumers are pushing technology to anticipate the needs of an increasingly segmented market. Demand based on anticipation is becoming the dominant feature of the technological age. The rapid pace of technological development and new product introduction has shortened product life-cycles. The combination of demographic considerations and technological change dominate consumer trends to a greater degree than in the past.

APPROACHES TO FORECASTING: In the **casual approach** forecasters determine the underlying variables that have a causal influence on future sales. The company has no influence over causal variables within the general society, like population, gross national product, and general economic conditions. An organization will, however, maintain control over its production lines, prices, advertising and promoting, and also the size of its business department. When learning the underlying causes and variables in depth, the analysts use a variety of mathematical techniques to project future trends. On the basis of these projections, management derives its sales forecast.

The **non-causal approach** involves AN in-depth analysis of historical sales patterns. Analysts plot these patterns in graphs in order to project future sales. As a result of no attempt is made to identify and value the underlying causal variables, the analysts assume that the underlying causes will still influence the long run sales within the same manner as within the past. Though analysts may apply certain applied math techniques to extrapolate past sales into the long run, this approach is typically criticized as oversimplified or naive, especially since most business experts believe that rapid changes in technology are driving fundamental changes in several business operations.

Analysts employ the indirect methodology by first projected industry sales. From this knowledge they project the company's share of the industry total. The direct approach, however, skips the industry projection with a straightforward estimate of sales for the company. Either of these methods are applicable to the causal and non-causal approaches.

16.4 USAGE OF SALES FORECASTING & EVALUATION

Forecasting Techniques: It's Usages & Evaluation:

There are a range of statement techniques and strategies from which the little business owner might select. Not all of them are applicable in every situation. To allow for adequate statement, a business must select those strategies which best serve their functions, utilize correct and relevant knowledge, and formulate honest assumptions appropriate to the market and products.

Sales forecasts may be general if they calculate aggregate sales getable in Associate in nursing business. Conversely, forecasts may be terribly specific, detailing knowledge by individual product, sales territories, styles of customers, and then forth. In recent decades market analysts have accumulated their use of focus groups, individual surveys, interviews, and complicated analytical techniques geared toward characteristic specific markets.

A variety of sales forecasting methodologies can be used by small and large businesses alike

BOTTOM-UP FORECASTING : Analysts using this system divide the market into segments, so separately calculate the demand in every section. Typically, analysts use sales department composites, business surveys, and intention-to-buy surveys to gather knowledge. They mixture the segments to arrive at a total sales forecast. Bottom-up prediction might not be easy thanks to complications with the accuracy of the info submitted. The utility of the info is contingent upon honest and complete answers from customers, and on the importance and priority given to a survey by the staff.

TOP-DOWN FORECASTING : this is the method most generally used for industrial applications. Management initial estimates the sales potential, then develops sales quotas, and finally constructs a sales forecast. Issues arise with this method, however, once the underlying assumptions of the past aren't any longer applicable. The correlation between economic variables and amount demanded could modification or weaken over time.

These two forecasting methods encompass a number of methodologies which can be divided into three general categories: qualitative, times-series analysis and regression, and causal.

QUALITATIVE METHODS : Qualitative methods rely on non-statistical methods of deriving a sales forecast. A company solicits the opinion or judgment of sales executives, a panel of experts, the sales force, the sales division supervisors, and/or outside expert consultants. Qualitative methods are judgmental composites of expected sales. These methods are often preferred in the following instances:

(1) When the variables which influence consumer buying habits have changed;

(2) When current data is not available;

(3) When none of the qualitative methods work well in a specific situation;

(4) When the planning horizon is too far for the standard quantitative methods; and

(5) When the data has not yet factored in technological breakthroughs taking place or forthcoming.

The Probability Assessment Method (PAM) forecasts sales volume by utilizing in-house expert opinion that provides probabilities between one and 99 percent, plus and minus, on certain target volumes. Analysts translate these estimates into a cumulative probability curve by plotting the volumes by the probability assigned to them. They use this curve to aid in forecasting.

The Program evaluation and Review Technique (PERT) needs estimates of "optimistic," "pessimistic," and "most likely" future circumstances. Analysts weigh these 3 estimates to create associate degree expected value from which they reckon a regular deviation. During this method analysts convert the estimates of the small business owner and/or staff into measures of central tendency and dispersion.

The standard deviation permits the illusionist to estimate a confidence interval round the expected value. While impertinent is just associate degree approximation, it is quick and straightforward to use. The illusionist will take under consideration the owner's opinion as a check on estimates made by other methods.

The city Technique relies on the idea that several experts will gain a much better forecast than one. Users of this methodology solicit a panel accord and recycle the results through the panel till a awfully slim, firm median is set. By keeping the panel participants isolated, the city excludes several aspects of cluster behavior, like social pressure, argumentation, and domination by many members, from inflicting undue influence. The expense associated with this methodology, however, precludes most little business enterprises from pursuing it.

A visionary forecast relies on the private insights and judgment of a respected individual. Though typically supplemented by data and facts about completely different scenarios of the longer term, the visionary forecast is characterized by subjective guesswork and imagination and is highly non-scientific. However while such forecasts don't seem to be supported reams of scientific info, several little business house owners have achieved success by looking forward to such subjective data.

Historical analogy methodologies, meanwhile, plan to verify future sales through associate degree in-depth analysis of the introduction and sales growth of a similar product. Historical analogy seeks patterns applicable to the merchandise considered for current introduction. This methodology needs several years' history for one or additional merchandise, and—when used—is generally applied to new product introductions.

The sales force composite gathers forecasts from every individual employee for a selected territory. The sales forecast is that the combination of the individual forecasts. The quality of this methodology is dependent on the accuracy of the information submitted.

An intention-to-buy survey measures a target market's intention to shop for among a nominal future fundamental measure. Market analysts conduct such surveys prior to the introduction of a product or service.

Analysts provide consumers with an outline or clarification of the merchandise or service with the hope that respondents can provide honest answers. If respondents tell analysts "what they want to listen to," the survey won't be correct. Additionally, certain environmental factors, like a competitor technological breakthrough or a recession, may influence respondent shopping for habits between the time of the survey and also the product introduction.

TIME-SERIES ANALYSIS AND PROJECTION:

Trend projection techniques may be most applicable in things where the predictor is in a position to infer, from the past behavior of a variable, one thing about its future impact on sales. Forecasters rummage around for trends that type recognizable patterns that recur with prophetic frequency. Differences due to the season and alternating patterns type additional obvious trends, while random variables build projection additional complicated.

While time-series methods don't explicitly account for causal relationships between variable and other factors, analysts realize the nascent historical patterns useful in creating forecasts. Analysts usually use statistic for brand new product forecasts, significantly in the intermediate and long-term. The info required varies with each technique. An honest rule of thumb may be a minimum of five years' annual knowledge. A whole history is very useful.

Market research involves a systematic, formal, and acutely aware procedure for evoking and testing hypotheses about real markets. Analysts want at least 2 research reports based on statistic analyses of market variables, and a considerable collection of market knowledge from questionnaires and surveys.

In its simplest type, trend projection analysis involves the examination of what went on in the past. Analysts develop a selected linear proportion trend with the expectation that the trend will continue. The problem with the easy trend projection is that the truth of randomness—that is, the random event or component that encompasses a major impact on the forecast.

The moving average may be a additional sophisticated kind of trend projection. It assumes the longer term will be an average of the past performance instead of following a selected linear proportion trend. The moving average minimizes the impact of randomness on individual forecasts since it is an average of several values instead of an easy linear projection. The moving average equation basically sums up the sales in an exceedingly range of past periods and divides by the amount of periods.

Industry surveys involve measuring the various firms that frame the industry for a selected item. They will include users or makers. The industry survey methodology that uses a top-down approach of statement has some of an equivalent benefits and downsides as the executive opinion and sales department composites.

