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UNIVERSITY OF JAMMU
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SELF LEARNING MATERIAL

B.A SEMESTER-IV

SUBJECT : BUSINESS MANAGEMENT UNIT - I - V

COURSE NO. BM-401 **LESSON NO. 1-15**

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BUSINESS MANAGEMENT

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BUSINESS MANAGEMENT

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The syllabus is for examinations of BA Business Management Semester IV to be held in May 2020, May 2021, May 2022

Objective: To introduce the concepts, principles and techniques of Marketing Management

UNIT I

Meaning of market and marketing: The marketing Mix and the role of marketing in a developing econemy-tike Hndia; Social marketing: Diferenee between marketing-of product and servies-Markesng function and approaches; Marketing versus Selling: The modern concept of marketing.

UNIT II

Concept of product: Product decision and strategies: Classification of products: Product life cycle; New product development process; Why products fail? Concept of price; Pricing policies and strategies; Factors determining pricing decisions; Role if cost in pricing; Pricing methods and objectives.

UNIT III

Branding and packaging decisions; Marketing segmentation and its bases; Considerations involved and methods of designing marketing organisation, Meaning of marketing research-its applications; Procedure and the marketing research scenario in India

UNIT IV

Meaning of sales forecast; Approaches to and methods of torecasting Importance and objectives of channels of distribution; Major channels of distribution; Functions and services of wholesalers and retailers; Selection of a channel of distribution; Physical distribution tasks and decisions on channels of distribution.

UNIT V

Concept and importance of consumer behaviour; Types of consumers; Models of consumer behaviour; Factors influencing consumer behaviour; Consumer decision making process and stages; Indian consumer environiment; Consumerism.

Note for Paper Setter : The paper setter is requested to set 10 questions in all with at least 2 questions from each unit. All the questions shall carry equal marks. The students are required to attempt 5 questions selecting one from each unit necessarily i.e. internal choice is available.

Suggested Reading :

1. Marketing Management : Philip Kotler
2. Basic Marketing : Cundiff, Still and Govani
3. Modern Marketing Management: R.S. Davar
4. Fundamentals of Marketing : William J. Stanton
5. Marketing Principles and Method : Philips and Duncon
6. Marketing Management in Indian Perspective: Jha and Singh
7. Marketing Management: Ramaswami and Namakumari

C. No. : BM-401 **UNIT I**

SEMESTER : IV **LESSON : 1**

Meaning of Market and Marketing; The Role of Marketing Mix; Role of Marketing in Developing Economy like India

Structure

1.1 Introduction

1.2 Objectives

1.3 Meaning and Definition of Market

1.4 Importance of Market

1.5 Classification of Markets

1.6 Meaning and Definition of Marketing

1.7 Key differences between Market and Marketing

1.8 Scope of Marketing

1.9 Evolution of Marketing

1.10 Importance of Marketing

1.11 Marketing Mix

1.12 Marketing and Economic Development

1.13 Role of Marketing in Indian Economy

1.14 Summary

1.15 Glossary

1.1 INTRODUCTION

Marketing is everywhere and it affects our day- to-day life in every possible manner. Each day is filled with consuming products made available by marketers. Formally or informally people and organisations are engage in a vast number of activities that could be called as marketing. The two most important activities undertaken by the business is production or procurement of products and its distribution to the end user. The procurement of raw materials and its conversion into a finished product is an easy job. However, the disbursement of the product is a strenuous one, because creating a place for a product in the market is a bit difficult task, as the market is already flooded with lacs and lacs of products, where no one knows about your product and in this way the marketing comes into the picture. Good marketing is no accident, but a result of careful planning and execution. It is both an art and science. Marketing begins with the fundamental idea that most human behaviour is a purposeful quest for need satisfaction. Marketing starts with customers and ends with customers. Marketing is used to identify the customer, satisfy the customer, and keep the customer. With the customer as the focus of its activities, it can be concluded that marketing management is one of the major components of business management. The term marketing concept holds that achieving organisational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions. It proposes that in order to satisfy its organizational objectives, an organisation should anticipate the needs and wants of consumers and satisfy these more effectively than competitors. The adoption of marketing strategies requires businesses to shift their focus from production to the perceived needs and wants of their customers as the means of staying profitable. Marketing is responsible for satisfying customers, which in turn, increases our standard of living and quality of life. Creation of superior customer value and delivering high levels of customer satisfaction are at the heart of present day marketing.

Marketing is a product or service selling related overall activities. It generates the strategy that underlies sales techniques, business communication, and business developments. It is an integrated process through which companies build strong customer relationships and create value for their customers and for themselves. Marketing can be defined as 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.

1.2 OBJECTIVES

After studying this lesson, you will be able to:

- Define marketing and the related concepts
- Discuss the evolution and scope of marketing
- Acquaint yourself with different market classifications
- State the importance of marketing to various stakeholders
- Distinguish between market and marketing
- Understand the concept and role of marketing mix
- Realise how marketing can help building an economy

1.3 MEANING AND DEFINITION OF MARKET

'Market', the term originates from Latin word 'mercatus' meaning "trade or marketplace," which is derived from 'mercari' meaning "to trade". 'Mercari' is derived from merc- meaning "merchandise". In simple terms, Market refers to a particular place where goods are purchased and sold.

The term market is defined as a place where the parties meet and exchange their goods, services and information for consideration. The purchase and sale of commodities between parties are known as the transaction. The two parties engaged in an exchange are buyer and seller. Market refers to a place where buyer and sellers can come in contact with each other either directly or indirectly, so as to trade goods and services for value. The transaction can proceed, either directly or through intermediaries like agents or institutions. The numerous buyers and sellers in a market play a significant role in fixing prices of goods and services with the help of demand and supply factors. The buyers decide the demand, whereas sellers determine the supply. It is a set up where trade is easily concluded, and resources are allocated, among different members of the society.

Market is a system by which buyers and sellers come in contact with each other, bargain for the price of a product, settle the price and transact their business- buy or sell a product. Physical contact between the buyers and sellers is not necessary. Markets at present, are not confined to a physical location only, rather they are extended virtually also i.e. media market, internet market (e-commerce) are a good example of that. Market are bifurcated as local, national or global, that can be for a short period or long period. It can also be divided as a wholesale market, retail market, financial market and so on.

Definitions of Market

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

2. According to Cournot, "Economists understand by the 'Market' not any particular market place in which things are bought and sold but the whole of any region in which buyers and sellers are in such free intercourse with one another that the prices of the same goods tend to be at equality."

3. According to Jevons, "Originally a market was a public place in a town where provision and other objects were exposed for sale, but the word has been generalized so as to mean anybody or persons, who are in intimate business relation and carry on extensive transaction in any commodity."

4. As Chapman has said, "The term market refers not necessarily to a place but always to commodity or commodities and the buyers and sellers of the same who are in direct competition with each other."

5. According to Prof. Behham, "We must therefore, define a market as any area over which buyers and sellers are in such close touch with one another either directly or through dealers that the prices obtainable in one part of the market affect the prices in other parts."

1.4 IMPORTANCE OF MARKET

Market is an important social institution. Its importance can be understood in the following ways:

1. Reciprocal benefits:

The buyers can get their goods for the satisfaction of their wants and the sellers also get their market for their merchandising operations.

2. Incentive to producers:

The goods are produced for marketing i.e. selling to the consumers. In absence of any market, the goods cannot be sold. The existence of a market provides incentive to the manufacturers to produce the goods.

3. Generation of employment:

The activities of repeated buying and selling of goods and services in a market call for the services to be ren-dered by different people. This way, a market creates opportunities of employment to people in various capacities like dealers and agents, etc.

4. Index of economic situation:

The economic condition of a country can be gauged by the presence of a market. A country possessing an interna-tional or global market for its products and/or services is considered as an economically advanced one in the world of business. Similarly, a firm having excellent 'market standing' is seen with awe and respect by the competitors.

5. Supply vs. demand adjustments:

The existence of a market creates demand for goods and services. Certain raw materials like cotton, jute, etc. have seasonal supplies but their demands are regular and continuous. An organised market for than ensures adjustments between the demand and supplies and stabilisation of prices over a long period.

1.5 CLASSIFICATION OF MARKETS

Traditional Classifications are made on the basis of:

- Geographical Area - Local, Regional, National, and International Markets
- Position of Sellers - Primary, Secondary, Terminal
- Time - Very Short Period, Short Period, Long Period Markets

- Volume of Business Transactions - Wholesalers, Retailers
- Nature of Transactions - Spot Market, Future Market
- Goods Transacted - Commodity Market, Capital / Stock Markets
- Regulation - Regulated, Non-Regulated Markets
- Competition - Perfect, Imperfect, Monopoly, Oligopoly Markets.
- Demand and Supply - Buyers market, Sellers market

Modern Classifications are:

- Consumer markets - B2C, C2C markets
- Business Markets - B2B Markets
- Global Markets
- Government Markets - B2G markets
- Non Profit Markets

Classification of Market- Traditional

Market can be classified on different basis. There are different types of markets on the basis of geographical area, time, business volume, nature of products, consumption, competition, seller's situation, nature of transaction etc.

1. Classification of Market on the basis of Geographical Area

Market can be classified in local, regional, national and international level on the basis of geographical area:

i. Local Market

The market limited to a certain place of a country is called local market. This type of market locates in certain place of city or any area and supplies needs and wants of the local people. Perishable consumer products such as milk, vegetables, fruits, etc are sold and bought in local markets.

ii. Regional Market

The market which is not limited to a certain place but expanded in regional level is called regional market. Mostly, food grains such as wheat, paddy, maize, millet, sugar, oil etc are bought and sold in such regional market.

iii. National Market

If buying and selling of some products is done in the whole nation, this is called national market. The products such as clothes, steel, cement, iron, tea, coffee, soap, cigarette, etc are bought and sold nationwide.

iv. International or Global Market

Market cannot be limited to any geographical border of any country. If the goods produced in a country are sold in different countries, this is called international market. today, not any country of the world is self-dependent. All the countries are exporting the goods produced in other countries. The market of some goods such as gold, silver, tea, clothes, machines and machinery, medicines etc. has spread the world over.

2. Classification of Market on the basis of Time

On the basis of time, market can be divided in very short-term, short-term, long term and very long-term market.

i. Very Short-term Market

The market where shortly perishable goods are sold is called very short-term market. The market of milk, fish, meat, fruits and other perishable goods is called very short-term market. The price of short goods is determined according to the pressure of demand. When the demand for such goods is high, price rises and when demand declines, the price falls down. If the supply is low and the demand is high, the price rises higher. In such market supply cannot be increased.

ii. Short-term Market

In the short term market, supply of products can be increased using the maximum capacity of installed machines of the firm. The goods cannot be produced according to the demand for adjustment of supply by expanding or changing the existing machines and equipment.

In short-term market, price of the goods is determined on the basis of interaction between demand and supply. But, as the supply cannot meet the demand, demand affects price determination in short-term market.

iii. Long-term Market

In long-term market, adequate time can be found for supply of products according to demand. New machines and equipment can be installed for additional production to meet demand. As supply can be decreased or increased according to demand situation, price is determined by interaction between demand and supply in long-term market. Market of durable products is long-term market.

iv. Very Long-term Market or Secular Market

In secular market, produces can get adequate time to use new technology in production process and bring new changes in products. They become able to produce and supply goods according to changed needs, interest, fashion etc. of customers. Market research becomes helpful in doing so.

3. Classification of Market on the basis of Volume of Business

On the basis of volume of business, type and size, market can be classified in wholesale market and retail market.

i. Wholesale Market

If a large quantity of products are purchased from producers and sold to different retailers, this is called wholesale market. In wholesale market, the products are not sold directly to ultimate consumers. But, if consumers want to buy in large quantity, they can buy from wholesaler.

ii Retail Market

The market that sells small quantity of products directly to ultimate consumers is called retail market.

4. Classification of Market on the basis of Nature of Product

On the basis of nature of product, market can be classified in two types as follows:

i. Commodity Market

The market where consumer and industrial commodities like clothes, rice, machines, equipment, tea, soap, fruits, vegetables etc. are bought or sold is called commodity market. In some market only certain special commodities are bought and sold and in some other different consumer commodities are bought and sold.

ii. Financial Market

The market and financial instruments is called financial market. In such market, money, shares, debentures, treasury bills, commercial papers, security exchanges, loan giving or taking etc are dealt. Dealing of short term fund is called money market and dealing of long-term fund is called capital market.

5. Classification of Market on the basis of Consumption

On the basis of consumption of products, market can be divided as follows:

i. Consumer Market

The market of products, which the people buy for consumption is called consumer market. The customers buy consumer goods, luxury goods etc. for daily consumption or meeting their daily needs from such market.

ii. Industrial Market

Generally, raw materials, machines and equipment, machine parts are dealt in industrial market. Domestic consumer goods are produced using them.

6. Classification of Market on the basis of Competition

On the basis of competition, market can be classified into monopoly market, perfect market and imperfect market.

i. Monopoly Market

If there is full control of producer over market, then such market is called monopoly market. In such market, the producer determines price of his products in his own will. In such market, only one producer or seller controls market. In practice, the producer or seller can supply products or achieve monopoly on price only in small or limited area, but in wide area it becomes impossible.

ii. Perfect Market

The market where the number of buyers and sellers is large, homogeneous of products are bought and sold, same price of similar type products is determined from free interaction between demand and supply is called perfect market. Perfect competition takes between consumers and producers or buyers and sellers, but in practice perfect market can be rarely found.

iii. Imperfect Market

The market where there is no perfect competition between buyers and seller is called imperfect market. In this type of market, customers are affected by product discrimination. Post-sale services, packaging, price, nearness of market, credit facility, discount etc make product discrimination. Customers can buy same types of products from different sellers according to their desires and comfort. In practice, mostly products are bought and sold in imperfect market.

7. Classification of Market on the basis of Seller's Position

On the basis of seller's position, market can be divided into primary market, secondary market and terminal market.

i. Primary Market

In primary market, primary goods are bought and sold. Producers sell primary goods such as agricultural products, food grains, livestock, raw materials etc. to wholesalers or commission agents in such market.

ii. Secondary Market

Primary goods are bought from producers and sold to retailers in secondary market. Generally, wholesalers buy secondary products and sell them to retailers.

iii. Terminal Market

In this type of market, retailers sell products to final consumers.

8. Classification of Market on the basis of Nature of Transaction

On the basis of nature of transaction, market can be classified into spot market and future market.

i. Spot Market

The market where delivery or handling over of the good is made immediately after sales is called spot market. In such market, price of product is paid immediately at the spot and ownership of the product is transferred to buyer at the same time.

ii. Future Market

In this type of market contract is signed for sale of products in future, but no delivery of product is made. In this market, buyer and seller sign a contract for buying and selling products at certain rate of price or on condition to determine the price in future.

9. Classification of Market on the basis of Control

On the basis of control, law, rules and regulations, market can be classified into regulated market and Non-regulated market.

i. Regulated Market

If trade association, municipality or government controls buying, selling, price of products etc. it is called regulated market. Such market must follow the established rules, regulations and legal process and provisions. Otherwise, the businessmen are fined or punished.

ii. Non-regulated Market

If a market is freely functioning and is not under control of any government body or any organization, it is called non-regulated market. In such market, price is determined through interaction between demand and supply of products and buying and selling takes place. This market has not to follow any rules, regulations and legal provisions.

10. Classification of Market on the basis of Demand and Supply:

Based on demand and supply conditions or hold of buyers and sellers, there can be seller's and buyer's markets. A seller's market is one where sellers are in driver's seat and the buyers are at the receiving end.

In other words, it is a situation where demand for goods exceeds supply. On the other hand, buyer's market is one where buyers are in commanding position. That is, supply is exceeding the demand for the goods.

Classification of Markets- Modern:

The modern classification is based on the consumer orientation because in modern economic system consumer is the king-pin and a decisive driving force. Accordingly, the marketing experts have identified markets based on such broad-based classification namely, consumer, business, global and, non--profit and government markets.

1. Consumer Markets:

These markets specialize in selling mass consumer durable and non-durable products and services devote good deal of time in an attempt to establish a superior brand image. These items may be shoes, apparels, clothing, household items like television, sound system, washing machines, fans, on one hand and tea, coffee, tea powder, coffee powder, biscuits, bread spreads, dental cream, personal care beauty-aids, rice, wheat, oat, gourmet mixes and so on the other.

Much of the brand's strength rests on developing a superior product and packaging, ensuring its availability and backing with engaging communications and reliable service. This task of image building is really ticklish as consumer market goes on changing its colour over the period of time.

2. Business Markets:

This is a market of business buyers and sellers. Business buyers buy goods with a view to make or resell a product to others at a profit. Therefore, business marketers are to effectively demonstrate as to how their products will help the buyers in getting higher revenue or lower costs. Therefore, companies selling business goods and services often face well-trained and well informed professional buyers who are skills in evaluating competitive offerings. These markets deal in raw-materials, fabricated-parts, appliances, equipments, supplies and services that become the part of end products of the business consumers. Advertising plays its due role. However, personal selling has the upper hand. Product price, quality and business suppliers' reputation have significant role.

3. Global Markets:

Global markets consist of buyers and sellers all over the world. The companies selling goods and services in the global market place play global gain involving decisions and challenges.

-To be successful, they must decide as to which country to enter?

-How to enter each country?

-That is, as an exporter, license partner of a joint venture, contract manufacturer or only manufacturer, how to adapt their product and source features to each country?

-How to price their products in different countries?

-And how to adapt their communications to differing cultures of various countries?

These decisions are to be made in the face of differing requirements for buying, negotiating, owning, and disposing of property under different culture, language, and legal and political systems; and the foreign currency that is subject to fluctuations having its own implications. It is needless to say that these goods and services both consumer and industrial or business.

4. Non-profit and Government Markets:

Companies do sell their products and services to non-profit organizations like temples, churches, universities, charitable institutions and to governmental departments at local, state and central level. The companies that market their products and services have to consider the price aspect because these buyers have limited purchasing power. Again, lower prices badly affect the features and quality of products and services if an attempt is made to design such an offering. Hence, these buyers buy through bidding where lowest bid is favoured as there is no alternative. They also need longer period of credit.

1.6 MEANING AND DEFINITION OF MARKETING

Marketing is concerned with the people and the activities involved in the flow of goods and services from the producer to the consumer. Marketing is all about analysing, identifying and satisfying consumer needs. It refers to a set of activities in which the company is engaged in researching, ascertaining, creating, communicating and supplying a product that creates a utility to the customers. The objective of marketing is to build and maintain a strong relationship with the customers so that the whole organisation will reap benefits. It creates a link between company and customer. Marketing management is the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value. In short Marketing is "*Meeting needs profitably*".

Marketing activities are divided into four elements, i.e. product, price, place and promotion. It is a societal activity through which individual and communities get what they demand, by creating, offering and exchanging, provisions and livestock of value.

Marketing has been defined by different authors in different ways which can be broadly classified into three-

Product Oriented Definition

The emphasis is given on products. In 1985 AMA redefined marketing as "Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals."

Customer- Oriented Definition

Here the emphasis is on customers and their satisfaction. In the words of Philip Kotler "Marketing is the human activity directed at satisfying needs and wants through an exchange process."

Value Oriented Definition (Modern Definition)

In 2004 the American Marketing Association defined "Marketing is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders."

A few definitions of notable authorities are given below:

"Marketing includes all activities involved in the creation of place, time and possession utilities. Place utility is created when goods and services are available at the places they are needed; time utility, when they are needed; and possession utility, when they are transferred to those who need them." — Converse, Hugey and Mitchell

“Marketing is the process of discovering and translating consumer needs and wants into product and service specifications, creating demand for these products and services and then in turn expanding this demand.” — Hansen

“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) Board of Directors

“Marketing includes those business activities which are involved in the flow of goods and services from production to consumption.” —Converse

“Marketing is the economic process by which goods and services are exchanged and their values determined in terms of money prices.” —Buddy and Reizan

“Marketing is the business process by which products are matched with market and through which transfers of ownership are effected.” —Cundiff

“Marketing is a total system of business activities designed to plan, price, promote and distribute want-satisfying goods and services to present and potential customers.” —W.J. Stanton

“Marketing is the creative management function which promotes trade and employment by assessing consumer needs and initiating research and development to meet them. It co-ordinates the resources of production and distribution of goods and services, and determines and directs the nature and scale of the total efforts required to sale maximum production to the ultimate user.” —UK Institute of Marketing

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

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

“It (marketing) is the whole business seen from the point of view of its final result, that is, from the customer’s point of view.” —Peter F. Drucker

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

1. Marketing is a societal process.

2. Marketing deals with customer needs, wants, products, pricing, distribution, and promotion.

3. Marketing focuses on delivering value and satisfaction to customers through products, services, ideas, etc.

4. Marketing facilitates satisfying exchange relationships.

5. Marketing takes place in a dynamic environment.

6. Marketing is used in both for-profit and not-for-profit organisations.

7. Marketing is extremely important to businesses and the economy of a country.

1.7 KEY DIFFERENCES BETWEEN MARKET AND MARKETING

The term market is a noun which refers to a place, while the verbal form of market is the marketing that represents an action. The important points of differences between market and marketing are indicated below:

1. The market is defined as a physical or virtual set up where the buyers and seller need to proceed exchange of goods and services. Marketing is a set of activities that identifies, creates, communicates and supplies consumer needs.

2. A market is a place, i.e. physical or non-physical. On the other hand, marketing is an act (abstract) of creating a utility of the product.

3. The market is a process which sets the price of the product with demand and supply forces. Conversely, Marketing is a process which analyses, creates, informs and delivers value to the customers.

4. The concept of marketing is wider than the concept of a market.

5. The market varies by product, place and other factors. As opposed to marketing, the philosophy can be consistently applied, irrespective of product, place and any other factor.

6. Market facilitates trade between the parties. Unlike marketing, that creates a link between the customer and company, to provide the right product at a right time at right place.

Comparison Chart

BASIS FOR COMPARISON	MARKET	MARKETING
Meaning	Market is defined as an arrangement whereby buyers and sellers meet each other to conclude the transaction.	Marketing is a function that identifies human and social needs and satisfies them.
What is it?	A set up i.e. a place.	A set of processes, i.e. a means of creating utility.
Process	Market is a process, that fixes the price of commodities through demand and supply forces.	Marketing is a process that analyses, creates, informs and delivers value to the customer.
Concept	Market is a narrow concept.	Marketing is a wide concept that includes diverse activities.
Consistency	Market varies by products, place, factors and so on.	Marketing philosophy remains same, no matter where it is applied.
Facilitates	Trade between parties.	Link between customer and company.

1.8 SCOPE OF MARKETING

The scope of marketing can be understood by discussing what is marketing, how it works, what is marketed and who does the marketing. Peter Drucker, a leading management theorist, puts it this way*, there will always, one can assume, be need for some selling. But the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or services fits him and sells itself. Ideally marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available.*

What is marketed?

Marketing people market 10 types of entities; let's take a quick look at these;

GOODS physical goods constitute the bulk of most countries production and marketing efforts.

SERVICES services include the work of airlines, hotels, cars rental firms, barber and beauticians, maintenance and repair people, and accountants, bankers, lawyers ,engineers doctors, software programmers, and management consultants.

EVENTS marketers promote time-based events, such as major trade shows, artistic performances, and company anniversaries. Global sporting events such as the Olympics and the World cup are promoted aggressively to both companies and fans.

EXPERIENCES by orchestrating several services and goods, a firm can create, stage and market experiences. Veega land, Black Thunder etc represents this kind of experiential marketing.

PERSONS celebrity marketing is a major business, Artists, Musicians, CEOs, physicians, high- profile lawyers and financiers, and other professionals all get help from celebrity marketers.

PLACES cities, states, regions, and whole nations compete actively to attract tourists, factories, company headquarters, and new residents. Place marketers include economic development specialists, real estate agents, commercial banks, local business associations, and advertising and public relations agencies.

PROPERTIES properties are intangible rights of ownership of either real property (real estate) or financial property (stocks and bonds). Properties are bought and sold, and these exchanges require marketing.

ORGANIZATIONS organizations actively work to build a strong, favorable, and unique image in the minds of their target publics.

INFORMATION information is essentially what books, schools, and universities produce, market, and distribute at a price to parents, students, and communities.

IDEAS Every market offering includes a basic idea. Social marketers are busy promoting such ideas as "Friends Don't Let Friends Drive Drunk" and "A Mind Is a Terrible Thing to Waste."

Who markets?

MARKETERS AND PROSPECTS

A ***marketer*** is someone who seeks a response- attention, a purchase, a vote, a donation – from another party, called the ***prospect***. If two parties are seeking to sell something to each other, we call them both marketers.

1.9 EVOLUTION OF MARKETING

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

As noted earlier, exchange is the origin of marketing activity. When people need to exchange goods, they naturally begin a marketing effort. Wroe Alderson, a leading marketing theorist has pointed out, 'It seems altogether reasonable to describe the development of exchange as a great invention which helped to start primitive man on the road to civilization'. Production is not meaningful until a system of marketing has been established. An adage goes as: Nothing happens until somebody sells something.

Although marketing has always been a part of business, its importance has varied greatly over the years. The following table identifies five eras in the history of marketing: the production era, the product era, the sales era, the marketing era and the relationship marketing era.

The Evolution of Marketing

Era	Prevailing attitude and approach
Production	• Consumers favor products that are available and highly affordable • Improve production and distribution • 'Availability and affordability is what the customerwants'
Product	• Consumers favor products that offer the most quality, performance and innovative features • 'A good product will sell itself'
Sales	• Consumers will buy products only if the company promotes/ sells these products • 'Creative advertising and selling will overcome consumers' resistance and convince them to buy'
Marketing	• Focuses on needs/ wants of target markets and delivering satisfaction better than competitors • 'The consumer is king! Find a need and fill it'
Relationship marketing	• Focuses on needs/ wants of target markets and delivering superior value • 'Long-term relationships with customers and other partners lead to success'

1. Production era (Mass production)

In the production era, the production orientation dominated business philosophy. Indeed business success was often defined solely in terms of production victories. The focus was on production and distribution efficiency. The drive to achieve economies of scale was dominant. The goal was to make the product affordable and available to the buyers.

2. Product era (Quality product)

In the product era, the goal was to build a better mouse trap and it was assumed that buyers will flock the seller who does it. However, a better mousetrap is no guarantee of success and marketing history is full of miserable failures despite better mousetrap designs. Inventing the greatest new product is not enough. That product must also solve a perceived marketplace need. Otherwise, even the best-engineered and highest quality product will fail.

3. Sales era (Pressure selling)

In the sales era, firms attempted to match their output to the potential number of customers who would want it. Firms assumed that customers will resist purchasing goods and services not deemed essential and that the task of selling and advertising is to convince them to buy. But selling is only one component of marketing.

4. Marketing era (Satisfied customer)

In this era, the company focus shifted from products and sales to customers' needs. The marketing concept, a crucial change in management philosophy, can be explained best by the shift from a seller's market – one with a shortage of goods and services – to a buyer's market – one with an abundance of goods and services. The advent of a strong buyer's market created the need for a customer orientation. Companies had to market goods and services, not just produce them. This realization has been identified as the emergence of the marketing concept. The keyword is customer orientation. All facets of the organization must contribute first to assessing and then to satisfying customer needs and wants.

5. Relationship marketing era (Relationships with customers)

The relationship marketing era is a more recent one. Organization's carried the marketing era's customer orientation one step further by focusing on establishing and maintaining relationships with both customers and suppliers. This effort represented a major shift from the traditional concept of marketing as a simple exchange between buyer and seller. Relationship marketing, by contrast, involves long-term, value-added relationships developed over time with customers and suppliers.

1.10 IMPORTANCE OF MARKETING

Marketing is important not only for organizations but for individuals, society and economy as a whole. Financial success often depends on marketing ability. Finance, operations, and other business functions will not really matter if there isn't sufficient demand for products and services so the company can make a profit. There must be top line for there to be a bottom line. Many companies have now created a Chief Marketing Officer, or CMO, position to put marketing on a equal footing with other C-level executives, such as the Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

Also marketing steps its foot in every walk of life. Some of its importance can be discussed as follows.

IMPORTANCE OF MARKETING TO COMPANIES

Sound marketing is critical to the success of the organisation in the following ways:

i) Helps in income generation.

ii) Helps in planning and decision-making.

iii) Helps in distribution.

iv) Helps in exchanging information.

v) Helps to adapt to changing environment.

vi) Expands global presence.

vii) Helps to earn goodwill.

IMPORTANCE OF MARKETING TO CONSUMERS

i) Provides quality products.

ii) Provides variety of products.

iii) Improves knowledge of consumers.

iv) Helps in selection.

v) Consumer satisfaction.

IMPORTANCE OF MARKETING TO SOCIETY

i) Marketing bridges the gap between firm and society.

ii) Provides employment.

iii) Raises standard of living.

iv) Creates utilities.

v) Reduces costs.

vi) Solves social problems.

vii) Makes life easier.

viii) Enriches society.