A multivariate analysis may be linear or multiple. With linear regression, analysts develop a relationship between sales and a single independent variable and use this relationship to forecast sales. With multiple regressions, analysts examine relationships between sales and a number of independent variables. Sometimes the latter is accomplished with the help of a laptop that helps analysts to estimate the values of the independent variables and to incorporate them into a multi-regression equation. If analysts realize a relationship among numerous independent variables, they will develop a multivariate analysis equation for predicting sales for the approaching year.

Exponential smoothing may be a time-series approach the same as the moving average. Instead of employing a constant set of weights for the observation created, associate degree-analysts use an exponentially increasing set of weights so that more recent values receive additional weight than do older values. Additional sophisticated models incorporate numerous adjustments for such factors as trends and seasonal patterns.

Analysts look into the leading indicators as a result of the National Bureau of Economic research has clearly incontestable their worth in statement. These indicators include costs of five hundred common stocks, new orders for consumer durables, associate degree index of internet business formation, corporate profits after taxes, industrial materials costs, and therefore the change in client instalment debt. Despite their widespread use, the leading indicators don't relate well with specific product. However, when such relationships are often established, analysts construct multivariate analysis models with that to forecast sales.

CAUSAL METHODS:

When analysts find a cause-effect relationship between a variable and sales, a causal model may provide higher forecasts than those generated by different techniques.

Life-cycle analysis forecasts new product growth rates supported analysts' projections of the phases of product acceptance by varied groups—innovators, early adapters, early majority, late majority, and laggards. Typically, this methodology is used to forecast new product sales. Analysts' minimum data requirements are the annual sales of the product being considered or of a similar product. It is often necessary to do market surveys to establish the cause-effect relationships.

16.5 COMPUTERIZED SALES FORECASTING

Computer-aided sales forecasting has revolutionized the process. Advances in computer technology, information highways, and statistical and mathematical models provide almost every business with the ability to execute complex data analyses, thus reducing the risks and pitfalls prevalent in the past. These advances have made the process and costs of forecasting practical and affordable for small- and mid-sized businesses.

16.6 RELATING SALES FORECASTING WITH SALES BUDGET & PROFIT PLANNING

The Sales Budget & Profit Planning

The sales forecast provides the framework for the detailed planning presented in the master budget. Based on planned strategies and its best business judgment, management converts a sales forecast into a sales plan through the commitment of resources and the establishment of control mechanisms. The sales budget provides an evaluative tool by presenting monthly indexes of volume of units and dollars as hard targets for the sales team. Deviations from these indexes indicate to small business owners and managers where they need to adjust their efforts to take advantage of hot products or to remedy difficult situations.

Management determines its sales policies and strategies within its ability to respond to customer needs, technological changes, and the financial prerequisites of marketing. The sales budget projects that portion of potential sales the sales team believes it can achieve. The forecast, then, sets the parameters on the top side while the production capacity and sales acumen of the team sets the floor.

Although sales forecasts may accurately project significant changes in market conditions, a company needs to thoroughly examine its own resources to determine its ability to respond to these changes. A huge drop in demand may decrease the strain on the production process to where a company regains cost efficiencies, or a large increase in demand might be required by a company that needs cash for other projects. The sales budget, therefore, is predicated on a company's ability to meet expected demand at or near its maximum profit potential.

16.7 SUMMARY

Forecasting sales is inherently more difficult than the construction of the subsequent sales budget. Although management exerts some degree of control over expenditures, it has little ability to direct the buying habits of individuals. The level of sales depends of the vagaries of the marketplace. Nonetheless, a sales forecast must attain a reasonable degree of reliability to be useful.

Fundamentally, sales forecasters follow steps similar to these in developing a forecast of sales potential:

- Determine the purposes for using the forecasts.
- Divide the company's products into homogeneous groups.
- Determine those factors affecting the sales of each product group and their relative importance.
- Choose a forecasting method or methods best suited for the job.
- Gather all necessary and available data.
- Analyze the data.
- Check and cross-check deductions resulting from the analyses.
- Make assumptions regarding effects of the various factors that cannot be measured or forecast.
- Convert deductions and assumptions into specific product and territorial forecasts and quotas.
- Apply forecasts to company operations.
- Periodically review performance and revise forecasts.

16.8 KEY WORDS

Sales forecasting, Sales Budgets, Forecasting Techniques

16.9 SELF-ASSESSMENT TEST

Q1. How do you forecast sales?

Q2. How the sales forecast helps the company in maximizing its profits?

Q3. Illustrate different methods of sales forecasting? Which method would you like to suggest for a car manufacturing company in India and why?

Q4. How do you differentiate between sales plan and sales forecast?

Q5. Can the forecasting approach be applied for a small retail business?

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Uttar Pradesh Rajarshi Tandon Open University

Marketing Management

B.B.A.-105

BLOCK

5

Marketing Promotion & Communication

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UNIT-17

MARKETING COMMUNICATION & ADVERTISING

Objectives:

The objective of this unit is to help the students understand:

- Marketing Communication Process.
- The Promotion Mix & Budget.
- Integrated Marketing Communication: Need & Strategies.
- Advertising & Publicity: Meaning, Type, Objective & Role.
- Advertising Budget & Effectiveness.

Structure:

17.1 INTRODUCTION

Communication (from Latin *commūnicāre*, meaning "to share") is the activity of conveying information through the exchange of thoughts, messages, or information, as by speech, visuals, signals, writing, or behavior. It is the meaningful exchange of information between two or a group of people.

One definition of communication is “any act by which one person gives to or receives from other person information about that person's needs, desires, perceptions, knowledge, or affective states.

Communication may be intentional or unintentional, may involve conventional or unconventional signals, may take linguistic or nonlinguistic forms, and may occur through spoken or other modes."

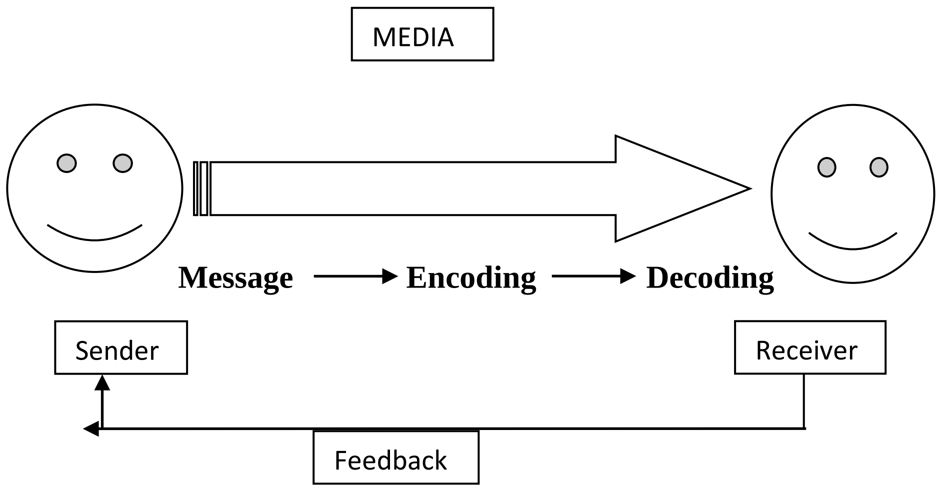
Communication requires a sender, a message, and a recipient, although the receiver doesn't have to be present or aware of the sender's intent to communicate at the time of communication; thus communication can occur across vast distances in time and space. Communication requires that the communicating parties share an area of communicative commonality. The communication process is complete once the receiver has understood the message of the sender.

17.2 MARKETING COMMUNICATION PROCESS

Marketing communications are messages and related media used to communicate with a market. Marketing communications is the "promotion" part of the "marketing mix" or the "four Ps": price, place, promotion, and product.