IMPORTANCE OF MARKETING TO ECONOMY

i) It stimulates research and innovation

ii) Saves the economy from depression.

iii) Increase in national income.

iv) Economic growth.

v) Ploughing back of resources

1.11 MARKETING MIX

Marketing mix is a major concept in modern marketing and involves practically everything that a marketing company can use to influence consumer perceptions favourably towards its products or services so that consumer and organisational objectives are attained. Marketing mix is a model of crafting and implementing marketing strategy. Prof. Neil H. Borden first used the term “marketing mix” in 1949 to include in the marketing process factors such as distribution, advertising, personal selling, and pricing. Borden claims that the phrase came to him while reading James Culliton’s description of the activities of a business executive: (An executive) “a mixer of ingredients, who sometimes follows a recipe as he goes along, sometimes adapts a recipe to the ingredients immediately available, and sometimes experiments with or invents ingredients no one else has tried.”

There are virtually dozens of marketing mix tools. However, Prof. E. Jerome McCarthy classified the "Marketing Mix Variables" in terms of 4 Ps: Product, Price, Place (distribution) and Promotion. These 4 Ps represent the tactical controllable factors and vary in case of different products and target markets. This classification is believed to be quite popular in marketing circles across the world.

In the words of Philip Kotler, "Marketing Mix is the set of controllable variables and their levels that the firm uses to influence the target market." Marketing mix is a combination of various elements, namely, Product, Price, Place (replaced by Physical Distribution) and Promotion.

Three other marketing mix classifications by: (1) Albert Frey, (2) William Lazer and Eugene J. Kelly, and (3) Mary Bitner and Bernard Booms are worth noting.

Frey's two-factor classification includes,

(1) The Offering: product, packaging, brand, price, and service.

(2) Methods and Tools include distribution channels, personal selling, advertising, sales promotion, and publicity.

The second classification proposed by Lazer and Kelly includes three factors:

(1) Goods and Services Mix,

(2) Distribution Mix, and

(3) Communications Mix,

Bitner and Boom's classification includes 7 Ps.

However, the 4P's remain the most popular classification in terms of marketing mix.

A more recent marketing mix classification proposed by Robert Lauterborn focuses on customer's point of view and includes: (1) Customer Benefit, (2) Customer Cost, (3) Customer Convenience, and (4) Communication. Lauterborn's view is that 4Ps correspond to customer's 4Cs.

McCarthy's Classification (4Ps)	Lauterborn's Classification (4Cs)
Product.	Customer Benefit.
Promotion.	Communication.
Place (distribution).	Customer Convenience.
Price.	Customer Cost.

Marketing management strives to develop the most appropriate combination of marketing mix variables for each product to match the needs of the target market. Marketing mix elements are altered to accommodate the changing market conditions and changing marketing strategies adopted by competing companies. The various important elements of marketing mix are briefly discussed as follows;

4Ps and 4Cs of Marketing

PRODUCT (Customer Benefit):

In the marketing mix, the product or service is the most important element. There is an old saying in marketing: "Without a good product, you have nothing." It is the thing possessing utility. It is the bundle of value the marketer offers to potential customers. Today manufacturers are realizing that customer expects more than just the basic product. Therefore the product must satisfy the consumers needs. The manufacturer first understands the consumer needs and then decides the type, shape, design ,brand, package etc. of the goods to be produced. The product is a marketer's primary vehicle for delivering customer satisfaction.

Product is directly related to satisfying the customer needs and wants in the target market. Customers acquire products for the singular reason that they are perceived as the means to satisfying their needs and wants. According to Philip Kotler, "A products anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a need or want". In effect, according to this definition products include physical products, services, persons, places, organisations and ideas. Various product attributes such as quality, variety, design, brand, packaging, services, and warranties, etc., can be manipulated depending on what the target market wants. This may ultimately affect the product quality that can be kept high or low. Marketers also develop other product aspects such as service, packaging, labelling, instruction manual, warranties, and after sales service. Customers always look for new and improved things, which is why marketers should improve existing products, develop new ones, and discontinue old ones that are no longer needed or wanted by customers.

Example: Shampoo, Soap, hair oil, Cream, detergent, juices, etc. are products from HUL; Savings account, current account, Fixed deposits, credit cards, etc. are products from banking companies; Consulting services, India as a tourism destination, Avatar (the movie) are also products.

PRICE (Customer Cost):

Price is the amount of money asked in exchange for product. It must be reasonable so as to enable the consumer to pay for the product. While fixing the price of a product, the management considers certain factors such as cost, ability of the consumers, competition, discount, allowances, margin of profit etc.

Pricing decisions are almost always made in consultation with marketing management. Price is the only marketing mix variable that can be altered quickly. Price variable such as dealer price, retail price, discounts, allowances, credit terms, etc., directly influence the development of marketing strategy, as price is a major factor that influences the assessment of value obtained by customers. Price can be kept as high or low, or at any level in between these two extremes. Too high would be the point at which any meaningful sales are not possible because the target customers won't accept the product, and too low would be the point at which company would incur losses instead of profits. Price is said to be an important competitive tool, and intense price competition between rival companies often culminates in a price war and the contestants generally end up gaining nothing. The customers, however, enjoy the benefit of low prices till such time that good sense prevails between contestants and prices are brought back to normal. In case of certain products, price becomes the indicator of product quality and helps impart an image to the product.

Example: Coke charging a fixed amount of money on their soft drinks, salons charging a fee for the services rendered, teachers charging a fee for the lessons given, etc.

PLACE OR PHYSICAL DISTRIBUTION (Customer Convenience):

It is the delivery of products at the right time and at the right place. It is the combination of decision regarding channel of distribution (wholesalers, retailers etc.), transportation, warehousing and inventory control.

Decisions with respect to distribution channel focus on making the product available in adequate quantities at places where customers are normally expected to shop for them to satisfy their needs. The aim of the management is also to keep the physical distribution costs (that would include inventory, transportation, and storage) as low as possible. Depending on the nature of the product, marketing management decides to put into place an exclusive, selective, or intensive network of distribution, while selecting the appropriate dealers or wholesalers. The right choice of these factors can give a company some competitive advantage.

Example: A low-priced product consumed regularly on an ongoing basis should be available at as many outlets as possible (intensive distribution) otherwise consumers would buy any other substitutes that are more conveniently available. On the other hand, for purchasing products such as CTV, washing machine, computer, or other similar durable items, consumers don't mind visiting some selected dealers (selective distribution), and for high-end, very expensive items such as Mercedes Benz cars, expensive and exclusive jewellery, status watches and accessories, etc., customers are quite willing to visit exclusive dealerships, even if there are just one or two in the city (exclusive distribution).

PROMOTION (Marketing Communications):

It consists of all activities aimed at inducing and motivating customers to buy the product. The selection of alternatives determine the success of marketing efforts. Some firms use advertising, some others personal selling or sales promotion. Thus promotion includes advertising public relations, personal selling and sales promotion.

Promotion is a key element of marketing programme and is concerned with effectively and efficiently communicating the decisions of marketing strategy, to favourably influence target customers' perceptions to facilitate exchange between the marketer and the customer that may satisfy the objectives of both customers and the company. In reality, everything that a company does has the potential to communicate something to the target customers. For instance, the price of a product has the potential to communicate to target customers a certain image of the product. Example: A low-priced designer dress is unlikely to attract high-profit, well-heeled target customers, while less affluent buyers may find the designs too avant garde for comfort. The major elements of promotion mix include advertising, personal selling, sales promotion, direct marketing, and publicity. A company's promotion efforts are the only controllable means to create awareness among publics about itself, the products and services it offers, their features, and influence their attitudes favourably. It is critically important for marketing managers to create a strong marketing mix, because any weak element not complementing others can adversely affect the chances of a product's success in the market-place. All the marketing mix elements should complement others to communicate effectively with target market. The best products and high class promotional efforts would not sell it if they products are not available at distribution outlets.

Recently Packaging and People are two more elements of marketing mix that have been emerged. These are discussed as follows.

PACKAGING: Packaging is the art, science and technology of preparing goods for transport, sale and exchange. A well designed pack is invaluable in building brand loyalty with the customer. Packaging must be such that a customer is impressed at the very moment he or she sees the product.

PEOPLE: It consists mainly of the people to whom goods are sold(consumer) and the people through whom goods are sold(sales people, wholesalers, retailers etc.) people include competitors also. This factor will be the reason as well as resources for success in marketing.

Marketing Mix Elements (4Ps)

Product Decisions	Price	Place	Promotion
Brand name	Pricing strategy	Distribution channels	(push, pull, etc.)
Functionality	Suggested retail price	Market coverage	Advertising
Styling	Wholesale price	-Intensive	Promotional budget
Quality	Various discounts	-Selective	PR/publicity
Safety	Seasonal pricing	-Exclusive	Sales promotion
Packaging	Bundling	Inventory	Personal selling
Repairs & support	Price flexibility	Warehousing	
Warranty Accessories and Services	Price discrimination	Order processing	
		Transportation	

1.12 MARKETING AND ECONOMIC DEVELOPMENT

Marketing as a functional discipline of business may be understood as a dynamic process of society through which business enterprise is integrated productively with society's purposes and human values. It is in marketing, as we now understand it, that we satisfy individual and social values, needs and wants – be it through production of goods, supplying of services, fostering innovation, or creating satisfaction. Marketing, as we have come to understand it, has its focus on the customer, that is, on the individual making decisions within a social structure and within a personal and social value system. Marketing is therefore, the process through which economy is integrated into society to serve human needs.

Economic development is generally understood to mean an increase in national production that result in an increase in average per capita gross national product (GNP). An increase in average per capita GNP alone however is not sufficient to denote the implied or expected meaning of economic development. Besides an increase in average per capita GNP, most interpretations of the concept imply a widespread distribution of income as well. Economic development as commonly defined today, according to Kenen (2000) also tends to mean rapid growth improvement achieved "in decades rather than centuries".

Importance of Marketing for the Economic Development of a Country

Marketing has acquired an important place for the economic development of the whole country. It has also become a necessity for attaining the object of social welfare. The importance of marketing may be explained as under:

i) Delivery of standard of living to the society:

A society is a mixture of diverse people with diverse tastes and preferences. Modern marketing always aims for customer satisfaction. So, main liability of marketing is to produce goods and services for the society according to their needs and tastes at reasonable price.

Marketing discovers needs and wants of society, produces the goods and services according to these needs creates demand for these goods and services. They go ahead and promote the goods making people aware about them and creating a demand for the goods, encouraging customers to use them. Thus, it improves the standard of living of the society.

ii) Decrease in distribution cost:

Second important liability of marketing is control the cost of distribution. Through effective marketing the companies can reduce their distribution costs to a great extent. Decrease in cost of distribution directly affects the prices of products because the cost of distribution is an important part of the total price of the product.

iii) Increasing employment opportunities:

Marketing comprises of advertising, sales, distribution, branding and many more activities. So the development of marketing automatically gives rise to a need for people to work in several areas of marketing. Thus the employment opportunities are born. Also successful operation marketing activities requires the services of different enterprises and organisation such as wholesalers, retailers, transportation, storage, finance, insurance and advertising. These services provide employment to a number of people.

iv) Protection against business slump:

Business slump cause unemployment, slackness in the success of business and great loss to economy. Marketing helps in protecting society against all these problems.

v) Increase in national income:

Successful operation of marketing activities creates, maintains and increases the demand for goods and services in society. To meet this increased demand the companies need to increase the level of production in turn raising their income. This increase, in turn, increases the national income. Further effective marketing leads to exports adding to the national income. This is beneficial to the whole society.

vi) **Specialisation in activities of comparative advantage.**

Without market facilities, areas must maintain diversified activities to produce their own food, shelter, tools and other needed goods. In the presence of a market, however, an individual can specialise in one activity and sell the surplus in order to purchase other needed goods. The individual is likely to specialise on the basis of a **comparative advantage** in that activity for which he or she has some special resource or ability. A comparative advantage exists when an individual or region can produce a good, relative to the price of other goods, more cheaply than another individual or region.

vii) Enhanced resource-use efficiency and trade.

Through specialization and trade, a community is better able to utilize its limited resources. Specialization and the resulting efficiency of resource-use is the basis for economic growth and development. As markets and economies develop, surpluses occur more frequently in profitable activities, creating new wealth, while products are moved greater distances than before. Thus, trade is a necessary ingredient for economic growth. Marketing is simply the means by which trade occurs.

viii) **Advances in marketing with economic growth.**

As economic growth proceeds, several changes in marketing take place. With economic development, the activities and tasks of marketing increase. Activities such as storage and processing, packaging and retail distribution become more important. Greater activity moves away from the site of production and towards marketing. This, in turn, creates employment opportunities and further specialization (diversification of the community). Since livestock products typically have positive income elasticities of demand, economic growth can lead directly to new opportunities for production. Thus, the livestock subsector increases in importance. With development, more economic agents may enter trade, helping to improve marketing services and, in some cases, allowing the market to capture **external economies of scale.** This refers to a situation where the presence of many agents allows each one to operate at a lower cost. An example is the case where increased trade in some commodity (e.g. livestock allows for the establishment of large storage facilities (e.g. pre-slaughter holding areas), which lowers per unit storage costs. The physical infrastructure can also be affected in a positive way by large markets, in the form of better roads and communication, offering the potential for external economies of scale

1.13 ROLE OF MARKETING IN INDIAN ECONOMY

Marketing sector in India has made remarkable change in the development progress of the country's economy. Over the years India has undergone different change in their technological development, International Competition among countries, Great growth of global trade, Strategic alliances and International relationship.

The early economic sectors of the country were mainly skill based and capital intensive while the new economic sectors are more information intensive based; this is because of the introduction of marketing concept in all streams. Indian Market is one of the biggest consumer markets globally and it has attracted many large Multi National Companies to enter here into to the market. Those companies in the market who provide value for money are the real winners in the Indian market. Growing competitiveness of the companies mainly depend on the export orientation and internationalization. Indian market is open to overseas investment and it is the market which provides high prospects for the growth in all areas of business.

Foreign direct investment (FDI) has contributed lot to the growth of the Indian economy, these investments are open to all the firms, It can be made through Technical collaborations, Financial collaborations, joint ventures, private placements and preferential allotments. Marketing comprehends all business activities involved in the flow of goods and services from the points of initial production to final consumer.

This concept may refer to industrial, the agricultural or to the extractive sector. Being a system of linkage between producers and consumers, the market process related to rates of saving and rates of output growth are the two fundamental variables in economic development. Inefficient services lead to high marketing margins and high consumer bills.

Prices being high, consumption will tend to be high relative to savings and the quantity demanded decreased, slowing down economic growth. Under an inefficient marketing system the prices received by the producers tend to be lower which negatively affect the amount of output produced.

As economic development precedes, specialization, division of labour and mass production become more distinguishable characteristics in the system, which means that consumers are increasingly separated from producers. This calls for a concomitant development of the marketing system in contrast with more primitive societies where the individuals need less concern with marketing since they have great degree of auto-sufficiency, producers and consumers, if not the same, individuals, live quite often next door to each other. Whatever the complexity of the society, economic activities are always aimed at providing for the satisfaction of the human wants and needs.

Because of the limitation of the resources of production human and natural resources and because of such resources have alternative uses to meet human wants which are unlimited in the aggregate, man. Depending on the society's norms, is always more or less concerned with modernizing his techniques of production and with improving his knowledge and skills (which may even result in increased natural resources) so that goods and services obtained with the scarce resources lead to the highest possible level of satisfaction for the human wants.

Human wants, techniques of production, and resources of production are thus basic elements in an economic system. The role of marketing is to link the consumption activities of the system as expressions of the human wants to production activities which depend on the skills and available resources.

The system is consumer oriented in the sense that the production activities depend on the human wants which are to be met at the right time, the right place by the right product in the right form and at the lowest possible cost. The fact of the insatiability of the human wants in the aggregate, the fact that these wants are frequently shifting, the fact that goods and services are consumed after their production and the fact that most of the resources used in the production process are unrenewable, are forces which keep the economic system in a continuous changing stage, a characteristic, of course, which features marketing also (Everton R. de Lins).

In Indian economy, marketing changing aspects are clearly visible in the sectors like automobiles, paints, cement, software, pharmaceuticals, textiles, tea exports, watch and others. In automobile sector, the Maruthi Udyog joint venture with Suzuki Motor Corporation of japan achieved a milestone in the export of completely built units from the early 2000s. The entry of the global car manufactures like Suzuki and Hyundai, Jaguar and their world class facilities have nearly revolutionized this segment of India marketing sector. The main variables affecting exports in this sector are assembly costs, technology inputs, availability of local parts, shipping and infrastructural facilities and marketing and distribution networks.

The pharmaceutical sector has improved their level of marketing India, some of the leading international firms like Ranbaxy, Cipla and Dr. reddy's has contributed lot to Indian economy. The largest maker of the world, Renfro Corporation after 2002 formed a company in India called Renfro India. India is said to be the 12th largest economy and 4th largest by purchasing power parity. Apart from the foreign companies, there are some Indian companies like Medical Devices, Hindustan Syringes, Metro Tyres, Gujarat Ambuja Cements, Kamla Dials or Asian paints who have earned promising profits with their investment policies in the different sectors of India Marketing.

The Most important development in the India Software sector with the massive contribution made by the software companies like Wipro, Infosys Technologies, Tata Consultancy Services and others to the economic development of the country by means of reducing the unemployment, Increasing their investments, Improving the standard of living. Indian Marketing has invited many Foreign and local investor to invest their money in high to develop marketing aspects of the company growth. In India there are many Fortune 500 software corporations effectively providing efficient software solution all over the world.

These software solutions have helped their companies to more attractive to the shareholders and customers. Companies like Citibank, General Electric, AT&T, Morgan Stanley, Reebok, General Motors, Fujitsu, Boeing, Pepsi, Coca-Cola, Swissair and British Airways continue to remain ahead of their rivals in the Indian market. Compounded Annual Growth over last five years in India is about 53. 84%, This is because of the number of Fortune 1000 companies outsourced their software solution to India.

This made India a growing source in the worldwide software development. As software companies are contributing lot to Indian economy growth, Today the list of software multinationals companies operating from India are the global software giant in the world such as Microsoft, Novell, Oracle, Fujitsu, Motorola, IBM, SAP,EDS, Computer vision, Hewlett Packard.

Marketing as a component part of the overall economic system is capable of introducing changes in other segment of the economy, though it also reacts to changes in its environmental conditions. The performance of the marketing system depends on the conduct of the business firms which operate in it. Number of firms, size of the market, conditions of entry, formal and informal rules influences the conduct of the firms with regard to modernization of technological process, improvement of managerial capabilities and their general policies.

Because technological and price efficiency frequently require antagonistic conditions, the concept of effective competition has been developed to define a socially desirable state of affairs in the marketing system, a reflection of the society's expectancy regarding the market's conduct and performance. Increased cost efficiency of the market sector virtually means compression of the market charges assuming that the quality of the marketing services performed remains the same. This would motivate expansion of the output in the production sector through higher prices and liberation of consumer's income for other purpose through lower prices.

In practice, however, we observe that marketing charges are very sticky, even in economies experiencing high rates of growth. Such stickiness in part is due to increased sophistication in the consumer's wants requiring successively better quality marketing services and an increased degree of processing of the raw materials used to produce the final commodities. It is difficult to evaluate changes in cost efficiency because the quality of output changes over time reacting to the consumer's wants. Marketing in developed countries has been characterised by a rapid change towards lower cost or better quality services.

The earnings of labour per unit of time have increased, the total labour force decreased, and expense for machines, equipment, and facilities increased. Historical and comparative analysis gives a clear idea that marketing plays a very important role in the growth of country's economy and individual's standard of living.

1.14 SUMMARY

Marketing is of vital importance to any business. It is the key process of researching, promoting and selling products or services to your target market. The bottom line of any business is profit. Profit is largely the result of successful sales. Marketing is an important business process where you inform, attract and convince people that your products or services are of value to them. Without Marketing, many businesses would fail to exist. You could have the most amazing product or service, but if no one knows it exists or understands the value, you won't make a single sale. It's important that you use marketing to promote your business, brand and offerings. Without it, how will you make those sales.

Marketing management strives to develop the most appropriate combination of marketing mix variables for each product to match the needs of the target market. Marketing mix elements are altered to accommodate the changing market conditions and changing marketing strategies adopted by competing companies in order to sustain for long. Thus, financial success of a company often depends on its marketing ability. Apart from company's financial motives, marketing has also become a necessity for attaining the object of social welfare and economic growth. It helps in raising standard of living of people, reducing unemployment and other social problems, increase in national income etc.

1.15 GLOSSARY

- **Market:** A physical or virtual set up where the buyers and seller exchange goods and services.
- **Marketing:** Marketing is a set of activities that identifies, creates, communicates and supplies consumer needs.
- **Selling:** A transaction between the seller and the buyer where money is exchanged for goods and services.
- **Relationship Marketing:** It refers to the activities undertaken by the firm to establish and maintain the profitability and the long-term relationship with the customers.
- **Marketing mix:** The combination of marketing tools that the firm uses to persuade people to buy a product and achieve its marketing objectives.

- **Economic development:** Economic development is the process by which a nation improves the economic, political and social well-being of its people.
- **Marketing Myopia:** It has been introduced by Theodore Levitt. One of the main reasons for the failure of large business enterprises is that they do not actually know what kind of business they are doing. This narrow minded view of Marketing is called Marketing Myopia. Marketers suffer from marketing myopia when they view their business as providing goods and services rather than as meeting customers' needs and wants.

1.16 SELF-ASSESSMENT QUESTIONS

1. Explain the nature and scope of marketing.

Ans ______________________________

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2. 'The ultimate aim of marketing is satisfying consumer needs.' Comment.

Ans ______________________________

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3. Bring out the importance of marketing to an organization.

Ans ______________________________

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4. Differentiate between market and marketing

Ans ______________________________

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1.17 LESSON END EXERCISE

1. Explain in detail traditional and modern classification of markets.

Ans

2. Bring out the importance of Marketing in the Economic Development of a Country.

Ans

3. 'Marketing mix is a model of crafting and implementing marketing strategy.' Explain.

Ans

4. Explain the various eras in the evolution of marketing.

Ans

1.18 SUGGESTED READINGS

- Marketing Management: Pankaj Madan; Amit Mittal and Hemraj Verma

- Fundamentals of Marketing: Anupreet K Kour; Kamlesh Bajaj and Khushdip Kour
- Principles of Marketing: S. P. Bansal
- Marketing Management: P.K. Agarwal
- Marketing Management: Dr. K. Karunakaran

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SEMESTER : IV	LESSON : 3

Social Marketing; Difference between Marketing of Product and Services

Structure

2.1 INTRODUCTION

Marketing is a product or service selling related overall activities. It is an integrated process through which companies build strong customer relationships and create value for their customers and for themselves. Marketing can be defined as 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. Marketing as a functional discipline of business may be understood as a dynamic process of society through which business enterprise is integrated productively with society's purposes and human values. It is in marketing, as we now understand it, that we satisfy individual and social values, needs and wants – be it through production of goods, supplying of services, fostering innovation, or creating satisfaction. Marketing, as we have come to understand it, has its focus on the customer, that is, on the individual making decisions within a social structure and within a personal and social value system. It gave birth to the concept of 'Social marketing'. Social marketing is the use of marketing theory, skills and practices to achieve social change. Social marketing seeks to develop and integrate marketing concepts with other approaches to social change.

Nowadays, marketing is not confined to the product, but services, ideas, property, experiences and even people are marketed. The marketing activities are aimed at creating an impression of the product or service in the consumer mind, in such a manner, that your brand becomes a synonym for that particular product or service. Marketing of products and services involves different strategies due to the dissimilarities in their characteristics. While in product marketing, the aim is to fulfill the needs and wants of the target population. As against, in service marketing, the firm seeks to create a good relationship with the customer, to win their trust.

2.2 OBJECTIVES

After studying this lesson, you will be able to:

- Acquaint yourself with the concept of social marketing

- Understand the advantages, applications and principles of social marketing
- Distinguish between social marketing and societal marketing concept
- Explain the concept of product and service marketing
- Realise the difference between product and service marketing

2.3 MEANING OF SOCIAL MARKETING

Social marketing is an approach used to develop activities aimed at changing or maintaining people's behaviour for the benefit of individuals and society as a whole. Social marketing is the use of marketing theory, skills and practices to achieve social change. Social marketing seeks to develop and integrate marketing concepts with other approaches to social change. It has the primary goal of achieving "social good". Social marketing aims to influence behaviors that benefit individuals and communities for the greater social good. The goal is to deliver competition-sensitive and segmented social change programs that are effective, efficient, equitable and sustainable. Social marketing is the systematic application of marketing along with other concepts and techniques to achieve specific behavioural goals for a social good. For example, this may include asking people not to smoke in public areas, asking them to use seat belts or prompting to make them follow speed limits.

Social marketing involves the use of standard commercial marketing practices to achieve non-commercial goals is an oversimplified way. Combining ideas from commercial marketing and the social sciences, social marketing is a proven tool for influencing behaviour in a sustainable and cost-effective way. Social marketing can be confused with commercial marketing. The primary aim of social marketing is 'social good', whereas in commercial marketing the aim is primarily 'financial'. This does not mean that commercial marketers cannot contribute to achievement of social good. Traditional commercial marketing aims are primarily financial, though they can have positive social affects as well. A commercial marketer seeks to influence a buyer to purchase a product. Social marketers have more difficult goals. They want to make potentially difficult and long-term behavior changes in target populations, which may or may not involve purchasing a product. For example, reducing cigarette smoking or encouraging use of condoms has difficult challenges to overcome that go beyond purchasing decisions.

Social marketing is not a science, but rather a professional craft which relies on multiple scientific disciplines to create programs designed to influence human behavior on a large scale. Commercial marketing targets purchase behaviors, product choice behaviors, and product promotion behaviors. People are asked to buy products, switch brands, and talk favorably about a company's product. Social marketing typically targets complex, often socially controversial behaviors, with delayed and distant benefits to audiences who often do not recognize they have a problem, much less are looking for a solution. Like other professional crafts (that is, clinical medicine) marketing uses science extensively, but it is also learned through experience. It is a flexible framework within which scientists, managers, and artists work together to influence behavior on a massive scale.

While most methods of marketing are geared toward selling goods or services, the "product" in social marketing is human behavior. The philosophy behind this idea can be illustrated by a quote from Gerhard Weibe, a German World War II U-boat commander, who said: "Why can't you sell brotherhood and rational thinking like you can sell soap?" The goal of social advertising campaigns is to promote ideas that either encourage positive behaviors like caring for the environment or wearing seat belts; or discourage negative behaviors, such as speeding or smoking in public areas. In this way, social marketing "sells" the well-being of society as a whole.

Social marketing is used primarily by nonprofit organizations, charity foundations, public highway departments, and government agencies. Government agencies use social marketing not only to encourage legal behaviors, such as observing the drinking age, but also to promote the general well-being of society. There are several government social marketing campaigns designed to inform the public on issues like food safety, sexually transmitted diseases, and personal hygiene.

To sum up, "social marketing is the application of marketing principles to enable individual and collective ideas and actions in the pursuit of effective, efficient, equitable, fair and sustained social transformation".

2.4 DEFINITIONS OF SOCIAL MARKETING

In 1971, Kotler and Zaltman published, Social Marketing: an approach to planned social change. This paper marked the first time the phrase 'Social Marketing' was used in an academic journal, but in reality social marketing approaches were being applied from the 1960s onwards, in both developing and developed countries. There have been, and continue to be, a developing range of formal definitions of social marketing. For example:

'Social marketing is a programme planning process that promotes the voluntary behaviour of target audiences by offering benefits they want, reducing barriers they are concerned about and using persuasion to motivate their participation in program activity' (Kotler & Roberto, 1989)

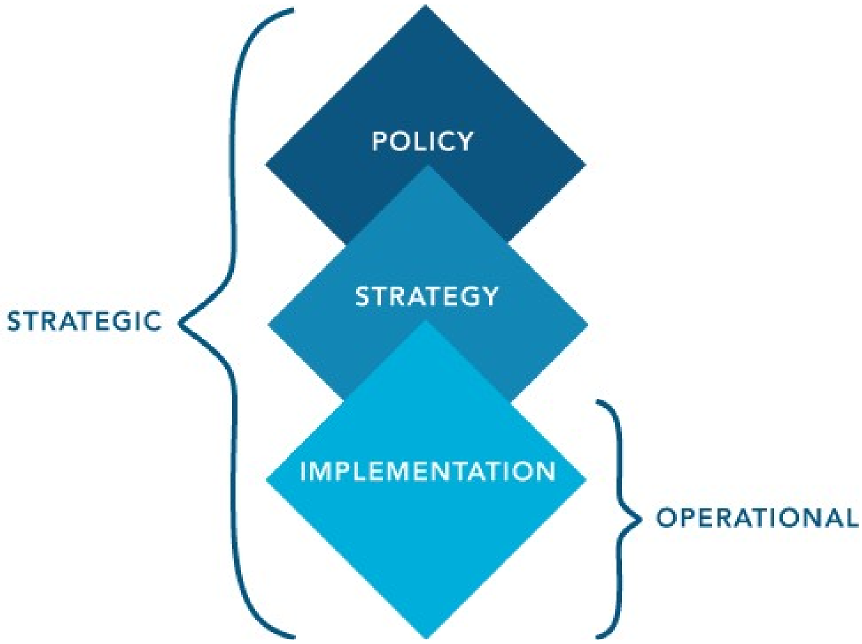
'Social marketing is the application of commercial marketing technologies to the analysis, planning, execution, and evaluation of programs designed to influence the voluntary behaviours of target audiences in order to improve their personal welfare and that of their society' (Andreasen, 1995)

'Social marketing is the use of marketing principles and techniques to influence a target audience to voluntarily accept, reject, modify or abandon behaviour for the benefit of individuals, groups, or society as a whole' (Kotler, Roberto & Lee, 2002)

Formal definitions vary across the literature, but three key elements commonly appear in the vast majority of these definitions:

- Social marketing's primary purpose is to achieve a particular social good (rather than commercial gain) and its primary focus is on achieving specific behavioural objectives.
- It consists of a finite and coherent set of concepts and principles that can be used in policy formulation, strategy development and implementation of social change programmes.
- It is a systematic process that is defined by learning and evaluation.