Those who practice advertising, branding, brand language, direct marketing, graphic design, marketing, packaging, promotion, publicity, sponsorship, public relations, sales, sales promotion and online marketing are termed marketing communicators, marketing communication managers, or more briefly, marcom managers.

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 transmission devices. 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



Communication Process

Traditionally, marketing communications practitioners focused on the creation and execution of printed marketing collateral; however, academic and professional research developed the practice to use strategic elements of branding and marketing in order to ensure consistency of message delivery throughout an organization - a consistent "look & feel"

17.3 THE PROMOTION MIX & BUDGET

Promotion is one of the market mix elements, and a term used frequently in marketing. The elements of Promotion are personal selling, advertising, sales promotion, direct marketing, and publicity. A promotional mix specifies how much attention to pay to each of the five subcategories, and how much money to budget for each. A promotional plan can have a wide range of objectives, including: sales increases, new product acceptance, creation of brand equity, positioning, competitive retaliations, or creation of a corporate image. Fundamentally, however there are three basic objectives of promotion. These are:

1. To present information to consumers as well as others.
2. To increase demand.
3. To differentiate a product.

There are five main aspects of a **promotional mix**. These are:

- **Advertising** - Presentation and promotion of ideas, goods, or services by an identified sponsor. Examples: Print ads, radio, television, billboard, direct mail, brochures and catalogs, signs, in-store displays, posters, motion pictures, Web pages, banner ads, and emails.
- **Personal selling** - A process of helping and persuading one or more prospects to purchase a good or service or to act on any idea through the use of an oral presentation. Examples: Sales

presentations, sales meetings, sales training and incentive programs for intermediary salespeople, samples, and telemarketing. Can be face-to-face selling or via telephone.

- **Sales promotion** - Media and non-media marketing communication are employed for a pre-determined, limited time to increase consumer demand, stimulate market demand or improve product availability. Examples: Coupons, sweepstakes, contests, product samples, rebates, tie-ins, self-liquidating premiums, trade shows, trade-ins, and exhibitions.
- **Public relations** - Paid intimate stimulation of supply for a product, service, or business unit by planting significant news about it or a favorable presentation of it in the media. Examples: Newspaper and magazine articles/reports, TVs and radio presentations, charitable contributions, speeches, issue advertising, and seminars.
- **Direct Marketing** is a channel-agnostic form of advertising that allows businesses and nonprofits to communicate straight to the customer, with advertising techniques such as mobile messaging, email, interactive consumer websites, online display ads, fliers, catalog distribution, promotional letters, and outdoor advertising.

Corporate image corporate image may also be considered as the sixth aspect of promotion mix. The image of an organization is a crucial point in marketing. If the reputation of a company is bad, consumers are less willing to buy a product from this company as they would have been, if the company had a good image. ***Sponsorship*** is sometimes added as a seventh aspect.

Besides, there are other different ways to promote a product in different areas of media. Promoters use internet advertisement, special events, endorsements, and newspapers to advertise their product. Many times with the purchase of a product there is an incentive like discounts, free items, or a contest. This is to increase the sales of a given product.

An offering's budget is a critical factor when it comes to deciding which message strategies to pursue. Several methods can be used to determine the promotion budget. The simplest method for determining the promotion budget is often merely using a percentage of last year's sales or the projected sales for the next year. This method does not take into account any changes in the market or unexpected circumstances. However, many firms use this method because it is simple and straightforward.

The affordable method, or what you think you can afford, is a method used often by small businesses. Unfortunately, things often cost more than anticipated, and you may not have enough money. Many small businesses think they're going to have money for promotion, but they run out and cannot spend as much on promotion as they had hoped. Such a situation may have happened to you when you planned a weekend trip based on what you thought you could afford, and you did not have enough money. As a result, you had to modify your plans and not do everything you planned.

Other companies may decide to use competitive parity—that is, they try to keep their promotional spending comparable to the competitors' spending level. This method is designed to keep a brand in the minds of consumers. During a recession, some firms feel like they must spend as much—if not more—than their competitors to get customers to buy from them. Other companies are forced to cut back on their spending or pursue more targeted promotions. When Kmart faced bankruptcy, they cut back on expenditures, yet they kept their advertising inserts (free-standing inserts, or FSI) in Sunday newspapers to remain competitive with other businesses that had an FSI.

A more rational approach is the objective and task method, whereby marketing managers first determine what they want to accomplish (objectives) with their communication. Then they determine what activities—commercials, sales promotions, and so on—are necessary to accomplish the objectives. Finally, they conduct research to figure out how much the activities, or tasks, cost in order to develop a budget.

Part of the budgeting process includes deciding how much money to allocate to different media. Although most media budgets are still spent predominantly on traditional media, shifts in spending are occurring as the media landscape continues to change. Mobile marketing continues to become more popular as a way to reach specific audiences.

17.4 INTEGRATED MARKETING COMMUNICATION: NEED & STRATEGIES

Integrated marketing communications (IMC) provide an approach designed to deliver one consistent message to buyers across an organization's promotions that may span all different types of media—TV, radio, magazines, the Internet, mobile phones, and so forth. For example, Campbell's Soup Company typically includes the "Mm, mm good" slogan in the print ads it places in newspapers and magazines, in ads on the Internet, and in commercials on television and radio. A company's ads should communicate a consistent message even if it is trying to reach different audiences.

Changes in communication technology and instant access to information through tools such as the Internet explain one of the reasons why integrated marketing communications have become so important. Delivering consistent information about a brand or an organization helps establish the brand in the minds of consumers and potential customers. Many consumers and business professionals seek information and connect with other people and businesses from their computers and phones. The work and social environments are changing, with more people having virtual offices and texting on their cell phones or communicating through social media such as Facebook.

Text messaging, Internet, cell phones, blogs—the way we communicate continues to change the way companies are doing business and reaching their customers. As a result, organizations have realized they need to change their promotional strategies as well to reach specific audiences.

Many college students are part of the millennial generation, and it is consumers from this generation (people like you perhaps) who are driving the change toward new communication technologies.

Traditional media (magazines, newspapers, television) now compete with media such as the Internet, texting, and mobile phones; user-generated content such as blogs and YouTube; and out-of-home advertising such as billboards and movable promotions. You might have noticed that the tray tables on airplanes sometimes have ads on them. You have probably also seen ads on the inside of subway cars, in trains and buses, and even in bathroom stalls.

As the media landscape changes, the money organizations spend on different types of communication will change as well.

17.5 ADVERTISING & PUBLICITY: MEANING, TYPE, OBJECTIVE & ROLE

Advertising:

Advertising is paid promotion with an identified sponsor that reaches many people at one time and can be repeated many times. One of the biggest issues an organization must address is which medium or media provides the biggest bang for the buck, given a product's characteristics and target market.

Whether it's a commercial on the Super Bowl or an ad in a magazine, each medium (e.g., television, magazines, mobile phones, social media) has different advantages and disadvantages. Mobile phones provide continuous access to people on the go, although reception may vary in different markets. Radios, magazines, and newspapers are also portable. Both television and radio must get a message to consumers quickly. Although many people change channels (zap) or leave the room during commercials, television does allow for visual demonstrations. With the Internet, both magazines and newspapers are suffering in terms of readership and advertising dollars. Within each different medium, an organization might select a different vehicle, the specific means within a medium to reach a selected target market.

Publicity:

You just finished reading a great newspaper story about a local restaurant even though you know the company has experienced several lawsuits and many customer complaints. The news story makes the restaurant sound like a great corporate citizen and the best place to eat in town. Sometimes a company gets "free" publicity such as news stories or reviews about its products and services in the mass media, even though the organization has no control over the content of the stories and might not even know about their publication.

Perhaps the restaurant used part of its promotion budget to pay for public relations efforts to generate positive stories and positive publicity

Public relations (PR) include information that an organization wants its public (customers, employees, stakeholders, general public) to know. PR involves creating a positive image for a company, an offering, or a person via publicity. PR has become more important in recent years because there are now so many media outlets people pay attention to, including YouTube, social networking sites, and blogs. It's pretty easy for anyone to say anything about a company in public forum. Indeed, publicity is a double-edged sword; it can result in negative news, such as a poor review of a movie, restaurant, or car, or positive news. Organizations work hard to get favorable news stories, so while publicity sounds free, building relationships with journalists does cost money. Just like advertising, public relations, sponsorships, and social media are critical components of the promotion mix and promotion budget for many firms.

Sponsorships (the financial support of different events, buildings, and activities) often create a lot of publicity. As such, more organizations are realizing the benefit of allocating part of their promotion budget to sponsorships. While most people associate sponsorships with sports, companies also sponsor things such as entertainment, buildings, events, and philanthropic projects, as well as brands and products on social media.

17.6 ADVERTISING BUDGET & EFFECTIVENESS

A famous comment usually attributed to Lord Lever Hulme goes:

"I know that half of my advertising budget is wasted, but I'm not sure which half"

It is notoriously difficult to measure the effect of advertising on a business' sales. Advertising is just one of the variables that might affect sales in a particular period. These include:

- Consumer and business confidence.
- Levels of disposable income.
- Availability of product (e.g. does the retailer actually have stock to sell?)
- Availability of competing products.
- The weather (often blamed by retailers for poor sales!).

How can a business know whether a specific advertising campaign was effective?

As a percentage of sales, advertising expenditure varies enormously from business to business, from market to market. For example, the leading pharmaceutical companies spend around 20% of sales on advertising, whilst business such as Ford and Toyota spend less than 1%. An average for fast-moving consumer goods markets ("FMCG") is around 8-10% of sales.

In practice, the following approaches are used for setting the advertising budget:

Method (1) Fixed percentage of sales

In markets with a stable, predictable sales pattern, some companies set their advertising spend consistently at a fixed percentage of sales. This policy has the advantage of avoiding an "advertising war" which could be bad news for profits.

However, there are some disadvantages with this approach. This approach assumes that sales are directly related to advertising. Clearly this will not entirely be the case, since other elements of the promotional mix will also affect sales. If the rule is applied when sales are declining, the result will be a reduction in advertising just when greater sales promotion is required!

Method (2) Same level as competitors

This approach has widespread use when products are well-established with predictable sales patterns. It is based on the assumption that there is an "industry average" spend that works well for all major players in a market.

A major problem with this approach (in addition to the disadvantages set out for the example above) is that it encourages businesses to ignore the effectiveness of their advertising spend – it makes them "lazy". It could also prevent a business with competitive advantages from increasing market share by spending more than average.

Method (3) Task

The task approach involves setting marketing objectives based on the "tasks" that the advertising has to complete.

These tasks could be financial in nature (e.g. achieve a certain increase in sales, profits) or related to the marketing activity that is generated by the campaigns. For example:

- ❖ Numbers of enquiries received quoting the source code on the advertisement
- ❖ Increase in customer recognition / awareness of the product or brand (which can be measured)

- Number of viewers, listeners or readers reached by the campaign

Method (4) Residual

The residual approach, which is perhaps the worst of all, is to base the advertising budget on what the business can afford – after all other expenditure. There is no attempt to associate marketing objectives with levels of advertising. In a good year large amounts of money could be wasted; in a bad year, the low advertising budget could guarantee a further low year for sales.

17.7 SUMMARY

Marketing communications is focused on the product/service as opposed to corporate communications where the focus of communications work is the company/enterprise itself. Marketing communications is primarily concerned with demand generation and product/service positioning while corporate communications deal with issue management, mergers and acquisitions, litigation, etc.

17.8 KEY WORDS

Advertising, Promotion Communication, Publicity, Budget

17.9 SELF-ASSESSMENT TEST

1. Explain the concept of integrated marketing communications.

2. How is the media used by organizations changing? What age group is driving the change?

3. What factors are causing the media landscape to change?

4. Why do you think so many organizations rely on advertising to communicate with customers and potential customers?

5. Explain three different types of public relations tools that a company can use to generate interest in its products

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UNIT-18

PERSONAL SELLING & SALES PROMOTIONS

Objectives:

The objective of this unit is to help the students understand:

- Role of Personal Selling
- Type of Selling Jobs
- The Selling Process
- Sales Promotion: Objective, Methods & Planning
- Sales Promotion Strategies & Sales Management

Structure:

18.1 INTRODUCTION

Sales are considered as a subset of Marketing. In case if all the elements of marketing mix set right the sales has to occur as a part of the process. Still, in a dynamic condition of the market sales management becomes an important integral part of marketing management hence in organizations department of marketing & sales is one and the same or combined together.

Sales Management translates marketing plans into performance or reality in a market place and hence can be considered as the muscle behind marketing management.

Sales promotion is a part of marketing management with the primary objective to enhance the sale of the firm in a given market place. Sales promotion is a set of activities that an organization undertake to supplement both personal selling & advertising, coordinate them and help in making them effective.

18.2 ROLE OF PERSONAL SELLING

The primary task of the sales management is to determine precisely the place of personal selling in the marketing mix of the organization / firm and set the objectives. The role and objectives may vary from one firm to that of other, depending upon the following factors:

1. Overall objectives of the firm.

2. The strategies adopted by the firm.

3. Type of product.

4. Nature of target market / targeted segment

5. Type of channel partners.

6. Available resources.

7. The level and type of competition prevailing in a given market place.

It is rightly stated that ‘Goals clarify Roles’ hence setting personal selling objectives assists in assigning a well defined clear roles to the sales force within the overall marketing program of the organization. Also helps in determining the size of the sales force, selection of the peoples and evaluation of their performance.

The personal selling objectives are influenced by the relative priorities assigned by the concern firm to its various marketing objectives like whether the firm wants sales in the short run, or sustained market share over a long tenure, whether the focus is on higher profits to short term profits or build an enduring customer satisfaction in a market place.

Besides, the personal selling objectives may also get influenced by the objectives that are set in reference to other elements of the marketing mix.

Following are the areas where personal selling can be set:

a. Sales volume.

b. Market share.

c. Portion of each product, if the firm has product mix, in the total sales volume.

d. Profit margins

e. Expense level of sales

f. Business growth

g. Expansion of channels

h. Collection process [cash or credit or amount due]

i. Pre & after sales service

j. Training of channel partners & customers.

k. Assistance in sales promotion measures.

l. Market research & customer feedback.

A number of specific selling strategies come under the umbrella of sales or selling, including the following :

- Cold calling
- Consultative selling
- Direct selling
- Guaranteed sale
- Needs-based selling
- Persuasive selling
- Hard Selling
- Heart Selling
- Price based selling
- Relationship Selling
- Target account selling
- Solution selling
- Sandler Selling System
- Challenger Sales

18.3 TYPE OF SELLING JOBS

Firms, usually structure the sales force on a territory basis or on a product basis. In case of territory based structure, single sales person is made responsible for the sales of the product mix of the firm in a given territory, which possibly might be small in size. Where as in case of product based structuring, individual sales persons operate in a given territory base on the number of product a firm possess. In such cases the territory may be quite large in size.

Sometimes the sales force is also structured based on the type & class of customers to cater. There is also a possibility that a firm might structure its sales force based on the combination of all possibilities or considerations mentioned above. The organization should fix the size of the sales force optimally taking into consideration various factors, internal or external to the firm.

Two common terms used to describe a salesperson are "Farmer" and "Hunter". The fact is that the majority professional sales folks have to a small degree of both. A hunter is commonly related to aggressive personalities who use aggressive sales technique. In terms of sales methodology a hunter refers to someone whose focus is on conveyance in and shutting deals. This process is called “sales capturing”. An example may be a trade goods sale like a long distance sales person, shoe sales person and to a degree an automobile sales person. Their job is to search out and convert consumers. A sales farmer is somebody who creates sales demand by activities that directly influence and alter the shopping for process.