How social marketing helps :



Policy: social marketing helps to ensure policy is based on an understanding of people's lives, making policy goals realistic and achievable. Policy example: water rationing in Jordan

Strategy: social marketing enables you to target your resources cost-effectively, and select interventions that have the best impact over time. Strategy example: lung disease strategy in England

Implementation and delivery: social marketing enables you to develop products, services and communications that fit people's needs and motivations. Delivery example: child car seats in Texas

Social marketing is a systematic and planned process. The goal of social marketing is always to change or maintain how people behave – not what they think or how aware they are about an issue. If your goal is only to increase awareness or knowledge, or change attitudes, you are not doing social marketing. This is the value – perceived or actual – as it is defined by the people who are targeted by a social marketing intervention. It is not what is assumed to benefit them by the organisation that is trying to encourage the behaviour change.

2.5 ADVANTAGES OF SOCIAL MARKETING

Social marketing—a new marketing tool—can be a great asset if used properly. The beneficial effects of social marketing for a business can be tremendous, but one must remember that it must be used in the most efficient possible way.

Social marketing allows businesses and web sites to gain popularity over the Internet by using different types of social media available, such as blogs, video and photo sharing sites, social networking sites and social bookmarking web sites.

There are six distinct advantages of social marketing that make it a vital tool to any marketing campaign:

1. Promotes consumption of socially desirable products.
2. Promotes health consciousness in people and helps them adopt a healthier lifestyle.

3. It helps in green marketing initiatives.

4. It helps to eradicate social evils that affect the society and quality of life.

5. Social marketing is one of the cheapest ways of marketing.

6. One of the best advantages of social marketing is that anyone can take advantage of it, even from their own home.

2.6 APPLICATIONS OF SOCIAL MARKETING:

Social marketing has been in the marketing literature since the 1960s. Variations of social marketing have been applied to promote traffic safety, tobacco control, drug prevention, childhood immunizations, improved nutrition and diet, and environmental behavior, as well as to reduce infant mortality.

Social marketing applies a customer-oriented approach, and uses the concepts and tools used by commercial marketers in pursuit of social goals such as anti-smoking campaigns or fund raising for NGOs.

1. Health promotion campaigns in India, especially in Kerala and AIDS awareness programmes are largely using social marketing, and social workers are largely working for it. Most of the social workers are professionally trained for this particular task.

2. Anti-tobacco campaigns.

3. Anti-drug campaigns.

4. Anti-pollution campaigns.

5. Road safety campaigns.

6. Anti-dowry campaigns.

7. Protection of girl child campaign.

8. Campaign against the use of plastic bags.

9. Green marketing campaign.

2.7 PRINCIPLES OF SOCIAL MARKETING

Social marketing is the application of marketing principles to achieve specific behavioural goals for a social good. The beneficial effects of social marketing for a business can be tremendous, but one must remember that it must be used in the most efficient possible way. The following eight 'benchmarks' describe the key concepts and principles of social marketing, and include: Customer orientation, Exchange, Competition analysis, Insight, Theory, Behavioural focus, Segmentation, and Method Mix.

1. Customer Orientation:

This is about more than just understanding people. It involves 'seeing things through their eyes'. This means understanding people's social context, the challenges they face and their cope mechanisms. Adopting a customer orientation perspective requires finding out, through different types of audience research, about the lives, needs, fears, aspirations and concerns of your target audience. This should include direct research with the target audience, observation, collating intelligence from existing data and seeking the views of key people who understand or influence the audience. A key risk to avoid is assuming that we know what people want. The aim is to develop interventions that are informed by what we know will motivate people rather than starting from the premise that people need to understand and then change in line with what experts recommend.

2. Behavioural Focus:

The bottom line for social marketing is about measuring changes in behaviour. However, the focus is not just on 'changing' behaviour, but on being able to influence and sustain positive behaviours over time. This means that, in some instances, such as recycling, what we are aiming to do is to encourage people to keep doing a positive behaviour. Social marketing interventions recognise the dynamic and changing nature of behaviour and do not treat it as a simple on /off switch. They recognise that achieving sustainable behavioural change or maintenance requires sustained action. The establishment of clear measurable behavioural goals is one of the most important principles of social marketing. These goals need to be realistic and achievable. As Bill Novelli states: 'Picking the wrong goal is one of the mistakes non-profits repeat the most too often, people create an elegant plan around the wrong premise or the wrong goal' (Novelli,2001). A successful social marketing programme starts with very clear, realistic, and measurable behavioural goals.

3. Theory Informed:

Theory is used in social marketing to inform both problem understanding, and programme design. Selecting and using behavioural theory involves looking at the underlying ideas about what may influence behaviour in a given situation. The key principle of using theory in social marketing is to use it to understand significant influences on behaviour, and select a theory, or set of theories, that will help explain and pre-empt interventions that will influence target audience behaviour. Later in this chapter, we summarise twenty four factors drawn from behavioural change theory and research that can be used as a checklist when analyzing behavioural challenges and developing potential interventions.

4. Developing Insight:

'Insight' (IDEA and Local Government Association, 2008) is about moving from an initial focus on developing a broad understanding of the lives and behaviours of people towards a more focused, deeper understanding of what is or is not likely to engage a target audience or motivate them in relation to a particular behaviour. The key task is to identify 'actionable insights', which are meaningful to the audience and which the social marketer can do something about. Developing insight moves beyond selecting interventions based on evidence reviews, demographic data and problem identification and mapping to incorporate understanding about why people act as they do and what they believe would help them to change. Insight is developed through a process of discovering why people behave in the way that they do, what they value and what they say about what will help them. Understanding beliefs, attitudes, barriers to change and potential enabling factors is key. It is also often very helpful to understand why some people carry out the positive behaviour you want to promote as these people can often provide vital clues about the benefits and costs involved.

5. Understanding the Exchange:

Rewards and barriers for both problem and desired behaviours need to be considered when planning a social marketing intervention in order to develop a valued exchange proposition. An exchange proposition is an offer that is made to a target audience, which they will value sufficiently to willingly bear the cost either of maintaining, or of changing, specific behaviours. Benefits that result from an exchange in social marketing can either be tangible or intangible. Bagozzi (1975) suggests that social marketing is a form of 'Complex Exchange', where value or benefits tend to be intangible in nature. The emphasis on creating value through marketing activity is reflected in Vargo and Lusch's 'Service Dominant Logic Theory' (2006). The focus of social marketing is on creating value for the 'customer' through every aspect of service delivery, rather than just providing a product. The value of a product is not in the physical product itself, but in the service, benefit or value it provides to the customer. This means that in social marketing the core product is the benefit people will get form undertaking the behavioural goal of the programme.

A key factor in developing a powerful exchange proposition is therefore to ensure that what is offered is something that is valued by the target audience, and not just those proposing the change. Sometimes exchanges are positive (i.e. people get a physical, social or psychological reward or benefit); sometimes exchanges can be negative (i.e. people will face a penalty, social disapproval or some other form of negative consequence if they continue to adopt a particular behaviour). In addition, some exchanges are 'passive' (i.e. they require little cognitive engagement), whilst others involve 'active' decision-making (i.e. a rational assessment of the exchange, and a conscious decision to act in a particular way).Both positive/ negative behavioural reinforcement, and passive/ active decision making, are spectrums rather than absolute categories. However, if we combine the notion of rewarding or penalising a behaviour, with the notion of active or passive decision making, it is possible to construct a 'Value/Cost Exchange Matrix' to represent these various forms of exchange

Exchange requires a full appreciation of the real 'costs' and 'value' to the audience. This can include things such as: time, effort, money and social consequences. The key aim with a positive exchange is to maximise the potential offer and its value to the audience, whilst minimising the costs of adopting, changing or maintaining a particular behaviour. With negative exchanges the important issue is to make sure that the cost is one that has meaning to the target audience. For example, imposing a penalty fine that is set at a rate that the audience does not consider high enough, or where they believe there is little chance of being caught, will probably not bring about the desired change.

6. The Competition:

When seeking to influence behaviour there will always be a range of competing factors that will work to undermine the desired change. A key social marketing principle is to understand what may be competing with what you are promoting. In social marketing, there are two main types of competition: external and internal competition. External competition comes from the influence of those people, environments, systems, social norms or organisations that directly or indirectly promote a counter-behaviour, or influence people to maintain an unhealthy or social undesirable behaviour. Competitive forces, such as anti-health advertising and promotions, negative social norms and stress inducing environments make it harder to motivate people to adopt a desired behaviour. Internal competition includes such things as people's feelings and attitudes about something; the pleasure involved in the thrill of risk taking; the difficulty of giving up an ingrained habit; or addiction. Competition analysis in social marketing leads to the identification of countervailing forces and the systematic development of strategies to reduce the impact of these external and internal competitive forces.

7. Segmentation:

Segmentation is a social marketing process that involves assigning people to groups that exhibit similar characteristics, beliefs values and behaviours in order to develop specifically targeted interventions deigned to help them change behaviour. Traditionally, targeting of approaches has tended to concentrate on characteristics such as age, gender, ethnicity, income. Segmentation examines alternative ways that people can be grouped and profiled. For example, by their beliefs, values and aspirations or by their actual behaviours. This process of grouping people with similar characteristics helps social marketers to understand both the differences between people, and the types of intervention that might help different groups to change. There is no single 'right way' to segment, but in social marketing programmes segmentations that focus on both behaviour and motivations are the most helpful when it comes to developing potential interventions.

8. Methods Mix:

The last key principle of social marketing is to develop a tailored, evidence- and insight-led mix of interventions, to bring about the desired behavioural goal. In most cases a single interventions is less likely to be effective than multi-component interventions. For example, just 'informing' someone of something may have some limited effect, but if this is combined with practical support and a chance to actively consider it with guidance (education) it is more likely to be effective. A key task in social marketing is then to establish the right mix of interventions given the available resources and time.

2.8 DIFFERENCE BETWEEN SOCIAL MARKETING AND SOCIETAL MARKETING

"Social marketing is the adaptation of commercial marketing technologies to programs designed to influence the voluntary behaviour of target audiences to improve their personal welfare and that of the society of which they are a part." Andreasen, (1995)

Societal marketing concept is evident when an organisation determines consumer needs and wants and then integrates all activities in the firm to serve these needs while simultaneously enhancing societal well being (McColl-Kennedy, Kiel, Lusch & Lusch, 1994)

By definition, it is clear that social marketing is way different from societal marketing. Other points of distinction are given below:

- To start with, they are completely different in terms of their nature. Social marketing integrates social issues into commercial marketing strategies. It uses commercial marketing theories, tools and techniques to social issues while societal marketing integrates the concept of social responsibility into the commercial marketing strategies. Companies will make marketing decision after considering customers' expectation, company's interest and the long-term interest of the society. Their direction of approaches is completely different.

- What is more, they are different in terms of the people and groups involved. Societal marketing uses regulatory issues and other efforts to protect customers. It works within the company and it is a supply-side factor that focuses on how the market behaves rather than involving target customers. In contrast, social marketing is more of a customer-oriented approach. It must involve customers' own willingness to change their behaviour.

- Social marketing is about changing behaviours for the benefit of the broader society. Social marketing is about the social gain, target market's gain and the flow of benefits where profit may not actual exist, or if it does, then it's just an incidental secondary benefit for the campaign. Societal marketing is the business driven, profit orientated way of changing the world as a means of developing revenue based product. Societal marketing is about the direct benefits for the organization (profit) and secondary benefit for the community.

- Social marketing uses more traditional commercial techniques and strategies (focusing primarily on selling) to achieve goals for the greater social good. Social marketing campaigns can either encourage merit goods (Ex. Fund raising for Not-for-profit organizations) or dissuade the use of demerit goods (Ex. Non-smoking campaigns). Conversely, societal marketing is any form of marketing that takes into consideration the needs and wants of the consumer and the well-being of society. Basically, societal marketing is marketing combined with social responsibility.

- Social marketing focuses more on the end result of the marketing (promoting a merit good) while societal marketing is more concerned with the marketing process in general and the marketing strategy used (using marketing techniques that take into account the well-being of society).A marketing campaign focusing on smoking cessation is an example of social marketing, but if the marketing strategies and techniques used in that campaign focus on increasing the well-being of society, that same campaign can be an example of societal marketing as well. Social marketing is the systematic application of marketing, along with other concepts and techniques, to achieve specific behavioral goals for a social good.

- A basic difference between social marketing and societal marketing exists in the purpose of the marketing effort. Marketers in social marketing aim mostly to transform habits and attitudes from a perceived negative one to a more positive one. Societal marketing may simply refer to the practice where a company attempts to be socially responsive and responsible in the provision of goods and services that best suit the needs of its clientele.

2.9 REASONS AGAINST SOCIAL MARKETING

Arguments against the use of social marketing can be based on the following:

- **Cost** – Social marketing programmes can cost considerable amounts of money. Criticisms of these expenditures are heightened as they are often financed by public money in times of resource constraints and therefore have a high opportunity cost. A related issue is that of the problems involved in assessing the success of these programmes. The long term nature of behavioural change and the difficulties in establishing cause–effect relationships add to the fuel for the critics.

- **Misconceptions and negative attitudes about marketing** – As most introductory marketing text books relate, marketing is often equated with selling and persuading people to buy things that they do not really want. Interestingly, when people are asked if they have been persuaded they usually say no. Today's adoption of marketing principles and techniques (for example, market segmentation, market research, branding) by the banking sector is now evident. It was not too long ago, however, that bank managers were describing such activity as 'nauseating', 'odious and irrelevant' and 'an over-rated pastime' (Turnbull and Wootten, 1980, p. 482). Many professional services such as accountants and solicitors still equate marketing with advertising (Barr and McNeilly, 2003). Public sector organisations, such as hospital trusts, have also been slow to adopt (Meidan et al., 2000). Lack of awareness of the potential of marketing, misunderstanding and the observation of some of the more doubtful practices of the commercial sector are some of the reasons behind this. As previously mentioned, the criticism of commercial marketing is an element of social marketing. A final reason for resistance to marketing may be due to the nature of the language.

- **Parameters of marketing activity** – A final point emerges from marketing authors themselves. In response to Kotler and Levy's article 'Broadening the Concept of Marketing', Luck (1969) argued that the wider application of marketing away from the commercial sector dilutes the content and nature of marketing as a discipline. There are few proponents of this view, however, and the last four decades have seen many applications including, of course, the application of social marketing.

2.10 MEANING OF PRODUCT MARKETING

To start with product marketing, it is marketing of tangible goods. Tangible goods or products include things that can be touched, felt and seen. In simple words the performance of tangible goods can be seen and understood by audiences you want to sell your products to.

Product marketing in very simple words can be defined by the 4Ps of marketing and they are the product, the pricing of the product, the place and finally the promotions. This type of marketing deals with the tasks of outbound marketing by marketing the products to existing customers and prospect customers and even others as they never know who may turn out to be their prospect customer.

Product marketing also differs from other and all the other functions of the organization such as communication marketing, strategies, marketing, online marketing, advertising, etc. It is a continuous process of maximizing profit by promoting a product and selling the same to audiences mostly people who need the product, it also creates a requirement of the product in audiences.

The entire process, right from the market analysis, to delivering product to the customer and receiving feedback, is called product marketing. The process is aimed at finding out the right market for its product and its placement in such a way that it gets good customer response. It entails promotion and sale of a product to its target audience, i.e. prospective and existing buyers.

Various activities involved in the product marketing involves analysis of the market, identification of consumer demand, designing and development of product, pricing, pitching of a new product, communicating, advertising, positioning, distributing, selling, review and feedback.

Example: Marketing for tangible objects like books, handbags, laptops, mobiles, clothes and so on.

2.11 MEANING OF SERVICE MARKETING

When a person or business entity promotes services it offers to its customers or clients, it is known as service marketing. It is aimed at providing solutions to the problems or difficulties of the clients. It includes both business-to-business (B2B) and business-to-consumer (B2C) marketing.

A service is an act of performing something for someone in exchange for adequate consideration. It is intangible, consumed at the time of its production, can't be inventoried and resold. Each service offering is unique in itself because it cannot be repeated exactly alike, even if the service is rendered by the same person.

Firstly service marketing is marketing of intangible assets. It is huge and versatile it works in two ways that is

1st : (B2C) which means business to customer. Business to customers includes companies in the industries that give or provide services directly to customers in exchange of some fee.

2nd : (B2B) which means business to business. Business to business includes companies in the service industry that give service to other business segments.

Marketing is an integral mix of the 4 P's however service marketing is much more that simple marketing it includes an undivided mix of 7P's. The 7P's are divided in two parts the 1st 4 are product, place, promotion and pricing where as the 2nd extended part of service marketing includes people, process and physical evidence. Physical Evidence is "the environment in which the service is delivered, where the firm and customer interact, and any tangible components that facilitate performance or communication of the service". The second P is people. They play a large role in customer experience and how service is delivered. Lastly, process is how a service is carried out.

Service economy is a completely different part of the growing world economy. When you describe a service you cannot define it the way you define a product. Unlike a product you cannot touch, feel, smell and taste a service hence service is an intangible. This is the biggest difference between the two that is service and product. Marketing service is unique as it involves challenges like attaching tangible characteristic to something that is intangible.

Selling a service is called concept selling. Here you do not have a product to show to the customer. You have to create the urge to buy by creating an image in the mind of the customer of the service. The customer does not have anything to look at. Hence selling a concept like banking and insurance is more difficult. But once it is sold and the customer has used the service and is confident about the benefits the selling becomes easier.

While selling a credit card concept for example – you have to explain the special benefits of shopping points, enhanced credit limit and enhanced paying period etc

Example: Marketing of professional services, beauty parlours or salon, spa, coaching centres, health services, telecommunication, etc.

Some features of services include

Changeability or Variability: Service differs from person to person and company to company. Hence not necessarily will the same service provider or the entire industry will give you the same service, it will keep changing.

Expiry: Once the service is used or rendered the same cannot be resold, saved, returned or stored. In short service cannot be reused.

Timeframe: Services are made in a way that they can be consumed within a particular time. The service cannot be separated from the service provider unlike a product.

2.12 KEY DIFFERENCES BETWEEN PRODUCT MARKETING AND SERVICE MARKETING

Products and services are both different in their own ways and means and hence are their marketing strategies. Product marketing cannot be like services and services cannot be marketed like products. In the points given below, the differences between product marketing and service marketing are elaborated:

- **Tangible and intangible**

  Product Marketing and service marketing patterns or techniques are different for both. Because products are tangible in nature, they can be touched, seen, felt, tasted, smelled etc. hence the marketing techniques for sales of products are different. The promotion of products is easier. However marketing techniques for services are way to different for intangible services because the customer cannot see, feel, sense, taste or smell services. Services are intangible, people can only experience it, and so marketing of services is a bit difficult.

Product Marketing can be done by showing and displaying them; however services can only be experienced. Hence style of marketing both the products and services are different. For example, a ready food product can be displayed and sold however a telephone service cannot be displayed it can only be experienced.

- **Ownership**

  In product marketing, the company promotes something whose ownership can be transferred/resold to another party. But in the case of service marketing, the company promotes something, whose ownership can neither be transferred nor it is resold to the other party. The ownership of a product can be transferred or can be changed; which means that you can resell a product or a good to someone else. The same cannot be done with service as you cannot resell the service consumed by someone else at all. In simple words a product can be resold however a service cannot.

  For example; the ownership of products such as cars, residential or commercial property, all sorts of machinery, etc can be resold or transferred on a different name or ownership. However once you own a degree or have your hair cut by a hair dresser, or have a surgery done you cannot resell the same or transfer its ownership to someone else as it has already been consumed.

- **Products come to the customer where as customer comes for service**

  Products once sold can be taken by the customer, or the customer can take the products with them once they buy them; however it is vice versa in the case of a service, to enjoy or experience a service the customer needs to come to the service provider. Hence it is said that 'the product goes to the customer where as the customer go to service'. The reason is simple and clear service cannot be separated from the service provider.

  For Example; when you buy a car you bring the car home with you so that is how the products comes to the customer' where as for a hair cut or for a surgery you need to go to the service provider that is either the barber or the surgeon this is where the customer has to go to the service provider because the service cannot be separated from the service provider.

- **Products are standardized and services are customized**

  Product offered by a company under a particular segment are standardised; they cannot be changed or altered as per customer's requirement. In contrast, services offered by a company are highly variable and can be easily customised as per the requirements. Products are manufactured and produced as per the standards of that particular product, the standard of the market and the target audience. Manufacturers have to maintain the standard of their product because products are checked by their respective regulators before they are rolled out in the market. In order to make sure that the regulator, the consumer and the market does not ban the product the standard needs to be maintained. However services work the other way round. Every customer is different when it comes to enjoying services. Hence the service provides services as per each customer's needs and preferences. This is called customizing of a service as per the requirement of the customer.

  For example a biscuit manufacturing who manufactures delicious yummy chocolate cream biscuits has to make sure they maintain the standards of hygiene, the looks, the presentation, the taste and the quality of the products to keep the sales going for the product will be checked before it is rolled out in the market. However doctor will give each patient different treatment depending on the problem of the patient hence he will have to customize his service as per the needs of the patient.

- **Quality delivery is different for both**

  Now how does quality factor differ for both, both certainly have to deliver good quality. The manufacturers have to maintain the quality of their product. The product quality depends on the raw material used and the mechanism. Both the material and the machine can be changed and improvised because they are inanimate objects and only a resource for the company. However it is different when it comes to service.

  Each service provider is different in terms of service as they are human beings and each human being is different from the other. Service purely depends on the customer's customization, the skills and experience of the service provider and also on the motivation given by the service provider to the customer. Hence experts say that variation in service is appreciated depending on the customer and his needs.

- **Variations in scalability**

  Scaling up the production business is simple by just increasing the production of the product to meet up to the requirements of the customers, by increasing its distribution, the reach of its sales and reaching out to more and more customers. Scaling up service business is not as easy as scaling up products business.

  To do so the service providers will have to increase their team of trained or experienced service providers, this involves recruitment by recruiting employees from competitive companies or recruiting fresher's, this includes a lot of investment of time and money on recruitment, induction, training and motivation of employees and also retaining them as losing existing trained and experienced employees is the biggest loss for a service provider.

- **Added value to the customers**

  Rightly said when the customer buys a product he looks for the value he paid for that product inside the box that is where he finds the product. For he knows that its quality is defined by how the raw materials have been selected and then converted to give him the product he has got. For example be it soap or television the customer pays a price to buy it and use it.

  However if a customer buys a service he looks for returns from his value paid to buy the service across the counter or over an encounter with the concerned service provider. These service providers can be anyone a specialized doctor, a waiter in a restaurant, a financial consultant, etc. The quality of every service provider is different, completely depends on how each service provider is selected, then trained and also kept motivated to keep providing required service.

- **The real heroes**

  When it comes to a product be it the manufacturing of the product, the management of the product or the product marketing, the real heroes there are the management of the company as they are the ones who design the product, manage its manufacturing and other aspects and also market it to sell the product and maximize profits. It is completely different in case of service.

When it comes to service the real heroes here are the employees right in the front that is the frontline employee. However marketing here is also designed and strategized by the marketing team of the company, yet the same is implemented by the frontline employees of the company who are the heroes of the company who maximize business and earn revenue for the company.

- **Customer placement**

  Products place the customer outside their business, not that the customer is not important for product business; however the manufacturing of the products is not directly related or linked with the customers. Even here the customer is very important and the king of the market, hence the customer priorities and the requirement of a customer in a product is collected in a data from the customer to manufacture and design a product.

  For services it is simply opposite as the customer is directly involved in the business because the service providers have direct interaction with the customer on daily basis, and this cannot be ignored.

- **One vs. Many.**

  Physical products usually come in many formulations. Clothes come in different styles, colors, sizes. Dog food comes in different ingredient combinations. Services typically do not offer multiple formulations. As a doctor's visit is a doctor's visit, whether you are going for tennis elbow or diabetes. (You might choose different service providers, but the basic elements will be the same.)

- **4Ps vs. 7Ps**

  In a product marketing, only 4 P's of the marketing mix are applicable which are product, price, place and promotion, but in the case of service marketing, three more P's are added to the conventional marketing mix, which are people, process and physical existence.

- **Value vs. Relationship**

  When a product is marketed, the company offers value, as it fulfils customer's requirements. Conversely, when service is marketed by a company, it offers a relationship to its clients.

- **Returnability Factor**

  If the quality of a certain product is not up to the mark, or it does not fulfil the desired requirement, it can be returned to the seller. However, it is impossible in the case of services, because once the services are delivered, they cannot be taken back. So, the marketing of services, should be done keeping the returnability factor in mind.

- **Separability**

  In product marketing, the product can be separated from its producer, and so they are durable and can be inventoried. On the contrary, in service marketing, services cannot be separated from its source, i.e. service provider. Hence the production and consumption of services are simultaneous; they are perishable.

Comparison Chart: Product Marketing Vs Service Marketing

BASIS FOR COMPARISON	PRODUCT MARKETING	SERVICE MARKETING
Meaning	Product marketing refers to the process in which the marketing activities are aligned to promote and sell a specific product for a particular segment.	Service marketing implies the marketing of economic activities, offered by the business to its clients for adequate consideration.
Marketing mix	4 P's	7 P's
Sells	Value	Relationship
Who comes to whom?	Products come to customers.	Customers come to service.
Transfer	It can be owned and resold to another party.	It is neither owned nor transferred to another party.
Returnability	Products can be returned.	Services cannot be returned after they are rendered.
Tangibility	They are tangible, so customer can see and touch it, before coming to the buying decision.	They are intangible, so it is difficult to promote services.
Separability	Product and the company producing it, are separable.	Service cannot be separated from its provider.
Customization	Products cannot be customized as per requirements.	Service vary from person to person, they can be customised
Imagery	They are imagery and hence, receive quick response from customers.	They are non-imagery and do not receive quick response from customers
Quality comparison	Quality of a product can be easily measured.	Quality of service is not measurable.

Every part and every difference between the two; that is the product and the service separate them from each other. These differences impact the sales and marketing of any company, its cost of manufacturing, selling, marketing, etc, the assets of the company, the managing tasks of the company, its performance matrices, etc. However marketing strategies for both the products and the services are different as they have different characteristics. To maximize profits the management or the marketing team of the company makes sure they market smartly and efficiently.

2.13 SUMMARY

Marketing creates and develops wants amongst target audiences to create awareness about the same. Creating awareness increases their business and maximizes profits correctly. Marketing, as we have come to understand it, has its focus on the customer, that is, on the individual making decisions within a social structure and within a personal and social value system. Social marketing seeks to develop and integrate marketing concepts with other approaches to social change. Social marketing can be applied to promote merit goods, or to make a society avoid demerit goods and thus to promote society's well being as a whole. The objective of social marketing may not necessarily be profit oriented, but a preemptive network against unnecessary and preventable morbidity, which affects the individual and society adversely.

It is generally thought that marketing is related to products alone. It should be remembered that marketing ideas and practices are equally applicable to services with slight adaptations in certain decisional areas. Services in content are different from products. Also marketing strategies for both the products and the services are different as they have different characteristics. Yet the 'Perfect Product' or the 'Perfect Service' cannot be defined as perfect because it differs with individuals as each individual has different choice, different set of needs and necessities, etc. Whether, it's a product marketing or a service marketing, the task is equally onerous. However, with the former, there are some advantages such as tangibility, separability, durability, transferability, etc. which the latter lacks, making it a bit difficult. Demonstration of product or service is one of the best ways to promote it. Further, word of mouth also helps in marketing them.

2.14 GLOSSARY

- **Product:** Anything that can be offered to a market to satisfy the desire or need of a customer.
- **Product image:** The sum total of attitudes and knowledge that people hold of a product.
- **Service:** An economic activity (which is intangible in nature) offered by a business to its clients.
- **Market Leader:** The firm in an industry with the largest market share.
- **Social marketing:** Social marketing is the application of marketing principles to achieve specific behavioural goals for a social good.
- **Societal marketing concept:** This concept holds that a company should make marketing decisions not only by considering consumers' wants, the company's requirements, but also society's long-term interests.

2.15 SELF-ASSESSMENT QUESTIONS

1. Enumerate the features of services.

Ans ______________________________

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2. Differentiate between product and services marketing.

Ans ______________________________

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3. Explain the advantages of social marketing.

Ans ______________________________

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4. How does social marketing differ from societal marketing?

Ans

2.16 LESSON END EXERCISE

1. Explain in detail the concept of social marketing and its applications.

Ans

2. Discuss the various principles of social marketing.

Ans

3. 'Selling a concept is more difficult than product selling'. Comment.