Many believe that the main target of commerce is on the human agents concerned within the exchange between buyer and merchant. Effective commerce conjointly needs a systems approach, at minimum involving roles that sell, enable commerce, and develop sales capabilities. Commerce conjointly involves salespeople who possess a particular set of sales skills and the knowledge required to facilitate the exchange valuable between consumers and sellers that is unique from selling, advertising, etc.

18.4 THE SELLING PROCESS

The personal selling process is an eight step approach that has been found to be beneficial in sales. The eight steps are:

1. Prospecting.
2. Pre-approach.
3. Approach.
4. Need assessment.
5. Presentation.
6. Mitigating objections.
7. Gaining commitment.
8. Following up / Feedback.

Prospecting is the step where salespeople determine leads or prospects. After they figure out potential customers, they must determine whether they are qualified leads, or leads who are likely to buy.[6] Qualified leads are those who have a need for the product, can afford the product, and are willing to be contacted by the salesperson.[5]

Next, the pre-approach is used for preparing for the presentation. This consists of customer research and goal planning for the presentation.

In the stage of approach, the salesperson initially meets with the customer. It is helpful to schedule an appointment to ensure capturing the buyer's attention. Since first contact leaves an impression on the buyer, professional conduct, including attire, a handshake, and eye contact, is advised.[5]

Following the approach is the need assessment. Salespeople should evaluate the customer based on the need for the product. They should ask questions to reveal the current situation, the source of any problems, the impact of the problems, the benefits of the solution, and the interest of the buyer.[5]

Once the salesperson knows the needs, he or she is ready for the presentation. The point of this is to grab the customer's Attention, ignite Interest, create Desire, and inspire Action, or AIDA.[7] The salesperson can do this through product demonstrations and presentations that show the features, advantages and benefits of the product.

After this, comes meeting objections. Customers who are interested will voice their concerns, usually in one of four ways. They might question the price or value of the product, dismiss the product/service as inadequate, and avoid making a commitment to buy, or refuse because of an unknown factor.[5] Salespeople should do their best to anticipate objections and respectfully respond to them. Then, gaining commitment comes next. The salesperson can use several different sales closes to move the sale forward. They can use the 'alternative close', the 'assumptive close', the 'summary close', or the 'special-offer close', among others.[6] Finally, the salesperson must remember to follow up. Following up will ensure customer satisfaction and help establish a relationship with the customer.

18.5 SALES PROMOTION: OBJECTIVE, METHOD & PLANNING

In the ever changing environment and dynamic market & the profile of customers, sales promotions helps marketer to overcome short term hurdles. Sales promotion by and large is understood and practiced as a catalyst and as a supporting facility to advertising and personal selling.

Marketers use sales promotion as a tool to meet several marketing need or objectives as under:

1. Introducing new product.
2. Fight competitive situation.

3. Shedding accumulated inventory.
4. Overcoming seasonal slumps.
5. Targeting new segments / markets.
6. Retrieving lost segments / clients.
7. Support / supplement to advertising efforts.
8. Support / supplement to sales team efforts.
9. Support the efforts of channel of distribution.

Considering the target group for which the sales promotion efforts are normally aimed, it can be find that these groups can be divided into 4 broad target groups ie.

1. The consumer
2. The trade / channels of distribution
3. The sales team
4. Influential groups.

At most times, the sales promotion efforts are aimed at consumers known as consumer promotion and that aimed at trade known as trade promotion.

As mentioned, the sales promotion acts as a catalyst to the already existing sales efforts, the personal selling efforts of the salesman, the communication, advertisement and the distribution efforts of the channel thus activating them through a well-planned sales promotion, accelerating the selling process, in conjunction.

For a marketers resorting to sales promotion, a variety of tools and techniques are available as mentioned below:

- Sales promotion letters / SMS
- Catalogues
- POP / Display
- Demonstrations [at retail store, school, door to door, to key people, trade fairs & exhibitions]
- Coupons
- Premiums
- Free offers
- Price-offs
- Extras
- Installments' – offer

- Free samples
- Gifts
- Sponsorships

Though merchandising is not an integral part of sales promotion, in the view of the close linkage between the two, a reference to merchandising would be essential. Merchandise means ‘goods for sales’, and the term merchandising embraces all activities undertaken at the retail shop to promote sales. Hence good merchandising at the store level often promotes the buyer in different ways to buy ‘now’ rather than later, buy more than the intended quantity or a particular pack size in preference to other. All these are essential sales promotion objectives. While advertising can only make a consumer aware of the product or generate in him a desire for it, merchandising in many cases, instantly motivates a consumer to buy a product.

18.6 SALES PROMOTION STRATEGIES & SALES MANAGEMENT

Almost all companies practice one or the other promotional technique, but only some of them follow a planned way. Other mostly views sales promotion as a weapon that can be used in a emergent situation. Sales promotion yields the intended results only when it meets certain basic requirements that are as follows:

- ❖ Identify the basic requirements
- ❖ Identify the right promotional program
- ❖ Enlisting the support & involvement of salesmen
- ❖ Enlisting the support of dealers.
- ❖ Enlisting the Agency’s support
- ❖ Launching & follow up campaigns
- ❖ Timing of the campaigns
- ❖ Coordination with other elements of promotion.

Although, sales promotion can supplement the selling efforts, by providing an extra incentive to the consumer to purchase the product but sales promotion as a tool has its own limitations. And when handled without understanding these limitations can affect negatively and hence shall not be used indiscriminately.

Sales Management:

The sales manager in a modern organization holds a multitude of responsibilities. He has to plan, direct and control the overall selling and promotional efforts of the firm. Sales manager sets sales goals for the sales teams and bear the brunt of the responsibility for achieving the set goals. They assist the firm in measuring market potential, sales forecast and sales budget. In addition they have to develop the sales programme and achieve the forecasted sales by implementing the programme.

Besides, developing the sales organization, sales manager also play a role in ensuring the overall growth of the firm by fostering an atmosphere of growth. In addition, they assist the firm in managing the change. In a dynamic changing market, customer preferences & competitive forces are constantly changing; so too are the technologies and marketing methods. In managing all these changes, the firms depends largely on the sales management and exploit new opportunities that keep unfolding as a result of change.

Man management is also a major part of sales management and so the sales managers are responsible for recruitment, training and development of sales team. Also the sales managers are responsible for work allocation, supervision and elevating the morale & motivation of the team.

The various tasks involved in the sales management in any modern marketing firms are as under:

1. Determining the personal selling objectives of the firm.

2. Formulating the sales policies

3. Structuring the sales force

4. Deciding the sales force size.

5. Assigning sales territories.

6. Assigning sales quotas.

7. Creating the sales force – selection, recruitment and training

8. Managing the sales force – compensation, morale, motivation, supervision, appraisal & training & development.

9. Sales communication & reporting

10. Sales coordination & control.

18.7 SUMMARY

Selling is offering to exchange an item of value for a different item. The original item of value being offered may be either tangible or intangible. The second item, usually money, is most often seen by the seller as being of equal or greater value than that being offered for sale.

Selling is considered by many to be a sort of persuading "art". Contrary to popular belief, the methodological approach of selling refers to a *systematic process of repetitive and measurable milestones, by which* *a salesman relates his or her offering of a product or service in return enabling the buyer to achieve their goal in an economic way*.

Depending upon the objectives to achieve a firm may take an approach of personal selling, hitting the target directly. But the approach may vary depending on the attributes of the firm, its product and market place.

18.8 KEY WORDS

Sales management, Sales Promotion, Personal Selling

18.9 SELF-ASSESSMENT TEST

Q1. State the difference between Sales promotion & personal selling?

Q2. A firm would like to enter in Indian market with its unique LED television at the cost of Rs. 60,000 a unit. You a consultant to the company assist in designing the sales program for the firm so as to facilitate the launch of the product?