Ans

4. State the importance of social marketing in bringing about a change in society.

Ans

2.17 SUGGESTED READINGS

- Marketing Management: Pankaj Madan; Amit Mittal and Hemraj Verma
- Fundamentals of Marketing: Anupreet K Kour; Kamlesh Bajaj and Khushdip Kour
- Principles of Marketing: S. P. Bansal
- Marketing Management: P.K. Agarwal
- Marketing Management: Dr. K. Karunakaran

C. No. : BM-401	UNIT I
SEMESTER : IV	LESSON : 3

Marketing Function and Approaches; Marketing versus Selling; The Modern Concept of Marketing

Structure

3.1 Introduction

3.2 Objectives

3.3 Functions of marketing

3.4 Approaches to the study of marketing

3.5 Marketing versus Selling

3.6 Evolution of Marketing Concept

3.7 Concept of Traditional and Modern Concept of Marketing

3.8 Summary

3.9 Glossary

3.10 Self-assessment Questions

3.11 Lesson End Exercise

3.12 Suggested Readings

3.1 INTRODUCTION

Marketing is about identifying and meeting human and social needs profitably. Marketing is the creation of utilities as goods and services get value addition by the time they reach the consumers. Marketing is made up of a number of activities known as 'marketing functions.' Marketing functions are such activities as marketing perform to achieve the ultimate objective of fulfilling the needs of the consumer. The philosophy of marketing finds its practical applications in the various steps taken in the marketing process by which goods leave the producers, journey through various intermediary channels and with the aid of various other agencies, finally reach the consumers scattered all over the area. In bringing the producer and the consumer together, certain activities and functions are performed which is the subject matter of marketing.

The meaning of marketing has changed with the passage of time. In the modern times of large scale production and cut-throat competition, the concept of marketing has altogether changed. It has occupied wide proportions. Markets are no longer local, but have become national and international in character. The field of marketing is being rapidly transformed into a much broader and significant field in recent years. In the past marketing was often referred to simply as 'selling'. Marketing is no longer considered to be the same thing as selling or advertising. It is viewed in a broader context comprising several other elements.

In modern sense, marketing involves all efforts to create customers for the product and to maintain them permanently. Consumer is the focal point in the modern concept of marketing. The old approach of marketing ends when the goods are produced for supplying in the market, whereas under the new approach marketing starts and ends with customers. Under the old approach, principle of "Caveat Emptor" i.e., let the buyer beware, operates. But under the new approach, principle of "Caveat Vendor" i.e., let the seller beware, operates. The firm's main objective then becomes to satisfy its customers through the constant study of their changing needs and wants.

3.2 OBJECTIVES

After studying this lesson, you will be able to:

- Understand various marketing functions and their classification
- Develop an insight of different approaches to the study of marketing
- Discuss the evolution of various marketing concepts
- State the points of distinction between marketing and selling
- Examine the traditional and modern concept of marketing

3.3 FUNCTIONS OF MARKETING

A Marketing function is an act or operation or services by which the original producer and final consumers are linked together. If marketing functions are not properly carried out, the business unit may not be in a position to dispose off its products and all the efforts made for production may not bear fruits. The prime objective of marketing is to take the goods from the producer and perform all functions necessary to make them available to the ultimate consumers. In the process of marketing, place utility is created when goods and services are available at the places where they are needed, time utility when they are needed and possession utility when they are transferred to those people who need them. Marketing function is an act or service which links the producer to the ultimate consumers. It helps to transfer the ownership of the product from producer to intermediaries and intermediaries to ultimate consumers. It involves a number of operators to be performed while transferring products from producers to consumers. For e.g. collection of market information, buying, storing, grading, packing, selling, transporting etc. Similarly, it also involves risk bearing, market information, promotion etc. Therefore, it is difficult to point out the single list of marketing functions. Various authors have given different list of marketing functions.

According to Prof. Pyle, Marketing function has two major groups. They are concentration and dispersing function which is clearly given in the following lists or groups.

Concentrating: The process of concentration is concerned with gathering raw materials, manufactured goods at a central place namely market.

1. Buying and Assembling
2. Transportation
3. Storing
4. Grading
5. Financing
6. Risk Bearing

Dispersing: Dispersion means distribution of goods to final consumers.

1. Selling

2. Transporting

3. Storing

4. Grading

5. Financing

6. Risk Bearing

7. Dividing

Another classification of marketing functions is given by professors Clark and Clark, which is widely accepted by one and all. Functions of marketing are classified into three types:

1. Functions of Exchange.

2. Functions of Physical Supply.

3. Facilitating Functions.

(I) FUNCTIONS OF EXCHANGE:

Exchange refers to transfer of goods and services for money's worth. This process can be divided into (a) Buying (b) Assembling and (c) Selling

(a) Buying: Buying is the first step in the ladder of marketing functions. A Manufacturer has to buy raw materials for production, wholesaler has to buy finished goods for the purpose of sale to the retailers, and a retailer has to buy goods for resale to the consumers. Efficient buying is essential for successful selling. Large sized business concerns maintain a separate department namely purchasing department for the purpose of buying.

This function involves the study of the markets by the marketers, identifying the demand for their products (planning), so that the suppliers maybe identified (contractual function) and required quality and quantity of raw materials and semi-finished goods maybe acquired for further processing (negotiation and contractual function).

Modes of Buying: Goods may be purchased in any of the ways given below:

i. By Inspection: Under this method goods are bought after examining the goods by the buyer in the seller's premises.

ii. By Sample: A purchase by sample is made after the buyer examines the sample of goods supplied by the seller.

iii. By Description: Some sellers issue catalogues containing description of goods offered for sale. The intending buyer places an order specifying a particular number mentioned in the catalogue.

iv. By Grading: This refers to standard quality of goods. Under this method purchase can be made by telegram, telephone, or mail.

(b) Assembling: Assembling begins after the goods have been purchased. It refers to gathering of goods already purchased from different places at one central place. It involves the collecting of semi-finished / finished products from various sources and sending them together to central location, either for further processing or resale. This may be done by the producers or the intermediaries. It is significant in cases of seasonal goods and agricultural products. So persons interested in marketing must assemble the goods from the place of manufacturer to the pace of distribution. For example, assemblers purchase milk from a large number of villages or other local market dealers, assemble a sufficient quantity in some big milk plant for processing and further final economical distribution. Thus, assemblers are interested in buying in smaller lots which will later be consolidated into larger lots to make final distribution in accordance with the demands of retailers or ultimate consumers. Assembling not only includes the collection of goods at one place but grading, sorting, transportation and the assumption of risk. The main advantages of assembling are:

i. It enables the trader to classify his goods according to their quality and this further facilitates grading also.

ii. It results for the widening the market because retailers of different markets can meet their small requirements from an assembling centre.

iii. It provides facilities for raising finance. The financing agencies can make advances easily against the grading assigned goods.

iv. It enables the traders to regularise the supply of seasonal products when such products are assembled and stored under proper care during the season in which they can be had in abundance and can also be used during the off-season.

(c) Selling: The ultimate aim of every business is to earn profits and in realizing this aim selling plays an important role. Sales are the source of income for the manufacturers, wholesalers and retailers. Nothing really happens until somebody sells something. Selling enables a firm to satisfy the needs of consumers. It is the process through which ownership of goods is transferred from the seller to the buyer. This includes the function of product planning, function of demand creation for products, the contractual and negotiatory function of agreeing upon the terms and conditions by both, the buyers and the sellers and the final agreement of sale, including the transfer of ownership and title of goods.

The importance of selling has increased significantly with an increase in the number articles offered for sale by a large number of producers. When the production was on a small basis the producers had no problem to dispose off their products. But now, with the increase in the volume of production, selling has become a problem and the producer has to induce to sell his products.

(II) FUNCTIONS OF PHYSICAL SUPPLY:

There are two important functions under this classification: (a) Transportation (b) Storage and ware housing.

(a) Transportation: Transport means carrying of goods, materials and men from one place to another. It plays an important role in the marketing. Transportation enables the flow of goods from places of production to places of consumption. It facilitates large scale production and selling. Transport is important, not only because it is essential to the operation of the marketing system, but also because it accounts for a substantial part of the total marketing cost.

Transport helps in creating, place and time utility, also adding value to the product. It creates place utility by moving goods from the place where they are available in plenty, to places where they are needed. Both assembling and distribution involves movement of goods from the places of production to the places of consumption but it also enables consumers to go to marketing areas where there is wide choice of goods available.

Transportation is also useful in stabilizing the prices of various commodities by moving them from the areas where they are in surplus to the areas where they are scarce. Various types of transport are used for carrying goods like (a) Land transport, (b) Water transport and (c) Air transport. It involves the selection of modes of transport depending on costs, speeds and risk involved.

(b) Storage and Ware Housing: Storage is another function of marketing process and it involves the holding and preservation of goods from the time they are produced to the time they are consumed. Generally, there is a time gap between the production and consumption of goods. Therefore, there is need for storing so as to make the goods available to the consumers and when they are required. By bridging the gap between production and consumption, storage creates time utility; it also creates place utility by holding goods at different places.

Storage refers to the holding and preserving of goods between the time of production and time of sale. This may also happen at stopovers during transportation. It enables and ensures the availability of products when demanded by the consumers, even during off seasons. Storage protects the goods from deterioration and to carry forward surplus stocks for future consumption, also regulating the flow of goods to different markets.

The importance of storage can be studied as follows.

a. Generally, goods are produced in anticipation of demand of the product in future market. All the goods are not sold immediately after production. For the unsold stock of goods, storage in indispensable.

b. Some goods are produced throughout the year but demand for them is only in a particular season. For example rain coats, umbrellas, crackers etc. These commodities are to be stored till the arrival of season.

c. Many commodities are produced during a particular season but they are used throughout the year. Such goods have to be stored so as to make them available throughout the year.

For example; agricultural products.

d. Certain products which can get higher prices in future market are stored for a longer period. For example; tobacco, liquor, rice, etc.

Warehouse is a place for storage of goods. The functions of storage can be carried successfully with the help of warehouses. Warehouses create time utility by storing the goods throughout the year and releasing them as and when they are needed. Several types of warehouses are used for storage of goods, which are as follows.

i. Private warehouses: Private warehouses are owned by big business units for the storage of their own goods. Only big business houses can afford to have such type of warehouses.

ii. Public warehouses: These are the business concerns which offer storage space on rent. These ware houses are licensed by the government. They are helpful to businessmen who cannot afford to maintain their own warehouses. These warehouses are generally located near railway lines and main roads.

iii. Bonded warehouses: These are located near the ports for the storage of imported goods. When the importer cannot pay customs duties immediately on the goods imported by him, he can store them in bonded houses. Importer can remove the goods in parts after paying import duty.

Other two functions under this category are explained below:

Inventory management

Inventory management involves the management of inventories from the point of raw materials being purchased to the point of the finished goods being transported to warehouses. This enables continuity of supply of materials to the production process and subsequently on time fulfillment of customer demand.

Material handling

The materials and the semi converted products, held in inventories are to be handled efficiently when moved to the next area of requirement so as minimize breakage, spoilage, pilferage etc.

(III) FACILITATING FUNCTIONS:

There are the functions which help or facilitate in the transfer of goods and services from the producer to the consumer. They are not directly connected with the transfer of goods. Under this category the following functions are included.

(a) Financing: Finance is the life blood of every business. It is needed for marketing of goods and services. The availability of finance in the form of capital or debt is essential for the smooth running of a business firm. This function enables the movement of funds to enable the required purchases, processing and selling functions to happen seamlessly.

The goods produced or purchased cannot be sold immediately to the ultimate consumers and much time is involved in marketing process. Hence there is need for finance for the purchase of raw material, meeting transportation, storage costs, insurance etc. Further, generally goods are passed on from manufacturer to wholesaler and from wholesaler to retailer on credit basis. Ultimate consumers also prefer to purchase goods on credit. Therefore, all agencies engaged in marketing have to make some arrangement for finance. Prof J.F Pile has rightly stated that "Finance is the lubricant of marketing machinery".

There are three main sources of finance. They are as follows.

i. Long-term finance: It is needed for purchasing fixed assets like land, building, plant and machinery, furniture etc. The main sources of this finance are shares, debentures, financial institutions.

ii. Medium-term finance: It is needed for raising working capital. The main sources are financial institutions and commercial banks.

iii. Short-term finance: It is mainly required for meeting short term payment normally for less than one year. It can be raised from commercial banks and trade creditors.

(b) Risk Bearing: Risk means he possibility of loss due to some unforeseen circumstances in future. Marketing process is confronted with risks of many kinds at every stage. Risk may arise due to changes in demand, a fall in price, bad debts, natural calamities like earthquakes, rains etc. The risks of natural disaster, thefts, changes in the conditions of demand and supply are all to be considered by marketers as being a part of business. Some of these risks are wholly or partially insured against, whereas the rest are borne by the marketers.

The marketing risks may be classified under the following heads:

I. Time risk: Goods are bought by the business with a view to sell them at a profit out of anticipated rise in prices in future. During the time lag conditions might change and the price my fall. Thus time risk is involved in marketing.

II. Place risk: place risk arises when the prices of the same product are different in different places. The businessmen may purchase goods in market where prices are low with a view to sell them at other places where the prices are high. But the price in the other market may come down causing loss.

III. Competition risk: Businessmen have to face risk arising from the forces of competition. The competing firms may introduce modern methods of production due to which quality may be improved or cost of production may be reduced. Under such circumstances, a firm may be forced to sell at a loss which is called risk of competition.

IV. Risk of change in demand: The manufacturers produce goods on large on large scale in anticipation of demand in future. But, sometimes the demand of the product may not come to expectations resulting n losses.

V. Risk arising from natural calamities: Risks from natural causes are beyond human control. These include rains, earthquake, floods, heat and cold. These risks cause heavy loss.

VI. Human risks: These risks arise due to adverse behavior of human beings like theft, strikes, lockouts, bad debts etc.

VII. Political risks: Political risks arise due to change in political factors such as changes of government/ changes in government policies etc.

(c) Market Information: According to Clark and Clark market information means "all the facts, estimates, opinions and other information used in marketing of goods". The main object of any business is to create and maintain demand for the product produced. For this purpose market information is useful. On the basis of information the seller can know what type of goods are needed by the consumer, when and where they are needed and in what quantity.

It involves the gathering of information about the dynamic target markets, changing customer needs, competition analysis, the interpretation and communication of the same to the marketers / relevant decision makers.

(d) Standardization: Standardization means establishment of certain standards based on intrinsic qualities of a commodity. The quality may be determined on the basis of various factors like size, colors, taste, appearance etc. It is helpful to the consumers as they safely rely on the quality of the standardized products.

Thus, establishing a standard for goods produced, sorting of goods into different grades and ensuring quality is maintained by regular control measures are all involved in the function of standardization.

(e) Grading: Grading means classifications of standardized products in to certain well defined classes. In the words of Clark and Clark "It involves the division of products into classes made up of units possessing similar characteristics of size and quality". Grading is very important for agricultural products like wheat, cotton etc.

Grading is of two types, fixed and variable. Fixed grading refers to the grading of goods according to fixed standards whereas variable grading refers to the application of varying standards.

(f) Branding: Branding means giving a name or symbol to a product in order to differentiate it from competitive products. It helps the consumers in identifying their products. Branding may be done by selecting symbols and marks such as charminar cigarettes, camel inks, binny textiles or by using the name of manufactures such as Ford cars, Godrej street furniture. A Good brand should be brief, simple, and easy to spell and remember.

(g) Packing: Packing means wrapping and crating of goods before distribution. Goods are packed in packages or containers in order to protect them against breakage, leakage, spoilage and damage of any kind. It consists of placing the goods in boxes, tins, bottles, cans, bags, barrels of convenient size to the buyers.

(h) Advertising, sales promotion: They are the tools adopted by marketers to make the target customers aware of a product, induce trial and persuade for regular consumption. Advertising is impersonal and long term whereas sales promotion is a short term and more direct approach to promote immediate sales.

(i) After sales service: After sales service involves the service provided to customers after the sale is affected. It has a direct impact on customer satisfaction and can be the deciding factor when a customer seeks to repurchase or upgrade to a more advanced version of the product.

3.4 APPROACHES TO THE STUDY OF MARKETING

The study of marketing has been approached in more than one way. To some it has meant to sell something at a shop or market place; to some it has meant the study of individual product and its movement in the market; to some it has meant the study of persons- wholesalers, retailers, agents etc., who move the products and to some it has meant the study of behaviour of commodity movement and the way the persons involved to move them. The approach to the study of marketing has passed through several stages before reaching the present stage. There is a process of evolution in the development of these approaches.

To facilitate the study, these different approaches may be broadly classified as follows:

1. Product or Commodity Approach

Marketing in the journey of a particular product, which is studied under this approach. A specific commodity is selected and then it's marketing environment and methods are studied in the course of its movement from producer to consumer. It is thus the study of the flow of a commodity from the original producer up to the final customer. This study helps to locate:

- Centre of production
- People engaged in buying & selling of the product
- Mode of transportation
- Problems related to selling, advertising, financing and storage

Eg. Marketing of agricultural products such as wheat, cotton etc.

Under the commodity approach the focus is placed on the product or it is an approach on the marketing on commodity wise basis. In other words, the study relates to the flow of a certain commodity and its movement from the original producer right up to the ultimate customer. The subject-matter, under this study, is commodity.

When one studies the marketing on this basis—commodity approach, one must begin to study and analyses the problems relating to a commodity i.e., sources and conditions of supply, nature and extent of demand, mode of transporting, storage, standardization, packing etc. Take an example of a commodity, say rice. One has to study the sources of rice, location, people involved in buying and selling, means of transport, problems of selling the product, financing, storage, packing etc. Thus, we get a full picture of the marketing from the original producer to the ultimate consumer. The method of study is repeated for each item.

The system claims that it is simple and gives good result over the marketing of each product; description study is possible. But at the same time this approach is time-consuming and repetitive process which is a drawback.

2. Functional Approach

The functional approach gives importance on the various functions of marketing. In other words, one concentrates attention on the specialized services or functions performed by marketers. In this approach, marketing splits into many functions-buying, selling, pricing, standardization, storage, transportation, advertising, packing etc. This may be studied one after another. Here each function is studied in detail in order to understand it and analyses the nature, need and importance of each function.

Attention is focused on the specialized functions or services performed by the marketers and the problems faced by them while performing those functions. The various functions studied include buying, assembling, storage, standardizing, risk bearing, financing, and market information and selling.

In this approach, marketing is regarded as "business of buying and selling and as including those business activities involved in the flow of goods and services between producers and customers." This system gives too much importance to various marketing functions and fails to explain how such functions are applied to the specific business operations.

3. Institutional Approach

It is centered around the marketing institutions or agencies that perform marketing functions. Such agencies include wholesalers, retailers, mercantile agents and facilitating agencies such as transportation houses, banks, insurance companies etc.

In the institutional approach, the focus is on the study of institutions- middlemen, wholesalers, retailers, importers, exporters, agencies, warehousing etc., engaged in the marketing during the movement of goods. The approach is also known as middlemen approach. Here, emphasis is given to understand and analyses the functions of institutions, who are discharging their marketing functions.

The activities of each institution form a part of marketing and collectively complete the marketing functions. In the process of moving the goods from the producer to the final consumers, a large number of persons are engaged. This system pays attention to the problems and functions of marketing institutions-transporting, banks and other financial institutions, warehousing, advertising, insurance etc. This method does not give adequate knowledge of the entire marketing functions and also' fails to explain the interrelations of different institutions.

4. Managerial / Decision Making Approach

This approach combines some features of the commodity, institutional and functional approaches and seeks to analyze marketing from the decision making perspective. The various areas of marketing decisions are in regards to marketing organization, product, distribution, pricing and promotion.

This approach is the latest and scientific. It concentrates upon the activities or marketing functions and focuses on the role of decision-making at the level of firm. This approach is mainly concerned with how managers handle specific problems and situations. It aims through evaluation of current market practices to achieve specific marketing objectives.

Generally there are two factors-controllable and uncontrollable, which are more concerned with the decision-making. Controllable include price adjustment, advertisement etc. Uncontrollable-economical, sociological, psychological, political etc. are the basic causes for market changes. And these changes cannot be controlled by any firm.

But controllable can be controlled by the firm. The uncontrollable limit the marketing opportunities. As such, managerial approach is concerned with the study of uncontrollable and then taking decisions for controllable within the scope set by uncontrollable. Managerial or decision-making approach emphasizes on the practical aspects of marketing, but ignores the theoretical aspects of marketing. At the same time, this approach, provides an overall information of the entire business.

5. Systems Approach

Under this approach, marketing is considered as a subsystem of economic, legal and competitive system. The marketing system operates in an environment that comprises of both controllable and uncontrollable factors that are dynamic and need to be constantly monitored. The approach allows for logical and orderly analyses of marketing activities and provides a framework for control. It is an integrated approach that includes:

1. Objectives: Is profitability through customer satisfaction

2. Inputs: Information from internal and external sources

3. Processor: Information is processed

4. Output: Actions are taken with respect to the marketing activity

5. Feedback: forms the basis for future change

The system approach can be defined as "a set of objects together with the relationships among them and their attributes." Systems focus on interrelations and interconnections among the functions of marketing. The system examines marketing connections (linkage) inside as well as outside the firm. Inside the firm there is a co-ordination of business activities-engineering, production, marketing, price etc.

On the basis of feedback information proper control is exercised to modify or alter in the producing process, so that the desired output can be produced. Here, the aim is to secure profit through customer-satisfaction. Markets can be understood only through the study of marketing information. For instance, business is composed of many functions, which are composed of sub functions. Each function or sub-function is independent, but interrelated and enables the other to achieve marketing objectives.

6. Legal Approach:

This approach emphasizes only one aspect i.e., transfer of ownership to buyer: It explains the regulatory aspect of marketing. In India, the marketing activities are largely controlled by Sales of Goods Act, Carrier Act etc. The study is concentrated only on legal aspects, leaving other important aspects. This does not give an idea of marketing.

This approach considers only the legal aspects of marketing. A number of laws have been enacted in India to safeguard the interests of both the buyers and sellers like.

The Sale of Goods Act, The Consumer Protection Act, The Essential Commodities Act, Prevention of Food Adulteration Act, The Monopolies and Restrictive Trade Practices Act (MRTP) are some of the laws concerned with marketing.

7. Economic Approach:

The economic aspects affecting marketing get priority in such an approach. There are a number of economic concepts like cost, revenue, competition, demand and supply that affect marketing. There can be a study, for example, on the impact of competition on price.

This approach deals with only the problems of supply, demand and price. These are important from the economic point of view, but fail to give a clear idea of marketing.

8. Conceptual Approach

Marketing is studied through theoretical analysis of marketing functions, institutions and policies. Research and innovation are emphasized upon in this approach.

9. Scientific Approach

It is an inter-disciplinary approach, as it uses the physical, social and the quantitative disciplines for developing marketing insights and concepts. The approach is useful to solving marketing problems and provides a base for scientific approach to the study and practice of marketing.

10. Eclectic Approach

This approach presents marketing in its context of economic, cultural and social significance. It helps to examine the role to be played by the Government in regulating the marketing system, the social responsibilities of the people and institutions involved in marketing etc.

11. Societal Approach:

This approach has been originated recently. The marketing process is regarded as a means by which society meets its own consumption needs. This system gives no importance as to how the business meets the consumer's needs. Therefore, attention is paid to ecological factors (sociological, cultural, legal etc.) and marketing decisions and their impact on the society's well-being.

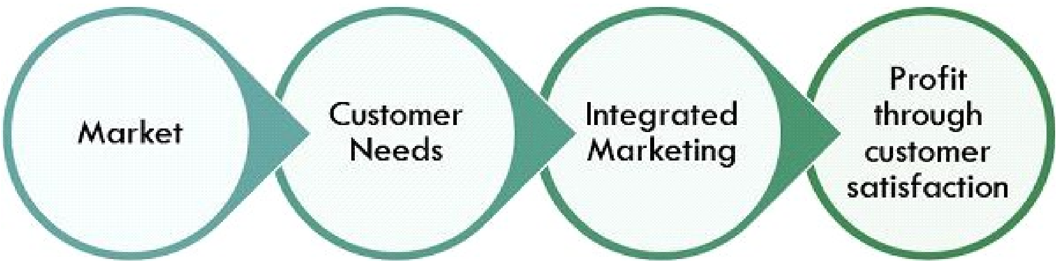
3.5 MARKETING VERSUS SELLING

Though marketing is broader than selling, it is often equated with selling. Continuous exposure to advertising and personal selling leads many people to link marketing and selling, or to think that marketing activities start once goods and services have been produced. While marketing certainly includes selling and advertising, it encompasses much more. Marketing also involves analyzing consumer needs, securing information needed to design and produce goods or services that match buyer expectations and creating and maintaining relationships with customers and suppliers.

Definition of Marketing Concept

The marketing concept is a business idea, which states that the company's success lies in becoming more effective than the rivals, in producing, delivering and communicating greater customer value to the target market.

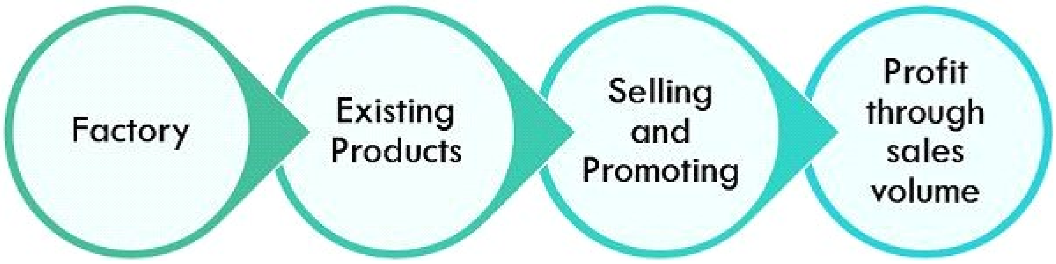
It relies on four elements, i.e. target market, integrated marketing, customer needs and profitability. The concept begins with the specific market, stresses on customer needs, coordinates activities that influence customers and reaps profit by satisfying customers.



The notion holds that a firm can attain its objective of profit maximisation, in the long run, by identifying and working on the needs of the current and prospective buyers. The central idea of marketing concept is to fulfil the needs of the customer, by means of the product. Hence, all the decision was taken by the firm keeping in mind the satisfaction of consumers.

Definition of Selling Concept

The selling concept holds that if businesses and consumers are left isolated, then the consumers are not going to buy ample products manufactured by the company. The concept can be applied belligerently, in the case of goods are not sought, i.e. the goods which the customer don't think of purchasing and also when the firm is operating at more than 100% capacity, the firm aims at selling what they produce, but not what the market demands.



Hence, the consumer wants are induced to buy the products, through aggressive selling and promotional techniques such as advertising, personal selling and sales promotion.The essence of selling concept is to sell what the company produces, by convincing, coaxing, luring or persuading buyers, rather than what is desired by the customer. The concept focuses at generating profit by maximising sales.

Sales vs Marketing Activities

The typical goal of marketing is to generate interest in the product and create leads or prospects. Marketing activities include:

- consumer research to identify the needs of the customers
- product development – designing innovative products to meet existing or latent needs
- advertising the products to raise awareness and build the brand.
- pricing products and services to maximize long-term revenue.

On the other hand, sales activities are focused on converting prospects to actual paying customers. Sales involve directly interacting with the prospects to persuade them to purchase the product.

The following table summarizes the key differences between marketing and selling concepts.

COMPARISON CHART		
Basic of Comparison	**Marketing**	**Selling**
Definition	Marketing is the systematic planning, implementation and control of business activities to bring together buyers and sellers.	A sale a transaction between two parties where the buyer receives goods (tangible or intangible), services and/or assets in exchange for money.
Approach	Broader range of activities to sell product/service, client relationship etc.; determine future needs and has a strategy in place to meet those needs for the long term relationship.	Make customer demand match the products the company currently offers.
Focus	Overall picture to promote, distribute, price products/ services; fulfill customer's wants and needs through products and/or services the company can offer.	Fulfill sales volume objectives
Process	Analysis of market, distribution channels, competitive products and services; Pricing strategies; Sales tracking and market share analysis; Budget	Usually one to one

Scope	Market research; Advertising; Sales; Public relations; Customer service and satisfaction.	Once a product has been created for a customer need, persuade the customer to purchase the product to fulfill her needs
Strategy	Pull	Push
Priority	Marketing shows how to reach to the Customers and build long lasting relationship	Selling is the ultimate result of marketing.
Identity	Marketing targets the construction of a brand identity so that it becomes easily associated with need fulfillment.	Sales is the strategy of meeting needs in an opportunistic, individual method, driven by human interaction. There's no premise of brand identity, longevity or continuity. It's simply the ability to meet a need at the right time.

3.6 EVOLUTION OF MARKETING CONCEPT

Marketing concept has undergone a drastic change over years. Earlier it was production or later selling which was key to marketing idea but moving ahead now these have given way to customer satisfaction rather delight developing a modern marketing concept. Let's review the evolution of earlier marketing ideas;

THE PRODUCTION CONCEPT

It is one of the oldest concepts in business. It holds that consumers will prefer products that are widely available and inexpensive. Managers of production- oriented business concentrate on achieving high production efficiency, low costs, and mass distribution.

Companies which use the production concept generally focus too narrowly on their own activities because according to this concept the companies think that consumer will buy the product that comes to market first.

THE PRODUCT CONCEPT

It proposes that consumers favor products that offer the most quality, performance, or innovative features. Managers in these organizations focus on making superior products and improving them overtime.

Companies put a strong focus on the importance of the quality of the product because in the long run the product exists only with the quality it is giving to the consumer.

This orientation may lead to Marketing Myopia i.e. shortsightedness of focusing excessively on product rather than on consumer needs.

THE SELLING CONCEPT

It holds that consumers and businesses, if left alone, won't buy enough of the organization's product. The organization must therefore undertake an aggressive selling and promotion effort.

It is not sufficient for the manufacturer to made the goods and wait for the customers. Thus, according to this concept it is very important to inform the consumer about the product which can be done through different ways of promotion.

THE MARKETING CONCEPT

It emerged in mid-1950s, instead of a product- centered, make- and –sell philosophy, business shifted to a customer- centered, sense-and-respond philosophy.

The marketing concept holds that the key to achieving organizational goals is being effective than competitors in creating, delivering, and communicating superior customer value to your chosen target markets.

Theodore Levitt of Harward drew a perceptive contrast between the selling and marketing concepts. Selling focuses on the needs of the seller, marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash, marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating , delivering, and finally consuming it.

Several scholars have found that companies that embrace the marketing concept achieve superior performance. This was first demonstrated by companies practicing a *reactive market orientation* understanding and meeting customers' expressed needs.

It is very important for the manufacturer to produce a product that the consumer wants, so that the consumer is satisfied and the manufacturer earns profit

CONSUMER CONCEPT: Companies use consumer concept to give attention the needs and wants of individual consumers.

SOCIETAL MARKETING CONCEPT: This concept means that companies should not only work for the consumer but also for the society. A balance between company profits, consumer wants and society welfare.

HOLISTIC MARKETING CONCEPT

The trends and forces defining the 21st century are leading business firms to a new set of beliefs and practices. Today's best marketers recognize the need to have a more complete, cohesive approach that goes beyond traditional applications of the marketing concept.

This concept is based on the development, design, and implementation of marketing programs, processes and activities that recognizes their breadth and interdependencies. Holistic marketing recognizes that "everything matters" in marketing- and that a broad, integrated perspective is often necessary. Holistic marketing is thus an approach that attempts to recognize and reconcile the scope and complexities of marketing activities.

3.7 CONCEPT OF TRADITIONAL AND MODERN CONCEPT OF MARKETING

Traditional Concept of Marketing

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

Modern Concept of Marketing

According to the modern concept, marketing is concerned with creation of customers. Creation of customers means identification of consumer needs and organising business to satisfy these needs.

Marketing in the modern sense involves decisions regarding the following matters:

1. Products to be produced

2. Prices to be charged from customers

3. Promotional techniques to be adopted to contact and influence existing and potential customers.

4. Selection of middlemen to be used to distribute goods & services.

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

Modern concepts of marketing are broad and user-centric. It means discovering your audience and creating goods as per their needs & wants, rather than simply providing them with what the seller has made. Thus it is very essential for the seller to understand the consumer, what problems they face day to day and creating a solution, often before they ask for it.

3.8 SUMMARY

Management process comprises of five M's i.e. men, money, materials, machines and markets. Marketing is the last component of this chain. The success of a business enterprise lies not only in production, but mainly in successful marketing. Production of goods and services has no meaning unless the goods and services are exchanged profitably for money or money's worth. This involves the movement of goods from the manufacturers to the ultimate consumers. In bringing the producer and the consumer together, certain activities and functions are performed which is the subject matter of marketing like collection of market information, buying, storing, grading, packing, selling, transporting, risk bearing, promotion etc.

The approach to the study of marketing has passed through several stages before reaching the present stage. In modern sense, marketing involves all efforts to create customers for the product and to maintain them permanently. Today's best marketers recognize the need to have a more complete, cohesive approach that goes beyond traditional applications of the marketing concept. Selling focuses on the needs of the seller, marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash, marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating , delivering, and finally consuming it. It is true, that marketing concept is relatively wider term than selling concept. This is because selling concept itself is a part of the marketing concept, which is related to promotion and transfer of ownership and possession of the commodity from one person to another. On the other hand, marketing concept incorporates a number of activities like identifying the needs of customers, designing and developing the product as per their wants, fixing prices, persuading the buyers to buy the same.

3.9 GLOSSARY

- **Target Market**: The particular sub-division or segment of a total potential market selected by a company as the target of its marketing efforts.
- **Holistic marketing**: It is a business marketing philosophy which considers business and all its parts as one single entity and gives a shared purpose to every activity and person related to the business.
- **Brand:** A name, term, symbol or design or a combination of them, which is intended to identify the goods or services of one seller and to differentiate them from those of competitors.

- **Unique Selling Preposition (U.S.P):** The U.S.P is the promise made in a highly competitive and convincing manner which positions the product clearly in the minds of the consumer.
- **System approach:** A concept in which the various components of the marketing environment are viewed as inter related and interdependent making up a rational system.
- **Direct Marketing:** A seller marketing his products to its consumers without using middlemen.

3.10 SELF-ASSESSMENT QUESTIONS

1. What do you mean by Institutional approach of Marketing?

Ans ______________________________

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2. Explain in brief 'Standardisation and Grading' functions of Marketing.

Ans ______________________________

____

____

3. Enumerate various facilitating functions of marketing.

Ans ______________________________

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4. Discuss in detail the modern concept of marketing.

Ans ______________________________

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3.11 LESSON END EXERCISE

1. Explain various functions of marketing.

Ans ____

____

____

2. What are the approaches to the study of marketing?

Ans ____

____

____

3. Differentiate and explain the traditional and modern concepts of marketing.

Ans ____

____

____

4. 'Marketing concept is relatively wider term than selling concept.' Explain.

Ans ____

____

____

3.12 SUGGESTED READINGS

- Marketing Management: Pankaj Madan; Amit Mittal and Hemraj Verma
- Fundamentals of Marketing: Anupreet K Kour; Kamlesh Bajaj and Khushdip Kour
- Principles of Marketing: S. P. Bansal
- Marketing Management: P.K. Agarwal
- Marketing Management: Dr. K. Karunakaran

Concept of Product : Product Decisions and Strategies; Classification of Products; Product Life Cycle

Structure

4.1 INTRODUCTION

The marketing mix, which is the means by which an organisation reaches its target market, is made up of product, pricing, distribution and promotion decisions. These are usually shortened to an acronym "4P's". Product related decisions form one of the 4P's of marketing mix. It can be argued that product decisions are probably the most crucial as the product is the very epitome of marketing planning. Product decisions revolve around decisions regarding the physical product (size, style, specification, etc.) and product line management. These decisions include introduction of new products, improvement of existing products, planned elimination of obsolete products and, packaging and branding. In this unit, we will discuss the framework within which these decisions are taken. Starting with identifying various types of products, we will introduce new terms like product line and mix. Most product decisions are taken in the context of the overall strategy of an organisation. This strategy may also include important areas of diversification. We will discuss some of the important alternatives for diversification.

4.2 OBJECTIVES

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

- Acquaint yourself with product and its related concepts
- Understand the different types of consumer and industrial products
- Identify various product line decisions
- Understand the concept of product line and mix
- Appreciate the concept of product diversification
- Examine various steps in new product development
- Assess the various stages in product life cycle

4.3 MEANING AND DEFINITIONS OF A PRODUCT

A product may be defined as a bundle of utilities. A product is a combination of several characteristics-physical and psychological. How people personally feel about, or perceive the product is just as important as the actual physical characteristics of it. A product can be defined as a collection of physical, service and symbolic attributes which yield satisfaction or benefits to a user or buyer. A product is a combination of physical attributes say, size and shape; and subjective attributes say image or "quality". A customer purchases on both dimensions. Product is the sum total of physical, economic, social and psychological benefits offered to a market to satisfy a want or need. The customer does not buy merely the physical and chemical attributes of a product. A consumer is really buying a product for satisfaction. It can offer him / her expected satisfaction. Therefore, the term 'product' does not mean only the physical product. It also means the total product including brand, package and label, the status of manufacturer and distributor and services offered to the customer in addition to the physical product. The term product is inclusive. It means both physical goods such as fan and cycle and also service, credit cards, financial services, persons, places, organizations, and ideas. Thus, it consists of various product features and accompanying services. Hence, a product is a set of tangible and intangible attributes, including packaging, color, price, quality and brand plus the services and reputation of the seller.

Product may take any forms as listed below. The components of a Product which may be the selling points for that product are:

• Physical Attributes

• Psychological Benefits

• Brand

• Brand Image

• Guarantee/ Warranty

• Service

• Special Features

Definitions of product

According to Philip Kotler, "A product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or a need."

According to Peter D. Benett, "A product may be an idea, a physical entity or a service or any combination of the three. It exists for the purpose of exchange in the satisfaction of individual and organizational objective."

According to Jobber (2004), "A product is anything that has the ability to satisfy a consumer need."

In the words of Dibb et al, "A product is anything, favourable and unfavourable that is received in exchange."

Different Concepts of Product

• Physical concept:

Physical concept is also known as traditional concept which has a physical existence in it. In this concept, physical goods have the physical features like color, name, size, etc. It can be touched, seen and transformed.

• Service concept:

According to this concept, product cannot be seen and touched. It cannot be owned and the ownership cannot be transferred. It cannot be separated from the service providers. Education, hair cutting, consultancy service, etc are the example of service concept.

• Augmented concept:

This concept combines tangible and intangible activities. Therefore, the services like warranty, free repair, and maintenance, manual or guides etc. provided to increase the sales are augmented products. For example, while buying a computer, the buyer not only buys the physical computer but also buys the free installation, free repair, and maintenance, packaging, etc.

• Total product concept:

This concept combines tangible, intangible and augmented product concept. Presentation of the products filled with a tangible and intangible feature in front of customers to sale the product is known as a total product. This includes physical features, benefits, advantages related with goods, intangible services, etc. For example, if one buys a computer then he/she buys another additional service like free installation, repair, and maintenance, home delivery, etc. with it.

4.4 LEVELS OF A PRODUCT

Various product levels are discussed below:

1. Core Product

This is the basic product and the focus is on the purpose for which the product is intended. It represents the fundamental need or want that consumers satisfy by consuming the product or service.

For example- in a hotel industry- Rest and sleep

2. Generic /Basic Product

This represents all the qualities of the product, a version of the product containing only those attributes or characteristics absolutely necessary for it to function.

For example - room with basic facilities

3. Expected Product

This is about all aspects the consumers expect to get when they purchase a product. It refers to the set of attributes or characteristics that buyers normally expect and agree to, when they purchase a product.

For example -room service, neatness of room

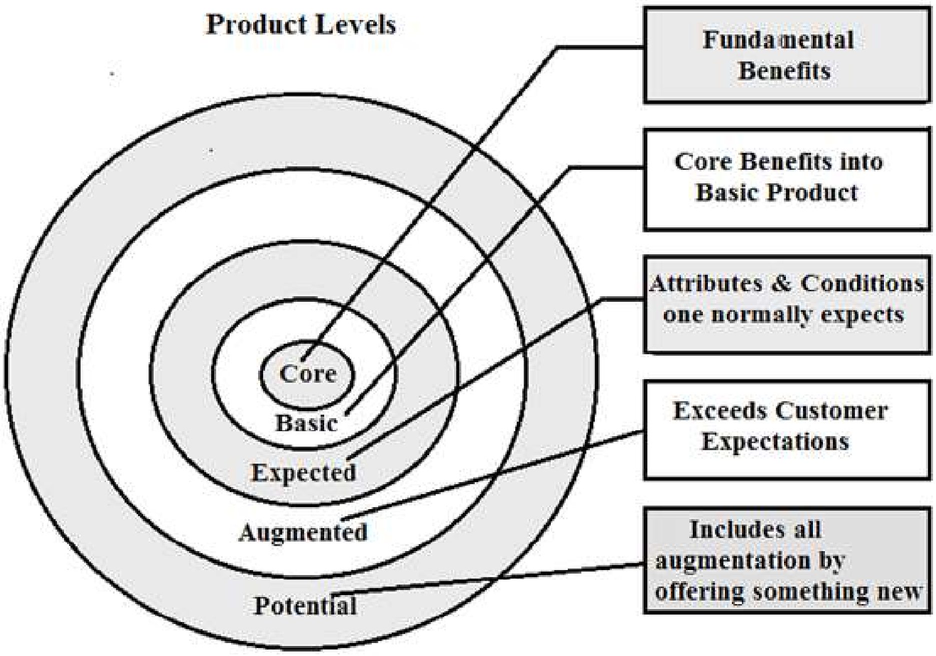
4. Augmented Product

This refers to all additional factors which sets the product apart from that of the competition. And this particularly involves brand identity and image. Inclusion of additional features, benefits, attributes or related services that serve to differentiate the product from its competitors. For example - Complimentary breakfast / dinner, free access to pool, gymnasium etc.

5. Potential Product

This is about augmentations and transformations that the product may undergo in the future. All the augmentations and transformations a product might undergo in the future.

For example- free pick up / drop from and to airport, Free Wi-Fi facility in room



4.5 CLASSIFICATION OF PRODUCTS

A product's physical properties are characterized the same the world over. Products can be classified on various grounds:

1. **Based on tangibility - Tangible and Intangible**

a) **Tangible products:** Tangible goods are physical products defined by the ability to be touched. A tangible product is a physical object that can be perceived by touch such as a building, vehicle, or gadget. Most goods are tangible products. For example, a soccer ball is a tangible product.

b) **Intangible products:** An intangible product is a product that can only be perceived indirectly such as an insurance policy. An intangible good is a good that does not have a physical nature, as opposed to a physical good (an object). Digital goods such as downloaded music, mobile apps or virtual goods used in virtual economics are all examples of intangible goods. In ordinary sense, an intangible good should not be confused with a service since a good is an object, whereas a service is an activity or labor. So a haircut is a service, not an intangible good.

Tangible goods are distinct from intangible goods, which may have value but are not physical entities. Goods that are tangible play a large part in retail, though the purchasing of intangible goods is now widely available through the Internet.

2. Based on Durability - Durable and Non Durable

a) Durable Goods: These are goods which are 'durable' or which last for some time. Examples of such goods would be electric irons, refrigerators, television sets, etc. This type of product requires more selling effort from the salesman. The question of after sales service and repairs is also of importance as 'selling points' or 'benefits' which the customer would like to have. Therefore, in case of refrigerators, the number of years of guarantee, particularly for the compressor, is an important consideration when a consumer makes his final selection. In case of certain types of durables, after sales service is very essential. If a customer purchases a cyclostyling machine or duplicating machine, it is necessary for the salesman to 'follow through' and visit the customer to see how it is installed and used. Very often this product is operated by 'peons' who may not know how to do so. This results in poor duplication and copies look unattractive and the consumer gets the impression that the fault lies with the machine. So, while marketing such a product, it is important to guide the actual user of machine.

b) Non-durable Goods: These are goods which get depleted on consumption. For example a bottle of soft drink is consumed at once on one occasion within a matter of minutes. Soap obviously takes a little longer. However, in both these cases, the goods are consumed very fast. The advantage of these goods is that they are purchased very often and therefore there are many repeat purchases once the customer is satisfied with one product. Therefore, one must ensure quality and appropriateness of price. These are the products that have to be advertised heavily, with a view to inducing people to try them out, and thus, build up brand preference and brand loyalty.

3. Based on Usage - Consumer and Industrial

a) Consumer Product: "Product bought by final consumer for personal consumption". Consumer goods are those which are used by ultimate consumers or households and in such form that they can be used without further commercial processing. Consumer goods can be divided into four classes.

i) Convenience product

ii) Shopping Product

iii) Specially Products

iv) Unsought Product

i) Convenience Product:-Consumer product that the customer usually buys frequently, immediately, and with a minimum of comparison and buying effort consumer products can be divided further into staples, impulse products, and emergency products. *Staples* Products are those product that consumers buy on a regular basis, such as ketchup, tooth path etc., *Impulse* products are those product that purchased with little planning or search effort, such as Candy bar, and magazine, *Emergency* product is those when consumer need is urgent, e.g. umbrellas during a rainstorm etc.

These are goods which consumers generally purchase frequently without making an effort or as a habit. The purchase is almost spontaneous and the person has already a predetermined brand in mind. These convenience goods include soaps, newspapers, toothpastes, toiletries, cigarettes, etc. Often convenience goods are bought impulsively or spontaneously. For example, when a person goes shopping around and sees a product which attracts his eyes, he buys it on impulse. Such goods are not purchased on regular basis.

ii) Shopping Product:-Consumer good that the consumer, in the process of selection and purchase, characteristically compares as such bases as suitability, quality, price, and style. Example: Furniture, clothing, used cars, major appliances and hotel and motel services.

These are goods which are purchased after going around shops and comparing the different alternatives offered by different manufacturers and retailers. In this case, emphasis on quality, price, fashion, style, etc. are of great importance. A common example, in the Indian context, would be the purchase of sarees by ladies. Generally, ladies go looking around from shop to shop before they make their final selection. Hence, the expression 'shopping' goods. These also include durables such as furniture and refrigerators. That is why a large variety of goods offered at a retail outlet increases sales of this type of goods. A manufacturer should also attempt to have his product properly displayed and offered at most retail outlets.

iii) **Specialty Products**:-Consumer product with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort. e.g. Specific brands and types of cars, high-priced photographic equipment, designer clothes etc.

Specialty Goods: Has certain special features, unique characteristics and brand identification. The special features are – full product knowledge, brand bias, limited demand, high unit price etc. Special efforts are made on their purchase. They are costly luxury goods symbolic of lifestyle and status. Ex. watches, Cameras, Cars.

iv) **Unsought Products:**-Unsought products are consumer products that the consumer either does not know about or knows about but does not normally think of buying. Most major new inventions are unsought until the consumer become aware of them through advertising. E.g. Life Insurance and blood donations to the Red Cross.

Unsought Goods: Are those that the consumer does not know about or does not normally think of buying. Such goods are sold through direct selling efforts. Ex. Life Insurance, Encyclopedia, New products like pest control etc.

b) **Industrial Products**: Industrial products are those products which are used in producing other goods or rendering services. These are the products that are to be sold to ultimate consumers. The main characteristics of industrial goods are a geographical concentration of the market, a limited number of buyers, a large unit of individual purchase and technical considerations. These goods have a derived demand.

According to American Marketing Association, "Industrial goods which are destined to be sold primarily for use in producing other goods or rendering services as contrasted with goods destined to be sold primarily to the ultimate consumers."

It is meant for use in the production of other goods or for some business or institutional purposes. Industrial goods are classified into four- production facilities and equipments, production materials, production supplies and management materials.

These are products which are sold primarily for use in manufacturing other goods or for rendering some service. These include items like machinery, components and raw materials which form the bulk of industrial goods. Raw materials are sold in a different way from normal consumer products like chocolates, which require no personal selling. Raw materials on the other hand require a certain amount of technical knowhow on the part of the seller. The same would apply to component parts also. Machinery is also sold generally through the sales force, particularly if it is of the heavy type. It is obvious that the latter cannot be stocked in retail outlets. The type of product determines the type of marketing mix which has to be adopted. Industrial goods also include supplies and services. Supplies may be like lubricant and oil or typing paper in connection with the office. Supplies are similar to convenience goods. They are purchased with very little effort and repurchased once the consumer is satisfied. They are also marketed through retail outlets. Industrial services include maintenance and repairs. For example, persons having typewriters naturally want them to be looked after on a regular basis generally by the same (regular) maintenance person who is normally an outsider. Similarly, after purchasing a computer, service is necessary. These services are often provided by small producers or by the manufacturer of the original equipment itself.

Classification of Industrial Products

Industrial goods can be classified into following five categories:

i. Raw materials

Raw materials are the industrial goods. They have not been processed except for their physical handling. Raw materials may be divided into natural products- minerals and product of the forests and the seas and agricultural products- wheat, cotton, tobacco and animal products such as eggs and raw milk.

ii. Fabricating material & parts

Fabricating materials and parts are the industrial goods. These goods have undergone manufacturing processes but they need further processing or need to be combined with other materials or parts before they are ready to reach the ultimate consumers.

iii. Equipment

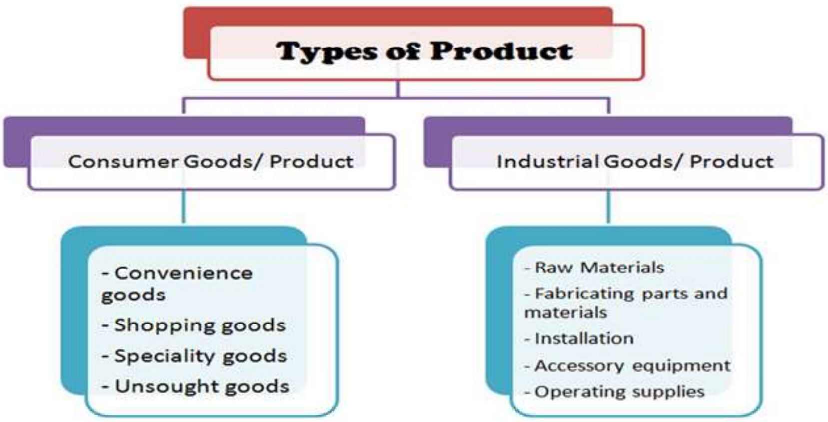
Equipments are used merely to provide facilities to the manufacturer, as they cannot be part & parcel of finished goods. Unit price and life are less than installations. For example, tools, such as screwdrivers, files set, spanners set, computers, time clock, conveyers, sharpeners, typewriter, etc.

iv. Installation

An installation means major industrial equipment's and major machinery in the industry. It can be consumed only after repeated usage due to wear and tear. They are long life orientated and very costly enough. These goods are designed and produced only against the order with a view to meet the special needs of an individual purchaser.

v. Operating supplies

Operating supplies mean the goods which are used by the industrial producer with a view to provide facilities for the operation of machine or plant continuously without loss of time, but which will not become a part of the finished product. Operating supplies are the physical items required for running of a manufacturing production or service facility owned by a business.



MARKETING STRATEGY FOR CONSUMER AND INDUSTRIAL PRODUCTS

Let us briefly analyse the difference in marketing strategies which might be required for the two types of products namely consumer and industrial products. This understanding is important for product line decisions. Industrial products are generally subject to greater standardisation, as against certain consumer products which require frequent changes in fashion and style. Advertising normally is an important promotional tool for consumer products, but may not be so in the case of industrial products. Personal selling and after sales service is generally more important find industrial products. Industrial products generally involve high value purchases and s involves competitive bidding based on price competition. Selling is done on the basis of quality or tangible attributes. As against this, consumer products are very often sold for psychological satisfaction. For example, in case of soaps, Lux soap offers you a complexion like that of a film star. (This is on the presumption that film stars do have complexions, as they appear to have on the screen.) Consumer products require elaborate channels of distribution, but industrial products are sold through fewer outlets and often directly by the organisation itself. These are some of the salient features of marketing of consumer products as against industrial products. A more detailed treatment will follow in subsequent units on promotion and physical distribution.

However, one can also classify products according to their degree of potential for global marketing:

a) Local Products - seen as only suitable in one single market.

b) International Products - seen as having extension potential into other markets.

c) Multinational Products - products adapted to the perceived unique characteristics of national markets.

d) Global Products - products designed to meet global segments.

4.6 MEANING AND CLASSIFICATION OF SERVICES

Services are specially mentioned here (although they do not constitute products) because it is generally thought that marketing is related to products alone. It should be remembered that marketing ideas and practices are equally applicable to services with slight adaptations in certain decisional areas. Services in content are different from products. For example, courts offer a service. So are hospitals, the fire department, the police and the post office. These are not products in the normal sense and yet it is very important for each of these institutions to have an appropriate image. The police are often criticised; the fire departments generally praised; the post office criticised for delays; the hospitals perhaps criticised for negligence and exorbitant rates and so on. It is obvious that controlling the quality of service is important for building its image.

Apart from government or public sector undertakings, there are 'non-profit' organisations such as museums and charities. Although non-profit, they also have to provide the best form of service for their popularity. The business and commercial sectors which includes airlines, banks, hotels and insurance companies, and the professionals such as chartered accountants, management consulting firms, medical practitioners etc. need marketing.

Some features of services include-

- Intangibility: A service is not a physical product that you can touch or see. A service can be experienced by the buyer or the receiver. Also, you can not judge the quality of the service before consumption.
- Inconsistency: There can be no perfect standardization of services. Even if the service provider remains the same, the quality of the service may differ from time to time.
- Inseparability: One unique characteristic of services is that the service and the service provider cannot be separated. Unlike with goods/products the manufacturing and the consumption of services cannot be separated by storage.
- Storage: The production and consumption of services are not inseparable because storage of services is not possible. Being an intangible transaction there can never be an inventory of services.

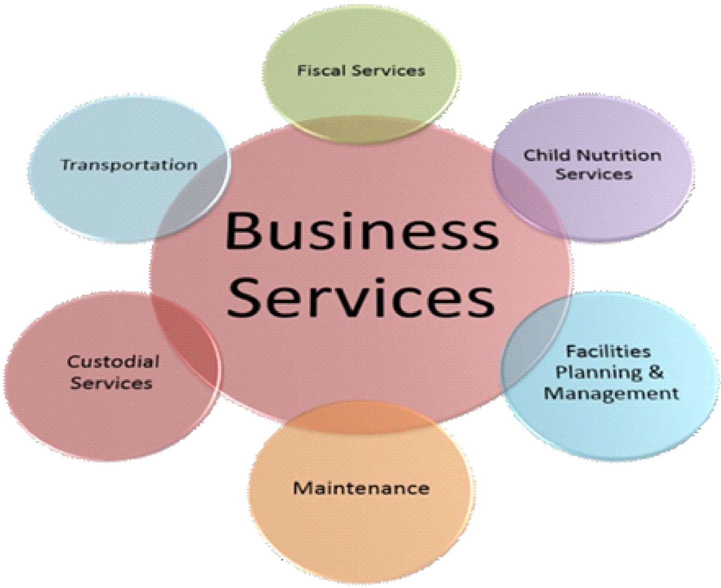
Types of Services

Let us take a look at the kinds of services that we come across in the economy. There are basically three types of classification of services.

1] Business Services

The first type of service is business services. The most basic definition would be services that support the daily functioning and activity of any business but is not a commodity. Take for example IT services. In this day and age, every business will require technological setup. The people who provide IT support to a business are providing a service in exchange for consideration.

There are other similar services that any business enterprise may require for the smooth functioning and management of its activities. Some such services are Banking, warehousing, insurance, communication, transport etc.



2] Personal Services

Personal services are commercial activities that are provided to individuals according to their individualistic needs. The service here is extremely personalised to the customer. So there can be no uniformity in the services. The service provider will alter his service according to the personal needs of each customer.

Some examples of personal services are catering, hotel and accommodation, medicine, any kind of artistic endeavour (like painting, sculpting etc). As you will notice all these services fulfil personal needs of the customers.

3] Social Services

And when talking about types of services, we come to social services. These are essential public services. They are provided by the government or other such non-profit organisations. These services aim to achieve social equality in the society by providing the backward sections with the help they need. The service is not provided for a profit motive but as a social cause. Social services include services in the sector of education, sanitation, medical facilities, housing etc.

4.7 PRODUCT PLAN OR STRATEGY

A product strategy is a company plan for marketing its products. The product plan involves a number of issues such as:

1. Product Line
2. Product Mix
3. Organising for Product planning and New Product development
4. Branding
5. Packaging and Labeling

1. PRODUCT LINE

Product lining is the marketing strategy of offering for sale several related products. Product Line is a group of products that are closely related either because they satisfy similar needs of different market segments. For example Cosmetics range for girls, women, men or different needs of one market segment. Similarly Soaps and Moisturizers for body care; Shampoos and Hair Oil for hair care and body care products or are priced similarly or are marketed by the same channels.

Unlike product bundling, where several products are combined into one, lining involves offering several related products individually. A line can comprise related products of various sizes, types, colors, qualities, or prices. Line depth refers to the number of product variants in a line. Line consistency refers to how closely related the products that make up the line are. Line vulnerability refers to the percentage of sales or profits that are derived from only a few products in the line. If a line of products is sold with the same brand name, this is referred to as family branding.

Product Line Decisions

Let us now understand terms like product item, product line and product mix frequently used in managing products.

A Product or Product Item

The 'Product Item' refers to a specific product or brand like Pears or Liril soap. There are companies with only one product and there are others having several products for various reasons, may be higher market share or higher profits or both or any other reasons.

Product Line

It is a part of the product strategy to determine whether an organisation will have a single product or more than one product. A 'Product Line is an expression used to describe a group of closely related products. Examples of these would include the Usha line of fans or the Lakme line of cosmetics.

In case of product line, very often a product manager or a product line manager is appointed to look after a particular product line. Generally, he tries to enlarge his product line because he wants a higher market share, or growth in volume of sales resulting in more profit. The latter aspect must always be remembered,, and the product line manager should be willing to eliminate any product which is found to be unprofitable, or nor required to complete the line of products offered.

Product line decisions have to be taken about how long or short the line should be. The basic considerations being the capacity of the organisation in terms of availability of production facilities, finance, etc. and the profitability of the items in the product line. A line of product is often meant to meet various segments of customers.

Consider the soap line of Hindustan Lever, as an example. 'LIFEBUOY' is described as the soap that washes away dirt and is aimed at the lower income level. For the middle priced market, this company offers LUX soap advertised as the beauty soap of film stars. Recently, as you must have noted, it was relaunched with a new perfume and a smart new look. For the `premium market', Hindustan Lever offers `PEARS'. Primarily positioned for upper class the soap is supposed to take care of tender skin. An interesting point in this illustration is that each product item is marketed under different brand names, because a brand preferred by lower social classes will not be bought by higher classes.