Q3. How various promotional programs assist personal selling activity of a firm giving live example?

Q4. Discuss the role of marketing manager in sales management?

Q5. Discuss various tools & techniques of sales promotion?

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UNIT-19

DISTRIBUTION STRATEGY

Objectives:

The objective of this unit is to help the students understand:

- Importance of Channels of Distribution
- Alternative Channels of Distribution
- Role of Middleman in Indian Economy
- Selecting an Appropriate Channels & Physical Distribution
- Location of Fixed Facilities & Issues Relating to Maintenance of Stock.

Structure:

19.1 INTRODUCTION

Producing a product is not only the task of the organization but making it available to the buyers is equally important. Hence making it available to buyers requires building relationships not just with customers, but also with key suppliers and resellers in the company's Supply Chain. This supply chain consists of 'upstream' & 'downstream'.

Upstream from the company is the combination of firms that supply the raw materials, components, parts etc. Marketers however have traditionally focused on the 'downstream' side of the supply chain – on the

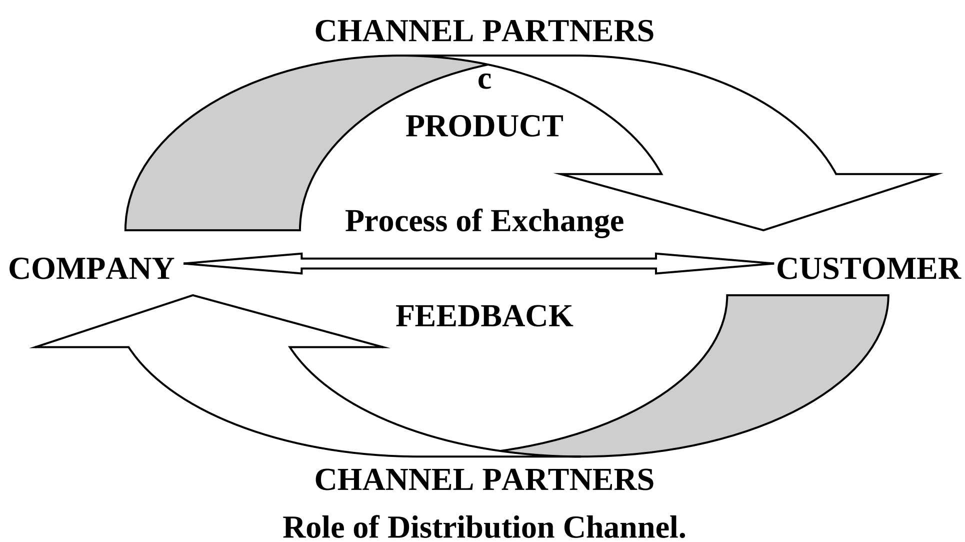
'Marketing Channels' that look towards the customers. Downstream marketing channel involves wholesalers & retailers, forms a vital connection between the firm and its customers.

19.2 IMPORTANCE OF CHANNELS OF DISTRIBUTION

A company's channels decision directly affect every other marketing decision for example pricing depends on whether the company is selling its product using National Discount Chain or high quality specialty stores or sell directly via web. Similarly the firm's sales force and communication decision depends on how much persuasion, training, motivation and support its channel partner needs. Decision of acquiring or developing a new product is also dependent on the capabilities of the channel partners to handle them profitably well for the company.

Hence, the importance of the distribution channel can be further also be analyzed, understanding the various functions performed by them.

1. Channel provides distribution efficiency to manufacturers.
2. Supply of the product in the required assortment.
3. Channels act as a salesman for the company.
4. Channel help merchandise the product.
5. Channel helps in implement the price mechanism in the market place.
6. Play an important role in physical distribution & financing functions.
7. Act as a change agents and generate demand.
8. Channel assumes risk for the company.
9. Provide Pre and after sales services.
10. Act as a feedback channel for the company.



Role of Distribution Channel.

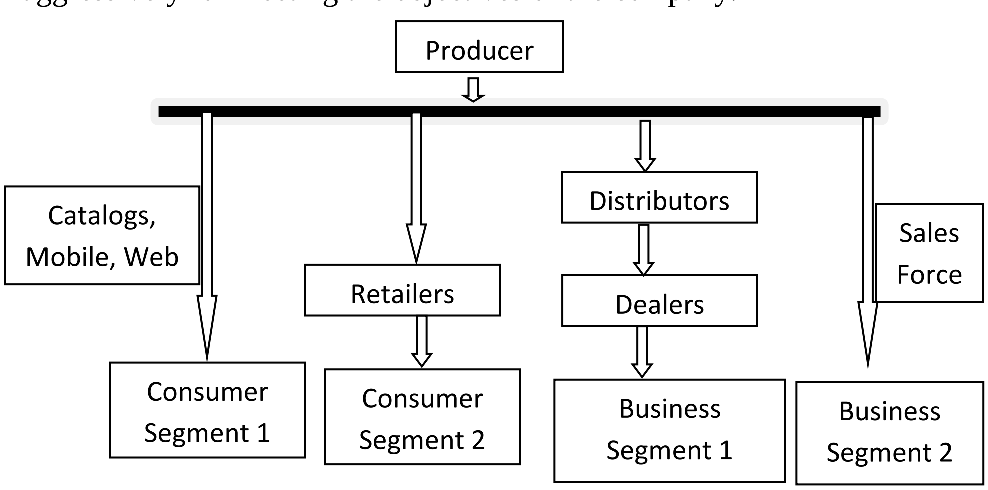
19.3 ALTERNATIVE CHANNELS OF DISTRIBUTION

Channel's decisions have a vital bearing on the success or the failure of the product or services of the firm. It also affects other important decision areas of marketing [4 P's]. Therefore, decision pertaining to the distribution channel often involves long term commitments to the firms. For example companies like HP, Honda, P&G, can easily change their advertising, pricing or promotional strategies. They can scrap old products and introduce new ones as the demand changes. But when it come to the channels of distribution, it is very difficult to replace them if the condition changes. Therefore management must design its channels carefully with an eye on tomorrow's likely selling environment as well as today.

Since quite a few possibilities would still be left in the field, the firm must carefully evaluate the alternate possibilities in case if needed depending upon the cost and the efficiency. May not be these elements are directly proportional to each other. Generally, while taking the decision efficiency take a priority over the cost.

Changes in technology and the explosive growth of direct and online marketing are having a profound impact on the nature and design of marketing channels. One major trend is towards disintermediation- a big bang with a clear message and important consequences to the final buyers, when radically new types of channel intermediaries displaces traditional ones.

Thus in many industries, traditional intermediaries are dropping by the wayside. For example Airlines are widely using web facilities for selling their tickets directly to the buyers, cutting the role of travel agents from the marketing channels. Similarly web booking of Train tickets trough IRCTC has taken the load off from the booking windows and the agents. Companies like Flip-cart are exploiting the technology aggressively for meeting the objectives of the company.



Alternate Channels of Distribution / Multichannel Distribution System

19.4 ROLE OF MIDDLEMAN IN INDIAN ECONOMY

Since ages, middlemen or intermediaries have fulfilled a gap between manufacturer and the end user, for example, from farmer to broker to distributor to food store to consumer, or from steel mill to manufacturer's representative to machinist. Besides, being the mediator, the role of the middle man is to share the information with the client rather in changing the attributes of the product. E-commerce in the preset days did reduce the cost of goods through elimination of brokers and distributors, by automating the exchange of information directly between the producer and the user. In practice, however, it becomes obvious that the middleman does more than just repeat information. He or she interprets, translates, catches errors, and in many other ways facilitates the transaction.

The middleman is very much part of the production process. In rural economy, the farmer uses land and his labor power and the middleman provides money to facilitate production. Without middleman's credit, over 80 per cent farmers would not be able to buy seed and fertilizer. They will not even be able to prepare their fields for sowing if the middleman does not provide money for the diesel. That is how ground realities define the role of the middleman and make him an essential part of the crop cycle.