Product Line Modification

When you add a new product to a line, it is referred to as a line extension. When you add a line extension that is of better quality than the other products in the line, this is referred to as trading up or brand leveraging. When you add a line extension that is of lower quality than the other products of the line, this is referred to as trading down. When you trade down, you will likely reduce your brand equity.

You are gaining short-term sales at the expense of long term sales.

✓ Product Line Contraction

✓ Product Line Expansion

✓ Changing Models or Styles of the Existing Products

Product Simplification

Product Simplification means limiting the number of products a dealer deals. Sometimes it becomes necessary for a company to stop the production of unprofitable products.

Product Diversification

Product diversification means adding a new product or products to the existing product. It is a strategy for growth and survival in the highly complex marketing environment.

The meaning of the word diversification is very simple. As soon as a manufacturer offers more than one product, it is described as product diversification. Generally, diversification is categorised into two types:

1. Related Diversification and

2. Unrelated Diversification.

Where the new products introduced in the product mix are similar to the existing product, diversification is described as 'related'. When a company accepts new products which are very different from the existing products, the diversification is said to be `unrelated'.

Related Diversification

Related diversification is the commonest form of diversification, inexpensive and easier. In the earlier illustration of Hindustan Lever we can also include other brands of soaps or cleaning materials such as Vim, Surf or Rin, manufactured by this company as part of related diversification strategy.

However, this relatedness is sometimes stretched to include other similar items. For example, in case of Hindustan Lever, toiletries would also be included under related diversification. For example, Hindustan Lever produces Pepsodent and Close-up Toothpastes.

Some of the probable reasons for companies undertaking related diversification are:

1. to make a more effective use of the existing selling and distribution facilities,

2. to use its under-utilised production capacity,

3. to meet varied customer needs,

4. to take advantage of its existing reputation in a particular type of products, and

5. to increase the sale of existing products.

Unrelated Diversification

When the new products offered or introduced are quite different from the existing ones, the company is said to have adopted the strategy of unrelated diversification. For example, if a consumer products' manufacturer diversifies into the manufacture of raw materials such as chemicals or industrial products, such diversifications would be described as unrelated diversification. This naturally involves heavier costs and management challenges. This is the reason why related diversification is more popular.

Hindustan Lever was basically a consumer products company. It was forced into unrelated diversification because of its desire to grow in the face of Foreign Exchange Regulation Act and Industrial Licensing Policy. Today this company is a leading manufacturer of sodium tripoly phosphate (STPP), glycerine, nickel catalyst and fine chemicals. It is also producing a plant-growth nutrient, a product of its own research innovation, branded 'Paras'. It is supposed to increase cereals and vegetable yields considerably. Thus, this company has now diversified into unrelated products.

Take another well known company which has a varied product mix-Godrej; it not only makes cosmetics, but also steel furniture, animal feeds and its popular locks. It can be seen that this company has also adopted unrelated diversification as its product mix strategy.

Integrated Diversification or Integration

Backward Integration is a term applied where a company diversifies and manufactures products which it previously purchased, that is, industrial products. For example, a company may start manufacturing what it uses as raw materials for its final products. Previously this raw material was purchased from outside. Now the company has decided to be independent of outsiders and so indulges in backward integration.

The term Forward Integration applies when a company decides to go forward into starting its own distribution system from mere manufacturing. In this way, it gains independence with regard to retail outlets. Bata brand of shoes are largely retailed through company controlled outlets.

At times the expression "Horizontal Integration" is also used. This is where the company starts buying up and getting control over its competitors.

However, it must be remembered that any type of integration or diversification involves several questions, the most important of which concern cost, the possibility of profits, the extent of competition and the ability to meet it and the risk involved.

In the final analysis, the product-mix strategy or the diversification strategy of an organisation must fit into the organisation's long-term objectives in terms of profit, growth and sales stability.

Product Differentiation: A product is really a bundle of potential benefits offered to a purchaser. However, there are certain products which basically look alike. Take toothpastes, for example. These are offered by different manufacturers and were it not for the tube and the branding, the customer would not even be able to distinguish between the products of most different manufacturers. To make their product distinct from others the manufacturers identify them to the customer, that is, 'differentiate', by using different packaging, colouring etc. and by emphasising different benefits or advantages in their promotion. Thus, Product differentiation involves developing and promoting awareness in the minds of customers that the company's products differ from the products of competitors. This is made by using trade mark, brand name, packaging, labeling etc.

Product Positioning: It is the process of identifying needs of market segments, product strength, weakness and extent to which competing products are perceived to meet customer need. It is manner in which product is offered to a particular segment or aiming at meeting a particular consumer need. All products do not appeal to all income groups or age groups, unless they are meant to satisfy basic necessities. A manufacturer can thus use the need-oriented segmentation. For example, a toothpaste manufacturer may appeal to prevention of 'tooth decay', while another might offer 'sociability' in the sense of preventing bad breath. Still another may provide the need to be 'attractive' by emphasising the whiteness of the teeth which his product, toothpaste, gives. This is called the concept of product positioning. In the case of soft drinks, positioning can be done in terms of pricing, calorie contents and in many other ways. Thus positioning is used for bringing about differentiation in a manufacturer's product.

2. PRODUCT MIX

The expression 'product mix' is used to refer to a set of all the products offered for sale by a particular company. The 'Product Mix Strategy', includes all product lines and product items offered by a company. An organisation has various options to improve its product mix. It can add new products in a particular product line, or add new product lines, thus widening its product mix. The number of different product lines sold by a company is referred to as width of product mix. The total number of products sold in all lines is referred to as length of product mix. Product Mix is the entire range of products of a company. The product mix has four main characteristics:

1. Width: Number of product lines in the company

2. Length: Number of product items in each product line

3. Depth: Number of Variants offered of each product item in the line.

4. Consistency: A description of how closely related the various product lines are in terms of end use, production requirements, distribution channels or some other way.

Factors Influencing Product Mix

1. **Market demand:** The change in the demand of a product affects the decision of product mix. If the demand of a new product is increasing in the market and the production of that new product is beneficial to the company considering its cost of production, utilization of its plant and machinery and labor force and if it thinks that it can compete with its competitors, it can start production of the new product. Likewise, if the demand of a product is declining fast, it can decide to drop its production.

2. **Competitors' actions and reactions:** The decision of adding or eliminating the product may be the reaction of competitors' action. If company thinks that it can meet the competition well by adding new product it can decide to produce the product.

3. **Quantity of production:** If the production of the new product is considered to be at a large scale and the company can add more items to its product line just to get the economies of large scale production.

4. **Use of residuals:** If residuals can be used gainfully the company can develop its by-products into the main products. For example, a sugar mill can develop the production of paper, card board or wine from the bagasse profitably.

5. **Goodwill of the company:** If the company is of repute, it can market any new product in the market without much difficulty. It may take decision of adding new product without any hitch because it knows that customer will accept any product introduced by the firm. For example, if a new product is introduced by the Hindustan Lever Ltd. It will gain favor by the customers over competitors' product and it is only because of the good will of the firm in the market of consumer products.

6. **Change in purchasing power or behavior of the customers:** If the number of customers increases with the increase in their purchasing power or with the change in their buying habits, fashion etc., the company may think of adding one more product keeping mass production or increase in profitability in mind.

7. **Full utilization of marketing capacity:** If the marketing personnel are not being utilized to their capacity, the company may start the production of another product

in order to utilize their marketing capacity fully. In this way, company may be able to reduce its marketing cost.

8. **Change in company desire:** Keeping in mind the objectives of the firm i.e., maintaining or increasing the profitability of the concern, the firm may eliminate some of its unprofitable processes or may start the process of producing a new product. In this way, the firm tries to make its product mix an ideal one.

9. **Advertising and distribution factors:** Advertising and distribution factor may be the one of the reasons for the change in production mix. If the advertising and distribution organization are the same, the company may take the decision to add one more item to its product line. For example, company can manufacture one more product if the same raw materials are used in its production. A company producing the Suitcase may add production to hold all or attachi-case and the advertising and distribution cost will not increase at all or it may increase marginally in introducing the product in the market.

10. **Cost of production:** If the company can develop a new product with the help of the same labor force, plant and machinery and technique, it can decide to start the production of that product at lower cost. For example, a by-product can be developed by a company at low cost.

3. PRODUCT PLANNING AND DEVELOPMENT

The underlying objective of product planning and development is growth for companies i.e. increase in sales and profits. There are four ways to grow:

1. Market Penetration:

It involves expansion of sales of existing products in existing markets, through aggressive marketing mix. Expansion may happen by increase in usage of existing buyers or attracting new buyers from the same target group.

For e.g. Increasing the sales of Diapers by advertising more and reducing the prices.

2. Market Development:

It involves sales of existing products in new markets or segments.

For e.g. Maruti Omni is marketed as a passenger car for families, is marketed to hospitals as ambulance; to schools as a school van.

3. Product Development:

It involves introduction of new products in existing markets. This involves product addition or product improvements.

For e.g. Introduction of LNG/ CNG variants of Suzuki Swift car;

4. Diversification:

It involves introduction of completely new products in new market.

For e.g. ITC (a tobacco/ hospitality company) diversified into Snack foods (Bingo chips) and Personal Care (Fiama-di-Wills).

Steps in New Product Development

Deliberate Step-By-Step approach characterized by 8 steps

Step 1: Idea Generation

Objective is to create a large pool of ideas as potential product options:

-New ideas for products

-New attributes for current products

-New Uses for current products

Ideas may be contributed by scientists, top management, R&D professionals, customers, sales force, dealers etc.

Step 2: Idea Screening

Objective: Critically evaluate the ideas to isolate most attractive options.

Methodology: All ideas and innovations are evaluated by analyzing :

-Project Attractiveness: Strategic and Financial Attractiveness

-Capability to execute: Requisite skills and resources

Step 3: Concept Development & Testing

All ideas that survive screening process are studied in details.

Objective here is to:

-Develop the Product-Idea into a Product Concept

-Express the idea in a meaningful consumer terms

-Defining the concept in terms of

Who/ For Whom? Target market

What? Product features

Why? Product benefits

Where, When and how? Usage

Testing for Target consumer reaction by asking them to offer their comments on product attributes and expected benefits.

Step 4: Marketing Mix Development

Objective: Construct a marketing plan for the product with respect to product, size, packaging, price, positioning, distribution, advertising, sales promotion etc.

Feedback is obtained on various aspects of marketing mix and changes are made accordingly.

Step 5: Business Analysis

Objective: Analyze the viability of product ideas from business viewpoint. It is a combination of cost benefit and profitability analysis. Estimation is done on:

• Overall demand forecast / Estimation of market size

• Operational Costs: Production cost, marketing cost

• Financial projections: Sales, Profitability and BEP.

Step 6: Product Development

Objective: Analyze the viability of product ideas from business viewpoint. It is a combination of cost benefit and profitability analysis. Estimation is done on:

• Overall demand forecast / Estimation of market size

• Operational Costs: Production cost, marketing cost

• Financial projections: Sales, Profitability and BEP.

Step 7: Test Marketing

Objective: Test the Product as real products in a small segment of target market under controlled test market conditions. Test Marketing is also known as Pre-Testing.

Definition: Pre-Testing involves a research technique in which the product under study is placed on sale in one or more of selected localities or areas, and its reception by consumer is observed, recorded and analysed.

Purpose/ Benefits of Test Marketing:

- Provide reliable sales forecast
- A product fault can be located and corrected
- Pretesting and selecting among alternative marketing plans
- Determine optimum price, selection of the most effective advertisement message, media and distribution channel

Step 8: Commercialization and Launching

Objective: To launch the product and monitor early delivery/ market response

Product Launch needs to be well planned and product Quality has to be maintained.

Decisions are taken on following product launch aspects:

1. When (Timing):

• First entry, Parallel entry, Late entry

2. Where (Geographic strategy):

• Roll out the product in waves with different part of the markets receiving products on different schedules/ all-out launch

3. To Whom (Target Market prospect):

• Opinion leaders, Heavy users, Early adopters

4. How (Introductory market strategy)- Action Plan

Reasons for product failure

a. Market Factors

Poor demand management

Change in customer tastes and preferences

Environmental factors - Unexpected competitive actions

b. Product Factors

Problems with the product design

Costs of product development are too high

No uniqueness

c. Institutional Factors

Wrong segmentation and targeting

Product incorrectly positioned, priced or advertised

4. BRANDING

'Branding' means giving a name to the product by which it could become known and familiar among the public. When a brand name is registered and legalised, it becomes a 'Trade mark'. All trademarks are brands but all brands are not trademarks. Brand, brand name, brand mark, trade mark, copy right are collectively known as the language of branding.

Type of Brands

In many markets, brands of different strength compete against each other. At the top level are *national* or *international* brands. A large investment has usually been put into extensive brand building— including advertising, distribution and, if needed, infrastructure support. Although some national brands are better regarded than others—e.g., Dell has a better reputation than e-Machines—the national brands usually sell at higher prices than to *regional* and *store* brands. Regional brands, as the name suggests, are typically sold only in one area. In some cases, regional distribution is all that firms can initially accomplish with the investment capital and other resources that they have. This means that advertising is usually done at the regional level. *Store,* or *private label* brands are, as the name suggests, brands that are owned by retail store chains or consortia thereof. (For example, Vons and Safeway have the same corporate parent and both carry the “Select” brand). Typically, store brands sell at lower prices than do national brands.

Co-branding involves firms using two or more brands together to maximize appeal to consumers.

Some ice cream makers, for example, use their own brand name in addition to naming the brands of ingredients contained. Sometimes, this strategy may help one brand at the expense of the other. It is widely believed, for example, that the “Intel inside” messages, which Intel paid computer makers to put on their products and packaging, reduced the value of the computer makers’ brand names because them emphasis was now put on the Intel component. In order for a business organisation to successfully create an effective brand that is capable of enhancing a product’s value, it needs to understand how the delivery of value differs across different types of brands. This means that a company has to know the kind of brand suitable for its offering. So what are the different kinds of brand? They are the following:

• Manufacturer Brands: These are developed and owned by the producers, who are usually involved with distribution, promotion and pricing decisions for the brands. For example, Apple computers.

• Dealer Brands: These are brands initiated and owned by wholesalers or retailers.

• Generic Brands: It indicates only the product category and do not includes the company name or other identifying terms.

• Family Brands: A single brand name for the whole line closely related items. For example, Amul for milk products.

• Individual Brands: Each product has a special brand name such as surf etc.

• Co-Brands: It uses two individual brands on a single product.

• Licensed Brands: It involves licensing of trade marks. For example, P&G licensed its Camay brand of soap in India to Godrej for a few years.

Brand Loyalty

It simply means loyalty of a buyer towards a particular brand. Wilkie defined loyalty as, "A favourable attitude and consistent purchase of a particular brand." For example, if a customer has a brand loyalty towards 'Pears', he will buy and use only that soap. There are three levels of Brand Loyalty.

1) Brand Recognition: This means that people are familiar with the product and they are likely to buy it.

2) Brand Preference: At this level people adopt the product- that is; they habitually buy it if it is available.

3) Brand Insistence: It is the stage at which people will not accept any substitute.

Brand Equity

It simply refers to value associated with a brand. It is the Marketing and financial value associated with a brand's strength in a market. According to Aaker, "Brand equity is a set of assets and liabilities linked to a brand's name and symbol that add to or subtract from the value provided by a product or service to a firm or that firm's customers".

5. PACKAGING AND LABELLING

Packaging and Labelling are among the most important areas in product management. *Packing* means putting article into small packets, boxes or bottles for sale to ultimate consumers or for transport.

Labelling is defined as a slip or tag attached with the product or with its package which provides necessary information about the product and its producer. Contrary to common perception that these two processes are all about creating an image and decent presentation of a product, packaging and labelling have more relevant purpose and objectives. These include physical protection of product from destructive things that may spoil or ruin it, e.g. temperature, shock, vibration, etc. Other purposes include containment convenience, marketing, security, and dissemination of information about the use, transportation, storage or disposal of the product. Designing the labels and packages of products require careful planning. Moreover, there are consumer safety regulations that every businesses should follow. It is the responsibility of every product manufacturer to respects these rules. Thus, before you start designing product labels and packaging, it makes good business sense to know what laws will affect you and what kind of materials will best suit your product.

Kinds of Labels

There are four kinds of labels:

1) Brand Label: It gives the brand name or mark. For example, Britannia Biscuits, Vicks Vaporub etc.

2) Grade Label: It gives grade or quality of the product by a number, letter or words. For example, A grade, B grade or 1and 2 category based on quality.

3) Descriptive Label: It gives details of product, its functions, price, warnings etc.

4) Information Label: It provides maximum information about the product. It contains fuller instructions on the use and care of the product.

4.8 THE PRODUCT LIFE CYCLE

PLC is an attempt to recognize distinct stages in the sales history of the product. The concept of a product life cycle is to assert four things:

(1) Products have a limited life;

(2) Product sales pass through distinct stages with different challenges, opportunities and problems for the seller;

(3) Profits rise and fall at different stages of the product life cycle; and

(4) Products require different marketing, financial, manufacturing, purchasing and human resource strategies in each stage.

Products often go through a *life cycle.* Initially, a product is introduced. Since the product is not well known and is usually expensive (e.g., as microwave ovens were in the late 1970s), sales are usually limited. Eventually, however, many products reach a *growth* phase—sales increase dramatically. More firms enter with their models of the product. Frequently, unfortunately, the product will reach a *maturity* stage where little growth will be seen. For example, in the United States, almost every household has at least one color TV set. Some products may also reach a *decline* stage, usually because the product category is being replaced by something better. For example, typewriters experienced declining sales as more consumers switched to computers or other word processing equipment. The product life cycle is tied to the phenomenon of diffusion of innovation. When a new product comes out, it is likely to first be adopted by consumers who are more innovative than others— they are willing to pay a premium price for the new product and take a risk on unproven technology. It is important to be on the good side of innovators since many other later adopters will tend to rely for advice on the innovators who are thought to be more knowledgeable about new products for advice. At later phases of the PLC, the firm may need to modify its market strategy.

1. **Product Introduction/ Development Stage**

This is the first stage in product life cycle. Before a new product is introduced in the market place, it should be created first. The processes involve in this stage include generation of idea, designing of the new product, engineering of its details, and the whole manufacturing process. This is also the phase where the product is named and given a complete brand identity that will differentiate it from the others, particularly the competitors. Once all the tasks necessary to develop the product is complete, market promotion will follow and the product will be introduced to the consumers. Product development is a continuous process that is essential in maintaining the product's quality and value to consumers. This means that companies need to continuously develop or innovate their products to out ride new and existing competitors.

Product is introduced in the market. Sales revenue begins to grow, rate of growth is slow. Profit is low or non-existent as Expenses are high on production, distribution and promotion. Products are bought on trial basis. Product development and Design are critical factors.

2. **Product Growth Stage**

This is a period where rapid sales and revenue growth is realised. However, growth can only be achieved when more and more consumers will recognize the value and benefits of a certain product. In most cases, growth takes several years to happen, and in some instances, the product just eventually died without achieving any rise in demand at all. Hence, it is important that while the product is still in the development and introduction stages, a sound marketing plan should be put in place and a market and primary demand should be established.

Rate of increase in sales turnover is high. Sales Volume are high despite increase in competition. Profits increase at an accelerated rate. Manufacturing and distribution efficiency is achieved. Product is well accepted by consumers and traders. Effective Distribution and Advertising are key factors.

3. **Product Maturity and Saturation Stage**

In the maturity stage, the product reaches its full market potential and business becomes more profitable. During the early part of this stage, one of the most likely market scenarios that every business should prepare for is fierce competition. As business move to snatch competitor's customers, marketing pressures will become relatively high. This will be characterised by extensive promotions and competitive advertising, which are aimed at persuading customer to switch and encouraging distributors to continue sell the product. In the middle and late phases of the maturity stage, the rate of growth will start to slow down and new competitors will attempt to take control of the market. In most cases, many businesses falls and lose money in these stages as they focus more on increasing advertising spending in hope of maintaining their grip of the market.

Sales increase at decreasing rate. Profits reduce as intense competition put pressure on prices and increases marketing expenditure. Marketers need to stimulate demand and counter competition through advertising and sales promotions. Additional expenditure is involved in product modification/ improvement / broadening product line. Overall Marketing effectiveness is the key factor.

4. Product Decline Stage

The decline stage is the final course of the product life cycle. This unwanted phase will take place if companies have failed to revitalize and extend the life cycle of their products during the maturity stage's early part. Once already in this phase, it is very likely that the product may never again recover or experience any growth, eventually dying down and be forgotten.

Sales are falling. Product is becoming obsolete and getting gradually displaced by new innovation/ trends. Prices fall rapidly as there is excess supply and marketers want to liquidate stock at the earliest and exit. Cost control is undertaken to generate profits through reduced distribution network and no promotional expenses

To conclude, time interval for each stage varies from product to product. Some may remain in the stage of maturity forever (salt). Marketers can alter the PLC through product improvements. Many products do not follow the life cycle given above.

PLC governs strategic marketing planning at all levels. It also helps in formulation of pricing, promotion and distribution policies.

The 4 Life Cycle Stages and their Marketing Implications

Table 2.1. Characteristics of Phases of PLC.

Particulars	Introduction	Growth	Maturity	Decline
1. Product Variety	High Variety	Increasing Standardization	Dominant Design feature product	High standard commodity
2. Volume	Low Volume	Increasing Volume Consolidation	High volume	Decreasing volume
3. Industry Structure	Small Competitions	Medium scale Companies	Few large companies	Survivors
4. Form of Competition	Product Characteristics	Product Quality & availability	Price & dependability	Price

4.9 SUMMARY

In order to be effective at selling or marketing, it is necessary to have a proper perspective of the meaning of a product, or how it should be viewed from a marketing perspective. Every product or service must offer certain benefit or benefits to the prospective or likely customer either to satisfy some need or solve his problems. Different types of products require different marketing strategies. Industrial products are generally subject to greater standardisation, as against certain consumer products which require frequent changes in fashion and style. Personal selling is an important input in marketing of industrial products, whereas promotion and distribution are of critical importance in case of consumer products.

A product strategy is a company plan for marketing its products. The product plan involves a number of issues such as product line decisions, product mix decisions, new product development, branding, packaging, labeling etc. A line of product is often meant to meet various segments of customers. These involve having more products of the same type, but positioning them differently. Further, there are basically two types of diversifications, related and unrelated. Related Diversification involves going in for similar products. These products generally require the use of the same production, selling and distribution facilities. However, for continued growth of an organisation, it may be necessary to undertake unrelated diversification. It should be appreciated that it applies equally to the private sector as well as public sector enterprises. For example, a public sector enterprise-Bharat Heavy Electricals Limited (BHEL) has retained the core-business of power, and it is diversifying into other areas like oil, fertilisers, electronics and transportation. In the final analysis, the product-mix strategy or the diversification strategy of an organisation must fit into the organisation's long-term objectives in terms of profit, growth and sales stability. Like humans, products also have a life cycle. Products require different marketing, financial, manufacturing, purchasing and human resource strategies in each stage in order to sustain for long in the market.

4.10 GLOSSARY

- **Product or Goods:** Product is a composite of the characteristics and features-physical and psychological-which are offered for purchase by a customer, whether it is a consumer or an industrial purchaser. (In the marketing sense, a product is a bundle of benefits-physical or psychological-offered to a customer.)
- **Consumer Goods:** Consumer Goods are goods which are purchased by the ultimate consumer or user and require no further commercial processing.
- **Product Item:** It refers to a specific product or a brand.
- **Product Line:** It refers to a group of products which are closely related as satisfying a class of need.
- **Product Mix:** It is a composite of products which are offered for sale by an organisation and may consist of different types of products-related and unrelated.
- **Diversification:** Diversification implies that a company has moved from one product item to marketing more than one product.
- **Product positioning:** It is the process of identifying needs of market segments, product strength, weakness and extent to which competing products are perceived to meet customer need.
- **Brand Loyalty:** A favourable attitude and consistent purchase of a particular brand.

4.11 SELF-ASSESSMENT QUESTIONS

1. What do you mean by Product Mix? Explain the various factors influencing product mix decisions.

Ans ____

2. Mention the classification of Products.

Ans

3. Give in detail the various steps in Product Life Cycle.

Ans

4. What does an organisation's Product line decisions comprises of?

Ans

4.12 LESSON END EXERCISE

1. Explain the following: "People do not buy a product. They buy benefits."

Ans

2. Explain the meaning of the expression 'Product Mix'. State the reasons why companies or organisations generally diversify their range of products.

Ans

3. Explain the meaning of Product diversification, particularly distinguishing between related and unrelated diversifications.

Ans

4. Enumerate the various steps in New Product Development.

Ans

4.13 SUGGESTED READINGS

- Marketing Management: Pankaj Madan; Amit Mittal and Hemraj Verma
- Fundamentals of Marketing: Anupreet K Kour; Kamlesh Bajaj and Khushdip Kour
- Principles of Marketing: S. P. Bansal
- Marketing Management: P.K. Agarwal
- Marketing Management: Dr. K. Karunakaran

C. No. : BM-401	**UNIT I**
SEMESTER : IV	**LESSON : 5**

New Product Development Process
Why Product Fails?

Structure

5.1 INTRODUCTION

In order to stay successful in the face of maturing products, companies have to obtain new ones by a carefully executed new product development process. But they face a problem: although they must develop new products, the odds weigh heavily against success. Of thousands of products entering the process, only a handful reaches the market. Therefore, it is of crucial importance to understand consumers, markets, and competitors in order to develop products that deliver superior value to customers. In other words, there is no way around a systematic, customer-driven new product development process for finding and growing new products.

New Product development is a journey. It's the road which leads to the actual product and then the actual product to the market. New product development is a task taken by the company to introduce newer products in the market. Regularly there will arise a need in the business for new product development. Your existing products may be technologically outdated, you have different segments to target or you want to cannibalize an existing product. In such cases, New product development is the answer for the company. New product development is a process of taking a product or service from conception to market.

Every product goes through a number of stages before being introduced in the market. The process sets out a series of stages that new products typically go through, beginning with ideation and concept generation, and ending with the product's introduction to the market. We will go into the eight major steps in the new product development process. Occasionally, some of the stages overlap or vary depending on the nature of the business.

5.2 OBJECTIVES

After studying this lesson, you will be able to:

- Understand the concept of new product development
- Examine the various steps in the new product development process
- Analyse the reasons for product failure
- Interpret the measures to prevent product failure

5.3 NEW PRODUCT DEVELOLOPMENT

Different firms will have different strategies on how to approach new products. Some firms have stockholders who want to minimize risk and avoid investing in too many new innovations. Some firms can only survive if they innovate frequently and have stockholders who are willing to take this risk. For example, Hewlett-Packard has to constantly invent new products since competitors learn to work around its patents and will be able to manufacture the products at a lower cost.

New product development tends to happen in stages. Although firms often go back and forth between these idealized stages, the following sequence is illustrative of the development of a new product:

1. Idea Generation

The first stage of the New Product Development is the idea generation. Idea generation refers to the systematic search for new-product ideas. Ideas come from everywhere, can be of any form, and can be numerous. Typically, a company generates hundreds of ideas, maybe even thousands, to find a handful of good ones in the end. This stage involves creating a large pool of ideas from various sources, which include

- **Internal sources** – the company finds new ideas internally. That means R&D, but also contributions from employees. Many companies give incentives to their employees to come up with workable ideas.
- **External idea sources** - the company finds new ideas externally. This refers to all kinds of external sources, e.g. distributors and suppliers, but also competitors. The most important external source is customers, because the new product development process should focus on creating customer value.
- **SWOT analysis** – Company may review its strength, weakness, opportunities and threats and come up with a good feasible idea.
- **Market research** – Companies constantly reviews the changing needs, wants, and trends in the market.
- **Customers** – Sometimes reviews and feedbacks from the customers or even their ideas can help companies generate new product ideas.
- **Competition** – Competitors SWOT analysis can help the company generate ideas.

Firms solicit ideas as to new products it can make. Many firms receive a large number of ideas each year and can only invest in some of them. In this you are basically involved in the systematic search for new product Ideas. A company has to generate many ideas in order to find one that is worth pursuing.

Almost 55% of all new product ideas come from internal sources according to one study. Companies like 3M and Toyota have put in special incentive programs or their employees to come up with workable ideas.

Almost 28% of new product ideas come from watching and listening to customers. Customers: even create new products on their own, and companies can benefit by finding these products and putting them on the market.

Example – Pillsbury gets promising new products from its annual Bake-off. One of Pillsbury's four cake mix lines and several variations of another came directly from Bake-Off winners' recipes.

2. Idea Screening

The second step in new product development is Idea screening. Idea screening means nothing else than filtering the ideas to pick out good ones. In other words, all ideas generated are screened to spot good ones and drop poor ones as soon as possible. The purpose of idea generation is to create a large pool of ideas. Ideas can be many, but good ideas are few. This step involves finding those good and feasible ideas and discarding those which aren't. Many factors play a part here, these include –

- Company's strength,
- Company's weakness,
- Customer needs,
- Ongoing trends,
- Expected ROI,
- Affordability, etc.

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

While the purpose of idea generation was to create a large number of ideas, the purpose of the succeeding stages is to reduce that number. The reason is that product development costs rise greatly in later stages. Therefore, the company would like to go ahead only with those product ideas that will turn into profitable products. Dropping the poor ideas as soon as possible is, consequently, of crucial importance. Some products that after some analysis are clearly not feasible or are not consistent with the core competencies of the firm are eliminated.

3. Concept Development & Testing

The third step of the new product development includes concept development and testing. A concept is a detailed strategy or blueprint version of the idea. Basically, when an idea is developed in every aspect so as to make it presentable, it is called a concept. All the ideas that pass the screening stage are turned into concepts for testing purpose.

An attractive idea has to be developed into a Product concept. As opposed to a product idea that is an idea for a product that the company can see itself marketing to customers, a product concept is a detailed version of the idea stated in meaningful consumer terms. This is different again from a product image, which is the consumers' perception of an actual or potential product. Once the concepts are developed, these need to be tested with consumers either symbolically or physically. For some concept tests, a word or a picture may be sufficient; however, a physical presentation will increase the reliability of the concept test

The concept is now brought to the target market. Some selected customers from the target group are chosen to test the concept. After being exposed to the concept, consumers are asked to respond to it by answering a set of questions designed to help the company decide which concept has the strongest appeal. Information is provided to them to help them visualize the product. It is followed by questions from both sides. Business tries to know what the customer feels about the concept. Does the product fulfill customer's need or want? Will they buy it when it's actually launched? Their feedback helps the business to develop the concept further. The company can then project these findings to the full market to estimate sales volume.

To go on in the new product development process, attractive ideas must be developed into a product concept. A product concept is a detailed version of the new-product idea stated in meaningful consumer terms. You should distinguish:

A product idea: an idea for a possible product

A product concept: a detailed version of the idea stated in meaningful consumer terms

A product image: the way consumers perceive an actual or potential product.

Let's investigate the two parts of this stage in more detail.

Concept development

Imagine a car manufacturer that has developed an all-electric car. The idea has passed the idea screening and must now be developed into a concept. The marketer's task is to develop this new product into alternative product concepts. Then, the company can find out how attractive each concept is to customers and choose the best one. Possible product concepts for this electric car could be:

Concept 1: an affordably priced mid-size car designed as a second family car to be used around town for visiting friends and doing shopping.

Concept 2: a mid-priced sporty compact car appealing to young singles and couples.

Concept 3: a high-end midsize utility vehicle appealing to those who like the space SUVs provide but also want an economical car.

As you can see, these concepts need to be quite precise in order to be meaningful. In the next sub-stage, each concept is tested.

Concept testing

New product concepts, such as those given above, need to be tested with groups of target consumers. The concepts can be presented to consumers either symbolically or physically. The question is always: does the particular concept have strong consumer appeal? For some concept tests, a word or picture description might be sufficient. However, to increase the reliability of the test, a more concrete and physical presentation of the product concept may be needed. After exposing the concept to the group of target consumers, they will be asked to answer questions in order to find out the consumer appeal and customer value of each concept.

4. Business Strategy Analysis & Development

When a promising concept has been developed and tested, it is time to design an initial marketing strategy for the new product based on the product concept for introducing this new product to the market. Once the management has decided on the marketing strategy, it can evaluate the attractiveness of the business proposal. Business analysis involves the review of projected sales, costs and profits to find out whether they satisfy a company's objectives.

The testing results help the business in coming up with the final concept to be developed into a product. Ideas are now exposed to more rigorous analysis. Profit projections, risks, market size, and competitive response are considered. If promising, market research may be done. Now that the business has a finalized concept, it's time for it to analyse and decide the marketing, branding, and other business strategies that will be used. Estimated product profitability, marketing mix, and other product strategies are decided for the product.

Other important analytics includes

- Competition of the product
- Costs involved
- Pricing strategies
- Breakeven point, etc.

The strategy statement consists of three parts: the first part describes the target market, the planned product positioning and the sales, market share and profit goals for the first few years. The second part outlines the product's planned price, distribution, and marketing budget for the first year. The third part of the marketing strategy statement describes the planned long-run sales, profit goals, and the marketing mix strategy.

Once decided upon a product concept and marketing strategy, management can evaluate the business attractiveness of the proposed new product. This step involves a review of the sales, costs and profit projections for the new product to find out whether these factors satisfy the company's objectives. If they do, the product can be moved on to the product development stage.

In order to estimate sales, the company could look at the sales history of similar products and conduct market surveys. Then, it should be able to estimate minimum and maximum sales to assess the range of risk. When the sales forecast is prepared, the firm can estimate the expected costs and profits for a product, including marketing, R&D, operations etc.

All the sales and costs figures together can eventually be used to analyse the new product's financial attractiveness.

5. Product development

Once all the strategies are approved, the product concept is transformed into an actual tangible product. This development stage of new product development results in building up of a prototype or a limited production model. All the branding and other strategies decided previously are tested and applied in this stage.

Here, R&D or engineering develops the product concept into a physical product. This step calls for a large investment. It will show whether the product idea can be developed into a full- fledged workable product.

First, R&D will develop prototypes that will satisfy and excite customers and that can be produced quickly and at budgeted costs. When the prototypes are ready, they must be tested. Functional tests are then conducted under laboratory and field conditions to ascertain whether the product performs safely and effectively. The product is designed and manufacturing facilities are planned.

The new product development process goes on with the actual product development. Up to this point, for many new product concepts, there may exist only a word description, a drawing or perhaps a rough prototype. But if the product concept passes the business test, it must be developed into a physical product to ensure that the product idea can be turned into a workable market offering. The problem is, though, that at this stage, R&D and engineering costs cause a huge jump in investment.

The R&D department will develop and test one or more physical versions of the product concept. Developing a successful prototype, however, can take days, weeks, months or even years, depending on the product and prototype methods.

Also, products often undergo tests to make sure they perform safely and effectively. This can be done by the firm itself or outsourced.

In many cases, marketers involve actual customers in product testing. Consumers can evaluate prototypes and work with pre-release products. Their experiences may be very useful in the product development stage.

6. Test marketing

The last stage before commercialisation in the new product development process is test marketing. In this stage of the new product development process, the product and its proposed marketing programme are tested in realistic market settings. Therefore, test marketing gives the marketer experience with marketing the product before going to the great expense of full introduction. In fact, it allows the company to test the product and its entire marketing programme, including targeting and positioning strategy, advertising, distributions, packaging etc. before the full investment is made.

The amount of test marketing necessary varies with each new product. Especially when introducing a new product requiring a large investment, when the risks are high, or when the firm is not sure of the product or its marketing programme, a lot of test marketing may be carried out.

If the product passes the functional tests, the next step is test marketing: the stage at which the product and the marketing program are introduced to a more realistic market settings. Test marketing gives the marketer an opportunity to tweak the marketing mix before the going into the expense of a product launch.

The amount of test marketing varies with the type of product. Costs of test marketing can be enormous and it can also allow competitors to launch a “me-too” product or even sabotage the testing so that the marketer gets skewed results. Hence, at times, management may decide to do away with this stage and proceed straight to the next one:

Frequently, firms will try to “test” a product in one region to see if it will sell in reality before it is released nationally and internationally. There is a lesser risk if the firm only commits money to advertising and other marketing efforts in one region. Retailers will also be more receptive in other parts of the country and world if it has been demonstrated that the product sold well in one region. The firm may also experiment with different prices for the product.

Unlike concept testing, the prototype is introduced for research and feedback in the test marketing phase. Customers’ feedback is taken and further changes, if required, are made to the product. This process is of utmost importance as it validates the whole concept and makes the company ready for the launch.

7. Commercialization

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

The product is ready, so should be the marketing strategies. The marketing mix is now put to use. The final decisions are to be made. Markets are decided for the product to launch in. This stage involves briefing different departments about the duties and targets. Every minor and major decision is made before the final introduction stage of the new product development.

Facilities to manufacture the product on a larger scale are now put into operation and the firm starts a national marketing campaign and distribution effort.

Test marketing has given management the information needed to make the final decision: launch or do not launch the new product. The final stage in the new product development process is commercialisation. Commercialisation means nothing else than introducing a new product into the market. At this point, the highest costs are incurred: the company may need to build or rent a manufacturing facility. Large amounts may be spent on advertising, sales promotion and other marketing efforts in the first year.

8. Introduction

Some factors should be considered before the product is commercialized:

Introduction timing. For instance, if the economy is down, it might be wise to wait until the following year to launch the product. However, if competitors are ready to introduce their own products, the company should push to introduce the new product sooner.

Introduction place. Where to launch the new product? Should it be launched in a single location, a region, the national market, or the international market? Normally, companies don't have the confidence, capital and capacity to launch new products into full national or international distribution from the start. Instead, they usually develop a planned market rollout over time.

In all of these steps of the new product development process, the most important focus is on creating superior customer value. Only then, the product can become a success in the market. Only very few products actually get the chance to become a success. The risks and costs are simply too high to allow every product to pass every stage of the new product development process.

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

5.4 REASONS FOR PRODUCT FAILURE

Over the past three decades considerable progress has been made in developing new marketing research techniques. Similar advances have been made in the understanding of consumer behavior. These developments would be expected to lower the failure rate for new products, yet the product failure rate has remained high and constant.
Statistics show that:

- Of seven product ideas, only one will yield a successful product.
- For every seven new product ideas, only four enter the product development stage.
- New products have a failure rate of 25-45 percent.

Most new products and services launched into the market fail to deliver the expected results

Not all the product ideas get transformed into actual products. Only a few pass that stage and get to the market as a Product. And there are even fewer products that are actually successful. In spite of the efforts made by the marketer, some products fail. Product failure can be attributed to any one or more of the following causes:

A lack of independent and unbiased research into the market and target audience:

No matter how great your idea is, you need to understand whether the product stands a chance to exist in the market. Is it solving people's problems; are they ready to buy it or can it withstand the competition? Test launch or market research is equally important. It will capture the loopholes and provide feedback for improvement. If your market research is inadequate either way, you fail to capture the right insights into the product and consumers' needs and wants, leading it to fail in the market.

Poor product quality:

Obviously, a product, which is of poor quality, cannot be sold in the market. Nothing can upset a customer than seeing a flawed product that doesn't work as expected. There may be an inherent defect in the product, which may affect its market potentialities. Such a product may not be preferred by the buyers even if the defect is rectified later. News spread quickly, bad news spread even more quickly. This can lead to disaster.

Bad pricing policy:

Another reason for the failure of certain products is the price factor.

Price is the important element of the marketing mix as it's the only thing that brings in revenue – everything else is a cost. Too often, firms tend to either underprice or overprice some offerings. Companies need to understand the value of the benefits their offering delivers to customers compared to alternatives, and then price according to that value. Higher production and distribution costs also leads to higher price. Such a product cannot be sold in a market consisting of middle and lower income buyers. The Apple Newton PDA flopped because it was priced too high.

Poor timing:

It is important that a product, to be successful, is introduced in the market at the correct time. If it is introduced at an unsuitable time it may turn out to be a failure.

Too late into the market:

A product needs to be in the market at the right time. If the product is late into the market, there will be many competitors for the same market, and hence competition will be tough. It is highly desirable for any product to have that First Mover advantage.

Taking too long to launch may also cause a product to fail. By the time it hits the market, customer needs could change, the economy could have taken a downturn, or the market segments may have evolved.

Too early in the market:

When you have you launched a product ahead of time, customers are not ready for your product. Even though being early in the market is a highly desirable option, however being too early in the market when there is no maturity in the market will obviously lower the chance of product success.

Example: Publishers of textbooks usually bring out books in the beginning of the academic year.

Extent of competition in the market:

Every niche has competition. No matter what the product is, it will have competition. A monopolist may not have any difficulty in marketing his product. In the case of a market where there are a large number of sellers for a particular product, the buyer will have many alternatives. Therefore, in such a condition unless the marketer brings out the product to the satisfaction of the buyers, he cannot be successful. While having competitors isn't exactly bad, as that means there is a market available for the product. However, having existing competitors who are established will also mean that your targeted customers will prefer them, rather than your own product. This is where your marketing has to take cover, if your marketing isn't superior either, and then it will surely fail.

Weak launch or a poorly executed launch:

Most new products require a reasonable degree of promotional support to build brand awareness and to access distribution channels and retailers. A limited launch budget or a poorly executed launch is another reason why new products fail. Combine this with adverse media attention (or negative consumer sentiment on social media) usually related to deficiencies in the product design, price level, or early use problems experienced by consumers and you have a recipe for failure. The launch of the BlackBerry Q10 was a classic – launched too late with no demand for the product.

Lack of promotional measures:

Popularizing the brand, particularly, in the introduction stage of a product is essential. Such a step will ensure repeated buying and bring long-term benefits for the marketer. Failure to do so will prove to be disastrous for the product. Customers are not aware of the product because of poor marketing.

While it is understandable that it may be difficult to allocate heavy resources for the promotion of your product, do remember that it will not sell unless people know about it. So, if you have not communicated the features or benefits of your product to the target audience, how do you expect it to be bought?

Lack of Product Management skills and Internal Capabilities:

The product team which is building the product should be competent and highly agile as the Product evolves over time. Lack of adequate technical skills can limit any potential solutions your team can create. Similarly, lack of resources and internal support can hinder your efforts to produce a product that satisfies customer needs. If the evolution time is long, then competitors will cash in.

Faulty distribution policy:

It is important that a product reaches the right market at the right time and at the right price. The faulty distribution policy of the marketer may lead to many problems, i.e., the goods may not be available when required, may lead to higher price and so on.

Unavailability of spare parts:

In the case of durable goods like televisions sets, Air-conditioners, etc., and also in the case of two wheeler and cars, easy availability of spare parts is an important requirement. Unavailability of spares may frustrate the buyers. Such buyers would not recommend the product to their friends and relatives.

Poor after-sale service:

The quality of after sale service is yet another important cause. Most marketers, particularly those marketing durables, two-wheeler, etc., are courteous while making sale. When the customer requires service later and approaches the seller, the latter may show indifference.

Imitation products:

Last, but not the least, the presence of a number of imitation products in the market makes the genuine products vulnerable. An average buyer may not be able to distinguish between the genuine product and the fake one.

5.5 MEASURES TO PREVENT PRODUCT FAILURES

The number and variety of the reasons for product failure suggest that achieving marketing success with a new product requires high order skill not in product innovation but also formulating and implementing marketing strategy. Many of the products turn out to be failure not because the products are defective, but because the company in question is not equipped to handle that product. Following can be the general guidelines in the success of product:

1. The marketer shall ensure that the product he markets is in demand.

2. The innovators must undertake extensive and intensive market research to identify market wants and maintain close liaison with potential users during the development.

3. The marketer can determine the price at which the retailers must sell the product to the buyers. This will prevent manipulation of the price.

4. The companies should purpose only such new products that can fit their existing markets, meet the needs of the existing customers, through their familiar channels, with an already familiar marketing, organization and strategy.

5. It is also important to pay close attention to all the facts and facets of marketing such as advertising, selling, packaging, branding, technical literature and so on.

6. Before launching the product, steps must be taken to ensure that there are no inherent defects.

7. All efforts must be made to popularize the brand name particularly in the introduction stage.

8. The marketer shall select the right distribution network so that there is no delay in the consumer getting the product.

9. It is also important to make available genuine spare parts in the market at fair prices.

10. The quality of after-sale service must conform to high standards.

11. In the case of consumer and industrial goods, it is beneficial to get the quality certified by the Indian standards Institution (ISI) and/or by the International Standards Organization (ISO).

12. The product may constantly be updated to incorporate all the features that the buyers expect in it. Taking the case of Maruti Udayog, the company has updated all its models over a period of time, which is probably one of the main reasons for its success.

13. Steps must be taken to eliminate duplicate goods in the market. This may be done by cautioning the buyers on spurious goods. The problem may also be legally approached.

5.6 SUMMARY

In the environment of rapid changes in tastes, technology and competition, a company cannot rely solely on its existing products. Customers expect the new and improved products that competition will do its best to provide. Every company needs a new product development program. New products are the future of a business. Without a conscious flow of new products the marketing system would probably die. The necessity of developing new products means that firms need a concrete new product development process to remain in the market. Technology push has been the major orientation in new product development in recent years. Collaborations and imported new technology has led the other marketers to do the same to remain in the fray.

Many products fail to achieve their target of sales and profits. It is found that 95% of the new products fail. The failure of a product may be traced to the management's neglect or mishandling of the product innovation or the faulty management of the product life cycle. Companies need to devise a variety of organisational arrangements to facilitate the development of new products and undertake measures to prevent product failures.

5.7 GLOSSARY

- **Product:** A combination of physical and intangible attributes, services and symbols designed to supply certain expected benefits to users.
- **Product Image:** The sum total of attitudes and knowledge that people hold of a product.
- **Product Development:** The creation of physical product for market introduction.
- **Product Management:** The marketing function that involves developing new products and services that satisfy customer's needs and wants, management of these products and services over their life time and consideration of marginal products and services for elimination.
- **Product Differentiation:** It seeks to create a difference in people's minds between the marketer's brand and rival brands that seeks to serve the same mass market.
- **Product Positioning:** Creating and maintaining in the mind of target customers the intended image for the product relative to other brands so they will perceive the product as possessing the attributes they want.
- **Product Deletion/ Product Pruning:** The withdrawal of a product from a company's' line of products, generally because it is no longer profitable.

5.8 SELF-ASSESSMENT QUESTIONS

1. What do you mean by 'Idea Generation?' Mention the various sources from where firms solicit ideas.

Ans ____

____

____

2. State some measures that a marketer may adopt to overcome product failure.

Ans ____

____

3. What do you mean by concept development and testing?

Ans

4. Define 'Idea Screening'.

Ans

5.9 LESSON END EXERCISE

1. Explain the various stages in 'New Product Development Process'.

Ans

2. Critically examine the reasons for new product failure.

Ans

3. What things a marketer must keep in mind while launching a new product?

Ans

5.10 SUGGESTED READINGS

- Marketing Management: Pankaj Madan; Amit Mittal and Hemraj Verma
- Fundamentals of Marketing: Anupreet K Kour; Kamlesh Bajaj and Khushdip Kour
- Principles of Marketing: S. P. Bansal
- Marketing Management: P.K. Agarwal
- Marketing Management: Dr. K. Karunakaran

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SEMESTER : IV LESSON : 6

PRICING

Structure

6.1 INTRODUCTION

Price is an important element of the marketing mix. It is not only concerned with creating value, but also said to be marketing activity involved with capturing, or “Harvesting” the value created by the other types of marketing activities. In the word of Philip Kotler, Price is the marketing mix element that produces revenue; the other produce costs.”Because it is a marketing activity fundamentally different than the others, it is important that the implications of pricings uniqueness be fully understood by the marketing managers. This is one of the reasons that pricing is one of the most important decisions made by any business organization. Price is the amount we pay for a good or service. A company must determine appropriate price and formulate effective pricing policies which help in bringing profits to the company. When people purchase products or services, their main concerns have to do with the quality of that good or service and the value we receive from purchasing that good or service. They want to know that they are purchasing something that will meet their needs.

6.2 OBJECTIVES

After reading the lesson you will be able to:

- Determine the objectives and importance of pricing
- Know the pricing policies
- Pricing factors that affects the pricing decision
- To know the different types of pricing

6.3 MEANING AND DEFINITION OF PRICE AND PRICING

“Price is the amount of money or goods for which a thing is bought or sold”. The price of a product may be seen as a financial expression of the value of that product. For a consumer, price is the monetary expression of the value to be enjoyed/benefits of purchasing a product, as compared with other available items.

The concept of value can therefore be expressed as: (perceived) VALUE = (perceived) BENEFITS – (perceived) COSTS A customer’s motivation to purchase a product comes firstly from a need and a want: e.g. • Need: “I need to eat • Want: I would like to go out for a meal tonight") The second motivation comes from a perception of the value of a product in satisfying that need/want (e.g. "I really fancy a McDonalds").

The perception of the value of a product varies from customer to customer, because perceptions of benefits and costs vary.

Perceived benefits are often largely dependent on personal taste (e.g. spicy versus sweet, or green versus blue). In order to obtain the maximum possible value from the available market, businesses try to 'segment' the market – that is to divide up the market into groups of consumers whose preferences are broadly similar – and to adapt their products to attract these customers. In general, a products perceived value may be increased in one of two ways – either by:

(1) Increasing the benefits that the product will deliver, or,

(2) Reducing the cost.

Pricing is the process whereby a business sets the price at which it will sell its products and services, and may be part of the business's marketing plan. In setting prices, the business will take into account the price at which it could acquire the goods, the manufacturing cost, the market place, competition, market condition, brand, and quality of product.

Pricing is a fundamental aspect of financial modeling and is one of the four Ps of the marketing mix, the other three aspects being product, promotion, and place. Price is the only revenue generating element amongst the four Ps, the rest being cost centers. However, the other Ps of marketing will contribute to decreasing price elasticity and so enable price increases to drive greater revenue and profits.

Pricing can be a manual or automatic process of applying prices to purchase and sales orders, based on factors such as: a fixed amount, quantity break, promotion or sales campaign, specific vendor quote, price prevailing on entry, shipment or invoice date, combination of multiple orders or lines, and many others. Automated pricing systems require more setup and maintenance but may prevent pricing errors. The needs of the consumer can be converted into demand only if the consumer has the willingness and capacity to buy the product. Thus, pricing is the most important concept in the field of marketing; it is used as a tactical decision in response to comparing market situations.

A business can use a variety of **pricing strategies** when selling a product or service. The price can be set to maximize profitability for each unit sold or from the market overall. It can be used to defend an existing market from new entrants, to increase market share within a market or to enter a new market.

6.4 OBJECTIVES OF PRICING POLICY

The pricing policy of the firm may vary from firm to firm depending on its objective. In practice, we find many prices for a product of a firm such as wholesale price, retail price, published price, quoted price, actual price and so on.

Special discounts, special offers, methods of payment, amounts bought and transportation charges, trade-in values, etc., are some sources of variations in the price of the product. For pricing decision, one has to define the price of the product very carefully.

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

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

1. Price-Profit Satisfaction:

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

2. Sales Maximization and Growth:

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

3.Making Money:

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

4. Preventing Competition:

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

5. Market Share:

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

6.Survival:

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

7. Market Penetration:

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

8. Marketing Skimming:

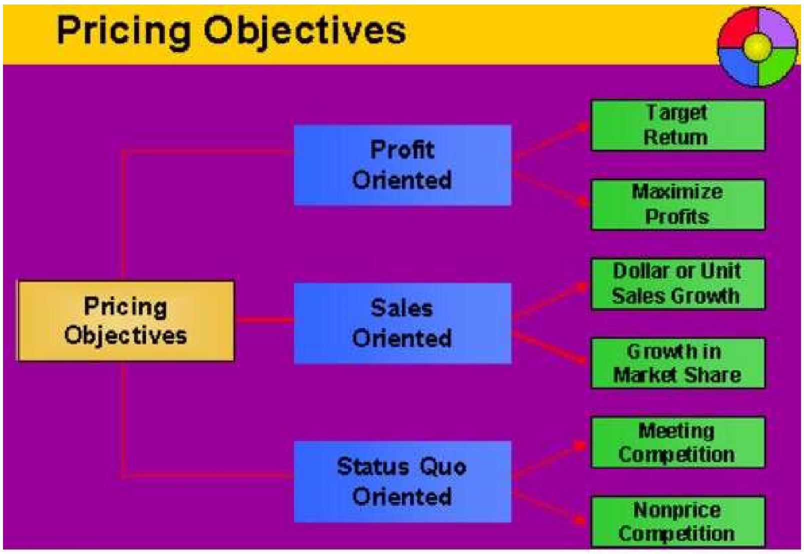
Many companies favor setting high prices to 'skim' the market. DuPont is a prime practitioner of market skimming pricing. With each innovation, it estimates the highest price it can charge given the comparative benefits of its new product versus the available substitutes.

9. Early Cash Recovery:

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

10. Satisfactory Rate of Return:

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



6.5 SIGNIFICANCE OF PRICING

Six significance of pricing and marketing strategy are as follows: (a) The planed market position for the service product (b) The stage of the life – cycle of the service product (c) Elasticity of demand (d) The competitive situation (e) The strategic role of price.

1. The planned Market Position for the Service Product:

Market position means the place the service product is intended to take up and does take up in the customer's eyes and in comparison with competitors. It refers to the customer's perceptual positioning of the service product: in other words how the service product is 'seen' in relation to others available.

Clearly price is an important element in the marketing mix influencing this position. Tangible products may occupy a particular position by virtue of their physical characteristics (e.g. a grade of industrial steel tubing). Services, on the other hand, are more often 'positioned' on the basis of their intangible attributes.

2. The Stages of the life – Cycle of the Service Product:

The price of the service product will also relate to its life – Cycle. For example in introducing a new service an organization could opt to set low prices to penetrate markets and gain rapid market share. Alternatively an organization could opt to charge high prices to make as much profit as possible in a short time (skimming policy). This strategy is only possible if there is no immediate competition and a high level of buyer need urgency (e.g. windscreen replacement services).

3. Elasticity of Demand:

The discretion a service organization has to determine its pricing objectives will be influenced by elasticity of demand in the market. Elasticity of demand refers to the responsiveness of demand to changes in price. In some markets demand is much influenced by price changes (e.g. urban bus services) in others this is less so.

Clearly it is vital for a service organization to understand how elastic or inelastic demand for its services is in response to price change. For example, if a service company reduces its prices and demand is elastic then the effect would be to reduce margins with no compensating increase in demand. Elasticity may impose limitations on certain price options.

4. The Competitive Situation:

The strength of competition in the market influences a service organization's discretion over its prices. In situations where there is little differentiation between service products and where competition is intense (e.g. a seaside resorts during a poor tourist season) then price discretion is limited. Competition of course has number of dimensions apart from inter-brand or inter-type competition. In transport services, for example, there is competition between different modes of transport (e.g. rail versus road), different brands, as well as alternative uses of the potential customers' time and money (e.g. not to travel at all).

Nevertheless a degree of price uniformity will be established in those markets with little differentiation between service products and strong levels of competition. In other settings tradition and custom may influence prices charged (e.g. Advertising agencies commission system).

5. The Strategic Role of Price:

Pricing policies have a strategic role aimed at achieving organizational objectives. Thus the pricing decision on any particular service product should fit in with strategic objectives. For example, new holiday company intent upon establishing itself in the package holiday market might use a deliberate policy of low prices to obtain substantial market share although this could mean unprofitable trading for some time.

Maximum sales would be won through penetration pricing as a deliberate policy. Any pricing strategy must of course fit in with the way in which other elements of the marketing mix are manipulated to attain strategic ends.

6. Price as an Indicator of Service Quality:

One of the intriguing aspects of pricing is that buyers are likely to use price as an indicator of both service costs and service quality – price is at once an attraction variable and a repellent. Customers' use of price as an indicator of quality depends on several factors, one of which is the other information available to them. When service cues to quality are readily accessible, when brand names provide evidence of a company's reputation, or when level of advertising communicates the company's belief in the brand, customers may prefer to use those cues instead of price. In other situations, however, such as when quality is hard to detect or when quality or price varies a great deal within a class of services, consumers may believe that price is the best indicator of quality many of these conditions typify situations that face consumers when purchasing services. Another factor that increases the dependence on price as a quality indicator is the risk associated with the service purchase. In high-risk situations, many of which involve credence services such as medical treatment or management consulting, the customer will look to price as a surrogate for quality.

Because customers depend on price as a cue to quality and because price sets expectations of quality, service prices must be determined carefully. In addition to being chosen to cover costs or match competitors, prices must be chosen to convey the appropriate quality signal. Pricing too low can lead to inaccurate inferences about the quality of the service. Pricing too high can set expectations that may be difficult to match in service delivery. Because goods are dominated by search properties, price is not used to judge quality as often as it is in services, where experience and credence properties dominate. Thus, services marketer must be aware of the signals that price conveys about its offerings.

6.6 STEPS INVOLVED IN PRICE DETERMINATION PROCESS

Some of the major steps involved in price determination process are as follows: (i) Market Segmentation (ii) Estimate Demand (iii) The Market Share (iv) The Marketing Mix (v) Estimate of Costs (vi) Pricing Policies (vii) Pricing Strategies (viii) The Price Structure.

Decisions on pricing are taken in the light of marketing opportunities, competition and many other valuables influencing pricing. The Price decision must take into account all factors affecting both demand price and supply price.

(i) Market Segmentation:

In market segments, marketers will have firm decisions on:

(a) The type of products to be produced or sold.

(b) The kind of service to be rendered.

(c) The costs of operations to be estimated.

(d) The types of customers or market segments sought.

(ii) Estimate Demand:

Marketers will estimate total demand for the product based on sales forecast, channel opinions and degree of competition in the market. Prices of comparable rival products can guide us in pricing our products. We can determine market potential by trying different prices in different markets.

(iii) The Market Share:

Marketers will choose a brand image and the desired market share on the basis of competitive reaction. Market planners must know exactly what his rivals are charging. Level of competitive pricing enables the firm to price above, below or at par and such a decision is easier in many case

Higher initial price may be preferred, in case of smaller market share is anticipated, whereas, in the expectation of a much larger market share for the brand, marketer will have to prefer relatively lower price. Proper pricing strategy is evolved to reach the expected market share either through skimming price or through penetration price or through a compromise, i.e., fair trading or fair price- to cover cost of goods, operating expenses and normal profit margin.