The financial role of middleman can be gauged from the fact that of the total loan requirement of around Rs. 1,000 billion, the formal sector (banks) provides around Rs. 275 billion. The government banks hardly provide Rs. 80 billion.

The middleman's mode of credit is tailor-made for farmers. They get as much money as required and frequency dictated by their agricultural, and even social (family functions), requirements. No player from the formal sector has ever dared to venture where the middleman routinely does.

Most of the emerging Far-Eastern markets like China, Singapore, Thailand and even India have not only acknowledged the role of middleman but also used him for improving the quality of agricultural produce. All successful models are available, but the provincial governments in Pakistan are trying to swim upstream now.

In these Far-Eastern markets, the middleman has been turned into a very effective vehicle of technology transfer. Since the middleman is, by far, the biggest investor, the farmers listen to him more than the extension workers who can only advise without any financial clout.

These middlemen normally have 100 to 500 farmers registered with them, depending on the quantum of their investment. If the middlemen are trained in export and domestic quality issues – grading, packing and traceability – they can more easily persuade the farmers into compliance. They can be turned into trainers of trainers to educate farmers.

By making these middlemen quality conscious and linking them to exporters, their places can be turned into trading platforms for quality produce. Pakistan can never think of increasing agriculture, especially horticulture exports without developing and implementing domestic quality standards. That is exactly the point where middlemen have played their role in the Far-East and that where he should be playing role in Pakistan.

Some of the middlemen could be helped develop into bigger trading house, where literate people would also find some place. The continued existences of middlemen, and the emergence of new forms, are evidence that middlemen add value. The key value added by the middleman is trust, the inverse of risk. We trust people who specialize in a field that is unfamiliar to us, who have experience, and who are referred by trusted acquaintances.

19.5 SELECTING AN APPROPRIATE CHANNELS

Business firms can make available their products to the consumers in number of ways than one. This has already been discussed in the earlier part of the unit that it can use different kind of intermediaries; it can structure its channels into single tier or two or three tier outfit. But it's tough to determine the success of the one among all.

There are number of questions that an organization has to answer before taking and decision regarding formulating the channels design; for example, Should the company go for its own channel or adopt traditional intermediaries? The number of wholesale points, the company should have for the coverage of the market & the location of these wholesale points. Number of Retail outlets and their location in the market place. The firm has to make a careful analysis and then select its channel design.

The following are the main steps involved in developing the channel design:

1. Formulation of channel objective.
2. Identification of channel function.
3. Analyze the product characteristics & the channel type.
4. Evaluation of distribution environment [including policies and legal aspects]
5. Analysis of competitors channel partners.
6. Available company resources.

7. Available alternate channel design and selection of the one that fits the firm most.

Considering the environment dynamic and ever changing the task of channel management, dealer appointment, dealer motivation and dealer development is a continuous job. The efforts cannot be slacked at any given time.

19.6 PHYSICAL DISTRIBUTION, LOCATION OF FIXED FACILITIES & ISSUES RELATING TO MAINTENANCE OF STOCK

One of the most important tasks of distribution management is physical distribution. Physical distribution can be defined in different ways where as the essence of the task can be drawn out from a very simple definition as under:

'Physical distribution is the process of reaching the product to the consumers. It encompasses all activities involved in the physical flow of products from producer to consumer.'

Ensuring the availability of the product in the market place is the most important task of any of the firm in the competitive market. Hence it shall be importance to understand the importance of physical distribution in such a scenario:

1. Physical distribution provide place & time utility to the product; in other words it's the physical distribution that makes the product available at the right time at the right place, thereby maximizing the company's chance to sell the product and strengthen its competitive position in the market.

2. Physical distribution helps in the process of demand generation. It is physical distributions that largely determines the customer service level and develop the clientele. And conversely, inefficient physical distribution may lead to loss of customer and market.

3. Physical distribution is a very important area for cost savings. Over the year, in most businesses, physical distribution cost has grown into sizeable chunk of the total costs with the increase in the fuel cost.

4. Peter Drucker rightly compared physical distribution to the 'dark continent of Africa of Napoleon's days'. He stated as, 'we know about physical distribution today just as much as what Napolean's contemporaries knew about the interior of Africa. We know it is there & we know it is bug & that's all.' The message is clear. Physical distribution is the most promising area for cost reduction.

In the Indian context, physical distribution acquires a special importance on account of several reasons:

1. Infrastructural constraints
2. Physical distribution cost [includes: transportation costs & warehousing & inventory costs]

Besides, it is also necessary to understand the functions of physical distribution job:

1. Planning the total physical distribution system.
2. In-plant warehousing.
3. Transportation.
4. Field warehousing.
5. Receiving
6. Handling.
7. Secondary transportation, handling and sub-distribution.
8. Inventory management at various levels
9. Order processing.
10. Accounting.
11. Communication [Includes - Feedback]

While designing the physical distribution system, as the first step, the distribution objectives & requirement of the firm must be properly articulated and the desired level of service in product delivery must be specified. Following are the main steps involved in designing the physical distribution system:

1. Desire of the customers / kind of channels involved in product delivery.
2. Analyze competitors system.
3. Analyze specific unit requirement.
4. Keep the cost of the system low.
5. System should be flexible.

Warehousing is the second major component of physical distribution. It has two distinct and equally important parts:

1. The physical job of creating and running the network of storage points of physical facilities.
2. The task of controlling and managing inventories.

Like transportation, warehousing too vests the products with time and place utility and in case of some commodities / products, ‘form utility’ as well. In cases where the product is having high degree of seasonality, large scale storage is must and contributes to an inescapable part of marketing.

While designing the warehousing system, it is important to note that the product flows from the factory to the consumer through a long winding chain, having multiple tiers of distribution intermediaries. Hence, it is important to raise and answer some of the following basic questions relating to this flow:

1. How many warehouses should a company have?

2. Where these warehouses should be located?

3. What should be the size / capacity of these warehouses?

Warehousing effectiveness can be improved by adopting scientific methods and right policies of marketing and physical distribution. Some of the aspects that shall be considered are:

1. Scientific layout design / facilities that help improve warehousing effectiveness.

2. Reducing movements & handling within the warehouse.

3. Systematic Assortment of the product

4. Reliable sales forecast also adds to the effectiveness of the warehousing.

Besides, physical distribution and warehouse management, effective management of finished product inventory is quite essential for running a business profitably and efficiently. Inventory strategies and decision becomes important in business where inventory costs form a sizeable part of total marketing cost.

19.7 SUMMARY

Marketing channel decisions are among the most important decision that management faces. A firm's channel decision directly affects every other facet of marketing decisions. While making the channels decision management should be careful enough, incorporating the todays need and tomorrow's sales environment. Physical distribution act as a process of reaching the product to the customers. It adds place utility and time utility to the product. Unlike channel management and physical distribution, warehouse management also plays an important role as the inventories do have various cost added to the firm.

19.8 KEY WORDS

Channel of distribution, Physical distribution, Warehousing

19.9 SELF-ASSESSMENT TEST

Q1. Discuss the role of channels of distribution in present competitive scenario?

Q2. How physical distribution is different from channels of distribution?

Q3. Discuss the major channel alternatives open to a company?

Q4. Explain how companies select, motivate & evaluate channel members

Q5. Explain how channel members add value for a firm and consumers?

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UNIT-20

MARKETING & PUBLIC POLICY

Objectives:

The objective of this unit is to help the students understand:

- Regulatory Role of the Government & Impact on Marketing Decision Making Process
- Impact of Government Control on Product Decisions.
- Pricing, Promotion, Channel & Distribution Decisions.

Structure:

20.1 INTRODUCTION

A company's marketing environment consists of the forces outside marketing that affect marketing management's ability to build and maintain successful relationship with targeted customers. The marketing environment is made up of a Microenvironment & Macroenveronment.

The microenvironment consists of the actors close to the company that affect its ability to serve its customers whereas macro-environment consists of factors outside the firm and cannot be controlled. Such factors do impact the marketing moves of the company and one of such factor is Government Policies. These factors are also known as uncontrollable factors.

20.2 REGULATORY ROLE OF THE GOVERNMENT & IMPACT ON MARKETING DECISION MAKING PROCESS

Marketing decisions are largely affected by developments in the political environment of the country. The political environment consists of laws, government agencies and pressure groups that influence or limit various organizations and individuals in a given society.

Even the most liberal advocates of free markets economies agree that the system works best with at least some regulations. Well-conceived regulation can encourage competition and ensure markets for food and services. And so, the governments develop public policy to guide commerce-sets of laws and regulations that limit business for the good society as such. All marketing activity is subject to a wide range of laws and regulations.

Legislation affecting business around the world has increased over the years. India, like other countries in subcontinent has many laws covering issues like competition, fair trade practices, environmental protection, product safety, consumer protection, truth in advertisement, pricing, packaging and labeling etc.

Understanding the public policy implication of a particular marketing activity is not a simple matter. There are many laws created at National, State and local level and there regulations often overlap. Besides, regulations are constantly changing what was allowed a year back may now be prohibited and vice versa. Marketer has to keep a close watch on ever changing environment and interpret them better so as to design the strategies and moves to fit in the bill.

Business legislations are enacted keeping the following in mind:

1. To protect companies from each other [like MRTP Act]

2. To protect consumer from unfair business practices [Consumer Protection Act]

3. To protect the interest of the society at large [against unrestrained business behavior].

Written regulations cannot possibly cover all potential marketing abuses and the existing laws are often difficult to enforce. However, beyond written regulations, business is also governed by social codes and rules of professional ethics.

Companies encourage their managers to look beyond the regulatory system and what it allows ‘do the right thing’. Firms that are actively, socially responsible seek out ways to protect the long-run interests of their consumers and the environment.

Further, to exercise their social responsibility and build more positive images, companies are now linking themselves to worthwhile causes. Companies like P&G and HLL contributes for the social causes through their product campaigns. CRY, donates money for the protection of children's rights. Through cause related marketing, companies project their responsibility towards the society and help in raising the funds for social causes.

As always happens, every good has a bad and so is the case with Social marketing. Critics worry that cause related marketing is more a strategy for selling than a strategy for giving – that 'cause-related' marketing is really 'cause exploitative' marketing.

However, if handled well, cause related marketing can greatly benefit both company and the cause. The company seeks as an effective marketing tool while building a more positive public image.

20.3 IMPACT OF GOVERNMENT CONTROL ON PRODUCT DECISIONS

Nations differ greatly in their political-legal environment. Hence product adoption involves changing the product to meet local wants or conditions including regulations laid down by the government. It might mean maintaining or reintroducing earlier product forms that happens to be well adopted to the needs of a given country. Or a company might create a new product. Most international marketers suggest that companies should 'think globally but act locally'. McDonald's operate in a similar fashion. It uses the same basic fast food look, layout, and operating model in its restaurants around the world but adopts its menu to local taste and public policies.

In India, where cows are considered sacred, McDonald serves McChicken, McVeggie, McAloo Tikki Burgers and Maharaja Mac. In predominately vegetarian state of Gujarat, it even declares its outlets as 'pure vegetarian', not selling any non-vegetarian food in these outlets.

Similarly, following the Euro norms as laid down by the government of India, Maruti Suzuki has to lay off its most popular cars Maruti-800 and reintroduced as Aulto-800 to full fill the gap in the segment. Government has laid down an emphasis of producing eco-friendly products, as a result of which the use of CFC which was used in refrigerators, was put off the use by companies in India. Companies like LG, Samsung, Sony etc. producing electronic gazettes, innovated and started producing energy efficient, star rated product and promote sense of power conservation by the use of such products.

In the recent years, product safety has also become a major concern. And after the rush of product tampering scares during 1980's most drug producers and food makers now put their products in tamper-resistant packaging. In making packaging decisions, the company also must heed growing environmental concerns. Fortunately, under the regulations, many companies have gone 'green' by reducing their packaging & using environmentally responsible packaging material.

Along with the positives, labeling also raises concerns. There has been a long history of legal concern about packaging and labeling. False, misleading or deceptive labels or a package constitutes unfair competition. Labels can mislead customers, fail to describe important ingredients or fail to include needed safety warnings. As a result, several laws regulate labeling. They set mandatory labeling requirements, encouraged voluntary industry packaging standards, and packaging regulations in specific industries.

20.4 PRICING, CHANNELS OF DISTRIBUTION & PROMOTION DECISIONS

Price competition is a core element of free-market economy. In setting prices, companies usually are not free to charge whatever prices they wish. Many central, state and even local laws govern the rules of fair play in pricing. The legislation affecting pricing in India are MRTP Act [1969] & competition Act [2002]. While the MRTP Act emphasizes the need to restrict monopolistic practices, the Competition Act lays an emphasis on promoting competition in the economy. The salient features of the act are:

1. Anti-competitive agreement.

2. Prohibition of abuse of dominant positions by an enterprise and

3. Regulation of combinations such as acquisitions, mergers, joint ventures, takeovers, and amalgamations.

Of these, the first two features govern pricing practices such as price fixing and predatory pricing.

Decision regarding channel arrangement for the companies is legally free. In fact, the law affecting channels seek to prevent the exclusionary tact's of some companies that might keep another company from using a desired channel. Most channel laws deals with the mutual rights and duties of the channel members once they have formed a relationship.

Many producers and wholesalers like to develop exclusive channels for their products. When the seller allows only certain outlets to carry its products, this strategy is called as exclusive distribution. When the sellers require that these dealers not handle competitor's products, its strategy is called exclusive dealing. Both parties can benefit from such an arrangement: the seller obtains more loyal and dependable outlets and the dealer obtain a steady source of supply and stronger seller support. But in such a arrangement, it exclude other producer from selling to these dealers. They are legal as long as they do not substantially lessen the competition or tend to create a monopoly and as long as both parties enter into the agreement voluntarily.

In shaping its promotion mix, a company must be aware of the large body of legal and ethical issues surrounding marketing communication. Marketers while communicating openly and honestly with the consumers and resellers take care utmost, still abuses may occur and breach of public policy take place for which the policy makers have developed a substantial body of law and regulations to govern advertising, sales promotions, personal selling and direct marketing activities.

By law, companies must avoid false or deceptive advertising. Sellers must avoid bait-and-switch advertising that attracts buyers under false pretenses. A company's trade promotion activities are also closely regulated, for example, under various consumer protection acts; seller cannot favor certain customers through their uses of trade promotions. The companies must make promotional allowances and services available to all resellers on proportionately equal terms. Beyond, simply avoiding legal pitfalls, companies can use advertising and other forms of promotion to encourage and promote socially responsible programs and actions.

20.5 SUMMARY

The unit examines the environments of marketing and how companies analyze these environments to better understand the market place and consumer. Besides, the focus of the unit revolved around the role of government and regulations impacting overall marketing environment. At the same time companies must constantly keep a watch and manage ever changing marketing environment in order to find out opportunities and shed off threats posed by internal and external environment, largely.

20.6 KEY WORDS

Marketing environment, Social Marketing, Government Regulations.

20.7 SELF-ASSESSMENT TEST

Q1. Describe the environmental forces that affect the company's ability to serve its customers?

Q2. Explain the key changes in the political and cultural environment?

Q3. Discuss how public policies and regulations affect marketing communication?

Q4. How public policies & regulations affect the pricing and distribution policies of the company?

Q5. How does the Government Interventions affect the overall marketing decisions of a firm?

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Notes

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