(iv) The Marketing Mix:

The overall marketing strategy is based on an integrated approach to all the elements of marketing mix.

It covers :(a) Product-market strategy (b) Promotion strategy(c) Pricing Strategy(d) Distribution Strategy

Marketers will have to assign an appropriate role to price as an element of marketing-mix. Promotional strategy will affect pricing decisions.

The design of marketing mix can indicate the role to be played by pricing in relation to promotion and distribution policies. Price is critical strategic element of the marketing mix as it influences the quality perception and enables product or brand positioning. Price is also a good tactical variable. Changes in price can be made much faster than in any other variable of marketing mix. Hence, price has a good tactical value.

(v) Estimate of Costs:

Straight, cost-plus pricing is not desirable always as it is not sensitive to demand. Marketing must take into account all relevant costs as well as price elasticity of demand.

(vi) Pricing Policies:

Pricing policies are guidelines to carry out pricing strategy. Pricing policy may be fixed or flexible. Pricing policies must change and adopt themselves with the changing objectives and changing environment.

(vii) Pricing Strategies:

Strategy is a plan of action to adjust with changing condition of the– market place. New and unanticipated developments such as price cut by rivals, government regulations; economic recession, changes in consumer demand etc. may take place, and then changes all for special attention and relevant adjustments in the pricing policies and producers.

(viii) The Price Structure:

Developing the price structure on the basis of pricing policies and strategies is the final step in price determination prices. The price structure will now define the selling prices for all products and permissible discounts and allowances to be given to distributor's co-dealers as well as various types of buyers.

6.7 PRICING POLICIES AND STRATEGIES

The "4Pcs" of Pricing: Pricing is one of the most vital and highly demanded component within the theory of marketing mix.[2] It helps consumers to have an image of the standards the firm has to offer through their products, creating firms to have an exceptional reputation in the market. The firm's decision on the price of the product and the pricing strategy impacts the consumer's decision on whether or not to purchase the product. When firms are deciding to consider applying any type of pricing strategy they must be aware of the following reasons in order to make an appropriate choice which will benefit their business. The competition within the market today is extremely high, for this reason, businesses must be attentive to their opponent's actions in order to have the comparative advantage in the market. The technology of internet usage has increased and developed dramatically therefore, price comparisons can be done by customers through online access.

Consumers are very selective regarding the purchases they make due to their knowledge of the monetary values. Firms must be mindful of these factors and price their products according Absorption pricing.

1. Decoy pricing:

Methods of pricing where the seller offers at least three product, 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 more attractive high-priced item will increase.

2. Double ticketing:

A form of deceptive pricing strategy that sells a product at the higher of two prices communicated to the consumer on, accompanying, or promoting the product.

3. Freemium:

Freemium is a revenue model that works by offering a product or service free of charge (typically digital offerings such as software, content, games, web services or other) while charging a premium for advanced features, functionality, or related products and services. The word "freemium" is a portmanteau combining the two aspects of the business model: "free" and "premium". It has become a highly popular model, with notable successes.

4. High-low pricing:

Methods of 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 designed to bring customers to the organization where the customer is offered the promotional products as well as the regular higher priced products.

5. Keystone pricing:

Retail prices strategies, where the retail prices is set at double the wholesale prices. For example, if a cost of a product or a retailer is £100, then the sale price would be £200. In a competitive industry, it is often not recommended to use Keystone Pricing as a pricing strategy due to its relatively high profit margin and the fact that other variables need to be taken into account.

6. 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 often lower than the average cost of production or just low enough to make entering not profitable. The quantity produced by the incumbent firm to act as a deterrent to entry is usually larger than would be optimal for a monopolist, but might still produce higher economic profits than would be earned under perfect competition. The problem with limit pricing as a strategy that once the entrant has entered the market, the quantity used as a threat to deter entry is no longer the incumbent firm's best response. This means that for limit pricing to be an effective deterrent to entry, the threat must in some way be made credible. A way to achieve this is for the incumbent firm to constrain itself to produce a certain quantity whether entry occurs or not. An example of this would be if the firm signed a union contract to employ a certain (high) level of labor for a long period of time. In this strategy price of the product becomes the limit according to budge

7. 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. Loss leader strategy is commonly used by retailers in order to lead the customers into buying products with higher marked-up prices to produce an increase in profits rather than purchasing the leader product which is sold at a lower cost. When a "featured brand" is priced to be sold at a lower cost, retailers tend not to sell large quantities of the loss leader products and also they tend to purchase less quantity from the supplier as well to prevent loss for the firm.[9] Supermarkets and restaurants are an excellent example of retail firms that apply the strategy of loss leader.

8. Marginal-cost pricing:

In business, 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 $1.00 and a normal selling price is $2.00, the firm selling the item might wish to lower the price to $1.10 if demand has waned. The business would choose this approach because the incremental profit of 10 cents from the transaction is better than no sale at all.

9. Cost plus pricing:

Cost plus pricing is a cost-based method for setting the prices of goods and services. Under this approach, the direct material cost, direct labor cost, and overhead costs for a product are added up and added to a markup percentage (to create a profit margin) in order to derive the price of the product.

10. Odd pricing:

In this type of pricing, the seller tends to fix a price whose last digits are just below a round number (also called just- below pricing). This is done so as to give the buyers/consumers no gap for bargaining as the prices seem to be less and yet in an actual sense are too high, and takes advantage of human psychology. A good example of this can be noticed in most supermarkets where instead of pricing at £10, it would be written as £9.99.

11. Pay what you want:

Pay what you want is a pricing system where buyers pay any desired amount for a given commodity, sometimes including zero. In some cases, a minimum (floor) price may be set, and/or a suggested price may be indicated as guidance for the buyer. The buyer can also select an amount higher than the standard price for the commodity. Giving buyers the freedom to pay what they want may seem to not make much sense for a seller, but in some situations it can be very successful. While most uses of pay what you want have been at the margins of the economy, or for special promotions, there are emerging efforts to expand its utility to broader and more regular use.

12. 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.

A firm that uses a penetration pricing strategy prices a product or a service at a smaller amount than its usual, long range market price in order to increase more rapid market recognition or to increase their existing market share. This strategy can sometimes discourage new competitors from entering a market position if they incorrectly observe the penetration price as a long range price.

Companies do their pricing in diverse ways. In small companies, prices are often set by the boss. In large companies, pricing is handled by division and the product line managers. In industries where pricing is a key influence, pricing departments are set to support others in determining suitable prices. Penetration pricing strategy is usually used by firms or businesses who are just entering the market. In marketing it is a theoretical method that is used to lower the prices of the goods and services causing high demand for them in the future. This strategy of penetration pricing is vital and highly recommended to be applied over multiple situations that the firm may face. Such as, when the production rate of the firm is lower when compared to other firms in the market and also sometimes when firms face hardship into releasing their product in the market due to extremely large rate of competition. In these situations it is appropriate for a firm to use the penetration strategy to gain consumer attention.

13. 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. Companies or firms that tend to get involved with the strategy of predatory pricing often have the goal to place restrictions or a barrier for other new businesses from entering the applicable market. It is an unethical act which contradicts anti–trust law, attempting to establish within the market a monopoly by the imposing Company.[14] Predatory pricing mainly occurs during price competitions in the market as it is an easy way to obfuscate the unethical and illegal act. Using this strategy, in the short term consumers will benefit and be satisfied with lower cost products. In the long run, firms often will not benefit as this strategy will continue to be used by other businesses to undercut competitor's margins, causing an increase in competition within the field and facilitating major losses. This strategy is dangerous as it could be destructive to a firm in terms of losses and even lead to complete business failure.

14. Premium decoy pricing:

Method of pricing where an organization artificially sets one product price high, in order to boost sales of a lower priced product.

15. 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. Moreover, a premium price may portray the meaning of better quality in the eyes of the consumer. Consumers are willing to pay more for trends, which is a key motive for premium pricing, and are not afraid on how much a product or service costs. The novelty of consumers wanting to have the latest trends is a challenge for marketers as they are having to entertain their consumers. The aspiration of consumers and the feeling of treating themselves is the key factor of purchasing a good or service. Consumers are looking for constant change as they are constantly evolving and moving. For Examples: Ethical consumption, Fair traders, Voluntarism**.** These are important drivers and examples of premium pricing, which help guide and distinguish of how a product or service is marketed and priced within today's market.

16. 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. Price discrimination may improve consumer surplus. When a firm price discriminates, it will sell up to the point where marginal cost meets the demand curve. There are 3 conditions needed for a business to undertake price discrimination, these include: Accurately segment the market, Prevent resale, Have market power

There are three different types of price discrimination which revolve around the same strategy and same goal – maximize profit by segmenting the market, and extracting additional consumer surplus.

a. **First-degree price discrimination:** The business charges every consumer exactly how much they are willing to pay for the product.

b. **Second-degree price discrimination:** The business uses a volume discount which allows buyers to purchase a higher inventory at a reduced price. While this benefits the high-inventory buyer, it obviously hurts the low-inventory buyer who is forced to pay a higher price. This buyer may then be less competitive in the downstream market.

c. **Third-degree price discrimination:** This occurs when firms segment the market into high demand and low demand groups.

Firms need to ensure they are aware of several factors of their business before proceeding with the strategy of price discrimination. Firms must have control over the changes they make regarding the price of their product by which they can gain profitability depending on the amount of sales made. The price can be increased or decreased at any point depending on the fluctuation of the rate of buyers and consumers. Price discrimination strategy is not feasible for all firms as there are many consequences that the firms may face due to the action. For example: if a firm sells a product to their customer for a cheaper price and that customer resells the product demanding a higher price from another buyer then the chances of the firm failing to make a higher profit is predicted because they could have sold their product at a higher rate than the re-seller and made further profit.

17. 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.

18. Psychological pricing:

Pricing designed to have a positive psychological impact. For example, selling a product at \$3.95 or \$3.99, rather than \$4.00. There are certain price points where people are willing to buy a product. If the price of a product is \$100 and the company prices it at \$99, then it is called psychological pricing. In most consumers' minds, \$99 is psychologically 'less' than \$100. A minor distinction in pricing can make a big difference in sales. The company that succeeds in finding psychological price points can improve sales and maximize revenue.

19. Sliding scale:

The economic concept of sliding scale at its most basic: people pay as they are able to for services, events and items. Those with access to more resources pay more and thus provide the cushion for those with less access to pay less, creating a sustainable economic underpinning for said services, events and items.

20. Target pricing business:

Pricing method whereby the selling price of a product is calculated to produce a particular rate of return on investment for a specific volume of production. The target pricing method is used most often by public utilities, like electric and gas companies, and companies whose capital investment is high, like automobile manufacturers. Target pricing is not useful for companies whose capital investment is low because, according to this formula, the selling price will be understated. Also the target pricing method is not keyed to the demand for the product, and if the entire volume is not sold, a company might sustain an overall budgetary loss on the product.

21. Time-based pricing:

A flexible pricing mechanism made possible by advances in information technology and employed mostly by Internet-based companies. By responding to market fluctuations or large amounts of data gathered from customers – ranging from where they live to what they buy to how much they have spent on past purchases – dynamic pricing allows online companies to adjust the prices of identical goods to correspond to a customer's willingness to pay. The airline industry is often cited as a dynamic pricing success story. In fact, it employs the technique so artfully that most of the passengers on any given airplane have paid different ticket prices for the same flight. As of 2018, several third-party tools have allowed merchants to take advantage of a time based dynamic pricing including Price mole, Sweet Pricing, Beyond Pricing, etc.

22. Time sensitive pricing:

Time sensitive pricing is a cost-based method for setting prices for goods that have a short shelf life. Careful consideration has to be taken to the "Use By" and "Best Before" dates of the products, in relation to the "Mark Up" or "Return" of the products. That is to say the shorter period of time should have a lower Mark-up/Return margin, thus increasing the Turnover/sales of the product, and decreasing the Wastage/loss of products.

23. Value-based pricing:

Pricing a product based on the value the product has for the customer and not on its costs of production or any other factor. This pricing strategy is frequently used where the value to the customer is many times the cost of producing the item or service. For instance, the cost of producing a software CD is about the same independent of the software on it, but the prices vary with the perceived value the customers are expected to have. The perceived value will depend on the alternatives open to the customer. In business these alternatives are using competitor's software, using a manual work around, or not doing an activity. In order to employ value-based pricing, one must know its customers' business, one's business costs, and one's perceived alternatives. It is also known as perceived-value pricing.

Value-based pricing have many effects on the business and consumer of the product. Value-based pricing is a fundamental business activity and is the process of developing product strategies and pricing them properly to establish the product within the market. This is a key concept for a relatively new product within the market, because without the correct price, there would be no sale. Having an overly high price for an average product would have negative effects on the business as the consumer would not buy the product. Having a low price on a luxury product would also have a negative impact on the business as in the long run the business would not be profitable. This can be seen as a positive for the consumer as they do not need to pay extreme prices for the luxury product. There has been an evident change in the marketing area within a business from cost plus pricing to the value.

24. Variable pricing strategies:

Variable pricing strategy sums up the total cost of the variable characteristics associated in the production of the product. Examples of variable characteristics are: interest rates, location, date, and region of production. The sum total of the following characteristics is then included within the original price of the product during marketing. Variable pricing enables product prices to have a balance "between sales volume and income per unit sold". Variable pricing strategy has the advantage of ensuring the sum total of the cost businesses would face in order to develop a new product. However, variable pricing strategy excludes the cost of fixed pricing. Fixed pricing includes the price of dedication received from manufactures in the production of developing the product and other involvement of factors.

25. Yield management strategies:

Yield management is a strategy which aims to monitor consumer behavior to gain and achieve maximum profit through selling goods and services that are perishable. The theory behind this strategy is to focus on the following aspects: buying behavior patterns of consumers, external environmental factors and market price to successfully gain the most profit.[This strategy of yield management is commonly used by the firms associated within the airlines industry. For example: A customer may purchase an airline ticket in the day time for $600 and another customer may purchase the same airline ticket on the same day in the evening for $800. Reason being that during the day time the airline contained many seats that were spare which needed to be occupied and sold. Thus, prices were decreased in order to attract and manipulate the customers into buying an airline ticket with great deals or offers. However, during the evening time most seats were filled and the firm decided to increase the price of the airline ticket for the desperate customers who needed to purchase the spare seats that were available. This type of strategy is a vigilant way of connecting with the target consumers as well as flourishing the business.

6.8 FACTORS DETERMINING PRICING DECISIONS

The factors affecting pricing decisions are varied and multiple. Basically, the prices of products and services are determined by the interplay of five factors, viz., demand and supply conditions, production and associated costs, competition, buyer's bargaining power and the perceived value. We would like to divide them as Internal Factors and External Factors.

Internal Factors: Having a pricing objective isn't enough. A firm also has to look at a myriad of other factors before setting its prices. Those factors include the offering's costs, the demand, the customers whose needs it is designed to meet, the external environment—such as the competition, the economy, and government regulations—and other aspects of the marketing mix, such as the nature of the offering, the current stage of its product life cycle, and its promotion and distribution. If a company plans to sell its products or services in international markets, research on the factors for each market must be analyzed before setting prices. Organizations must understand buyers, competitors, the economic conditions, and political regulations in other markets before they can compete successfully. Next we look at each of the factors and what they entail.

1. Marketing Objectives and Pricing Objectives:

Pricing objectives may be as stated earlier – profit objectives (return on sales investment and maximization of profits), sales objectives (increasing sales volume and increasing market share) and maintenance objectives (price stabilization and matching the competition). Various pricing objectives have important implications for a firm's competitive strategy. Pricing objectives must not be in conflict with the marketing objectives of the firm.

2. Marketing Mix Strategy

Price of a product or service is highly influenced by other elements of marketing mix. The product life cycle through which the product is passing through, or the kind of sale (lease versus overnight purchase, or liberal returns policy may be followed). In the introductory product life cycle or liberal returns policy, the price is likely to be high. If the product requires services and those services are to be provided free, naturally the product will be highly priced. The channels of distribution, location of warehousing and the transportation involved also influence the price determination. Direct to the customer may enable the manufacturer to charge a lower price, but selling through many intermediaries mean the final price is to be very high to compensate the efforts of intermediaries. Promotion efforts reflect into final price. The amount of money spent by, coke and pepsi, hul or proctor & gamble reflect in the prices to be charged. If the intermediaries are to undertake promotion work, they will be charged a lower price and vice versa.

3. Costs:

Cost of a product is the single most important factor to influence the final price. Six steps need to be identified while evaluating cost-price structure

a. Define the existing price structure

b. Identify the prices of competing products for each item in the product line;

c. Decide which product items need attention;

d. Calculate the profitability of the current product/service mix;

e. Identify products and services for price changes; and

f. Define the new price structure in the company.

4. Organizational considerations:

All the marketers are to make profit. Profit is a function of costs, demand, and revenue. Hence their relationship must be understood by pricing managers. The costs may be fixed costs and variable costs. Break-even analysis is one unique technique to understand relationship between cost and price.

External factors:

1. Nature of the market and demand:

What is the expectation of the market about the product or services? What is the demand level for the product at different prices? Market must also be understood whether there is monopoly, perfect competition, oligopoly, monopolistic competition or duopoly. To understand demand, the supplier or marketer prepares demand curves for the product at different prices. The marketer prepares separate curves for normal products and prestige goods. In addition to understanding price and quantity relationship, the marketer must determine the price elasticity of demand to understand price sensitivity of customers.

2. Competition:

There might be pure competition (many buyers and sellers who have little effect on the price), monopolistic competition (many buyers and sellers who trade over a range of prices), oligopolistic competition (few sellers who are sensitive to each other's pricing/ marketing strategies), or pure monopoly (single seller) and in each situation price determination will be different. The competition may arise from different sources: directly similar products like coke and pepsi, available substitutes speed post versus couriers, or unrelated products seeking the same rupee cricket match versus cinema, coke versus juice, new year dinner versus vacation for three days, etc. Though many customers have poor price knowledge, yet retailers can't charge more than the competitors. Retailers often give price guarantees either by way of price-matching policies (prices will not be higher than the prices charged by other retailers) or best price policies (protecting customers against future discounts). Four strategic options are available to a firm: build (price lower than the competition), hold (reduce price if competitor reduces), harvest (much greater resistance to match price cuts for the products that are being harvested), and responsive (repositioning to force change in price).

3. Other environmental factors (economy, resellers, & government):

Economic conditions, reseller needs, government actions, social concerns do play an important role in price fixation. Inflation in economy is an important factor in pricing. In India during the last two years the inflation has been a great burden on the common man and even the government has failed to do anything. During recessionary conditions, the price level also drops, to maintain the same level of turnover. Presently due to increased interest rate by reserve bank of India, the manufacturers have to pay a higher cost of capital which will be reflected in the price to be charged.

Reseller's needs are important in price determination. If you remember, petrol pump dealers went on strike a number of times and finally the oil marketing companies had to agree the margin for the resellers. It will naturally reflect in the final price to be charged to the consumers. In some cases, like butter, the retailers have to manage facilities like deep freezers which have both a capital cost and operating cost, the manufacturer will have to provide a larger margin to them.

The needs of intermediaries must be kept in mind otherwise product launches may not be viable. In February 2012, maruti Suzuki for the first time in a decade increased dealers' margin on petrol cars by 10% as the sale has been going down and the dealers were earning merely 4% after discounts and freebies. The revision follows the increase in retail prices. Hyundai motors and Volkswagen offer 7% by way of commission.

Government's concerns about pricing are reflected in laws and regulations. Government regulations include price controls, import duties, quotas and taxes. Recent decline of rupee value vis-a-vis dollar also affects the prices of imported products or products using imported spares. The volatility in international markets also affects the prices at home.

The oil marketing companies were left with no alternatives except to increase price of petrol, when the oil prices in international markets went up. Public policy influences of the state include the pricing environment (many governments have gone with the winds of inflation – remember, the sushma swaraj government of Delhi had to go because of onion price rise). In case of essential drugs the department of pharmaceuticals (dop) regulates the prices. Recent decision of the government of India to grant compulsory license to natco pharma to produce buyer's anti-cancer drug could pave the way for cheaper drugs for lifestyle diseases.

4. Willingness to pay:

Knowledge of consumers' reservation price ("the price at which a consumer is indifferent between buying and not buying the product") or willingness to pay ("reservation price at which the consumer's utility begins to exceed the utility of the most preferred item") is central to any pricing decision. Willingness to pay is important not only for pricing but equally important for new product development, value audits and competitive strategy. Knowledge of consumers' reservation prices also allows marketer to understand three demand effects due to change in price – the customer switching effect, the cannibalization effect (when consumers derive more surplus from a new product offering than from the existing products, and the market expansion effect (non-category buyers now derive more positive surplus from the new offering).

5. Product line differentiation:

For vertically differentiated product lines, companies are able to charge higher prices. Companies often add a high price product into the line to increase the demand for a product with middle-level price. For products in a horizontally differentiated product line tend to be uniform. Retailers charge the same for different flavors of yogurts, same price for clothes of different sizes. All the car manufacturers have different prices to cater to different market segments, namely economy cars, family saloons, executive cars, and so on.

6. Positioning strategy:

Positioning strategy involves the choice of target market and the creation of a differential advantage. Price can be used to convey this differential advantage and to appeal to a certain market segment. Price is a powerful positioning tool for many people as an indicator of quality, especially in products like drinks, perfume, and services where quality can't be assessed before consumption.

7. New product launches strategy:

While launching new products, price should be carefully aligned with promotional strategy. High price and high promotion is called a rapid skimming strategy. One company that uses skimming strategy effectively is bosch. Its skimming price policy is supported by a large number of patents, to its launch of fuel injection and anti-lock brake systems. High price (skimming) and low price (penetration) may be appropriate in different situations.

8. Seasonal Effect:

Certain products have seasonal demand. Seasonal effect also has an influence on the price of the commodity. Generally, during peak season of the product, prices are kept high and during off season, they are kept low to boost up sales. For example the prices of woollens are kept high in the winter season and discounts are given at the time of end of winter season.

9. Code of Conduct:

Ethical considerations also influence the pricing decisions of the firm, for example whether or not to exploit the consumers by charging them higher prices. The company should charge reasonable price for the products if it wants to fulfill its social obligation and follow an ethical code of conduct.

6.9 METHODS OF PRICING: COST-ORIENTED METHOD AND MARKET-ORIENTED

The two methods of pricing are as follows: a. Cost-oriented method b. Market-oriented methods. There are several methods of pricing products in the market. While selecting the method of fixing prices, a marketer must consider the factors affecting pricing. The pricing methods can be broadly divided into two groups—cost-oriented method and market-oriented method.

A. Cost-oriented method: Because cost provides the base for a possible price range, some firms may consider cost-oriented methods to fix the price. Cost-oriented methods or pricing are as follows:

1. Cost plus pricing:

Cost plus pricing involves adding a certain percentage to cost in order to fix the price. For instance, if the cost of a product is rs.200 per unit and the marketer expects 10 per cent profit on costs, then the selling price will be rs.220. The difference between the selling price and the cost is the profit. This method is simpler as marketers can easily determine the costs and add a certain percentage to arrive at the selling price. An advantages of cost plus are (a) It covers cost as far as possible (b) It is simple to operate (c) It is believed to be fair method (d) It is used by entire industry. Disadvantages are (a) It ignores current demand (b) It ignores consumers perception of price.(c) It does not consider competition.(d) It is difficult to estimate exact sales

E.g. If the Cost of Production of product-A is Rs 500 with a markup of 25% on total cost, the selling price will be calculated as *Selling Price= cost of production + Cost of Production x Markup Percentage/100*

SellingPrice=500+500x0.25=625

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

2. Mark-up pricing:

Mark-up pricing is a variation of cost pricing. In this case, mark-ups are calculated as a percentage of the selling price and not as a percentage of the cost price. Firms that use cost-oriented methods use mark-up pricing. Since only the cost and the desired percentage markup on the selling price are known, the following formula is used to determine the selling price Average unit cost/selling price This pricing method is the variation of cost plus pricing wherein the percentage of markup is calculated on the selling price. **E.g.** If the unit cost of a chocolate is Rs 16 and producer wants to earn the markup of 20% on sales then mark up price will be:

Markup Price= Unit Cost/ 1-desired return on sales

Markup Price= 16/1-0.20 = 20

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

3. Break-even pricing:

In this case, the firm determines the level of sales needed to cover all the relevant fixed and variable costs. The break-even price is the price at which the sales revenue is equal to the cost of goods sold. In other words, there is neither profit nor loss.

For instances, if the fixed cost is rs. 2, 00,000, the variable cost per unit is rs. 10, and the selling price is rs.15, then the firm needs to sell 40,000 units to break even. Therefore, the firm will plan to sell more than 40,000 units to make a profit. If the firm is not in a position to sell 40,000 limits, then it has to increase the selling price. The following formula is used to calculate the break-even point: Contribution = selling price – variable cost per unit

4. Target return pricing:

In this case, the firm sets prices in order to achieve a particular level of return on investment (ROI). The target return price can be calculated by the following formula:

Target return price = total costs + (desired % ROI investment)/ total sales in units

For instance, if the total investment is rs.10,000, the desired ROI is 20 per cent, the total cost is rs.5000, and total sales expected are 1,000 units, then the target return price will be rs.7 per unit as shown below 5000 + (20% x 10,000)/ 7000 ,Target return price = 7

The limitation of this method (like other cost-oriented methods) is that prices are derived from costs without considering market factors such as competition, demand and consumers' perceived value. However, this method helps to ensure that prices exceed all costs and therefore contribute to profit.

5. Early cash recovery pricing:

Some firms may fix a price to realize early recovery of investment involved, when market forecasts suggest that the life of the market is likely to be short, such as in the case of fashion-related products or technology-sensitive products.

Such pricing can also be used when a firm anticipates that a large firm may enter the market in the near future with its lower prices, forcing existing firms to exit. In such situations, firms may fix a price level, which would maximize short-term revenues and reduce the firm's medium-term risk.

B. Market-oriented methods:

1. Perceived value pricing: A good number of firms fix the price of their goods and services on the basis of customers' perceived value. They consider customers' perceived value as the primary factor for fixing prices, and the firm's costs as the secondary.

The customers' perception can be influenced by several factors, such as advertising, sales on techniques, effective sales force and after-sale-service staff. If customers perceive a higher value, then the price fixed will be high and vice versa. Market research is needed to establish the customers' perceived value as a guide to effective pricing. **E.g.** Customer buy Sony products despite less price products available in the market, this is because Sony company follows the perceived pricing policy wherein the customer is willing to pay extra for better quality and durability of the product.

2. Going-rate pricing:

In this case, the benchmark for setting prices is the price set by major competitors. If a major competitor changes its price, then the smaller firms may also change their price, irrespective of their costs or demand. **E.g.** Customer buy Sony products despite less price products available in the market, this is because Sony company follows the perceived pricing policy wherein the customer is willing to pay extra for better quality and durability of the product. The going-rate pricing can be further divided into three sub-methods:

A. Competitors 'parity method:

A firm may set the same price as that of the major competitor. Marketers will choose a brand image and desired market share as per competitive reaction. It is necessary for the market planners to know what the rival firms are charging. Level of competitive pricing enables the firms to price above, below, or at par and such decision is easier in many cases. Higher initial pricing is possible in a smaller market share, however if a firm aims to have a larger market share then it has to prefer relatively low pricing. Competitor's parity means charging the price of the product at par with that of the competitors.

B. Premium pricing:

A firm may charge a little higher if its products have some additional special features as compared to major competitors. This strategy is used by a firm that has heterogeneity of demand for substitute products with joint economies of scale. A firm may charge a little higher if its products have some additional special features as compared to major competitors. We can take an example of TV. There are different models available with different features. These types are substitute of each other and they satisfy customer's needs also. But the firm may opt to premium price the first model and hence position it at the top of the product line for high income group of customers.

C. Discount pricing:

A firm may charge a little lower price if its products lack certain features as compared to major competitors. Discounts and allowances are price concessions offered to traders or buyers in the form of deductions from the list price or from the amount of a bill or invoice. A firm may change little lower price if its products lack contains features as compared to measures competitors. These are forms of indirect price competitors. The common forms of discount are: trade discount, cash discount, quality, discount and seasonal discount.

Merits: (a) when cost is difficult to measure, buyer's response is difficult to take then this method can be used. (b) It brings uniformity in the industry, because price of the product are more or less same of all the sellers (c) It protects consumers from cheating ad misguiding (d) Another advantages of using competitive pricing is that selling price should be line with rivals, so price should not be a competitive disadvantages.

Demerits: (a) This is not an ideal method of pricing because only competition sector is considered (b) The main disadvantage is that the business needs some other way to attracts customer it has no use none price methods to compete- example providing distinct customer services are better availability (c) It is not correct to blinding follow the competitors in setting the price (d) This method ignores cost, objectives, profit, perceived value of product of the consumers in setting the price.

The going-rate method is very popular because it tends to reduce the likelihood of price wars emerging in the market. It also reflects the industry's coactive wisdom relating to the price that would generate a fair return.

3. Sealed-bid pricing:

This method is known as tender pricing method. It is a competitors pricing method. Competitive pricing dominant in those situations, where firms compete on the basis of bids, such as original equipment manufacturer and defense contract works. The bid is the firms offer price, and it is a prime example of pricing based on expectations of how competitors will price rather than on a rigid relation based on the concern own costs are demand. For the proposal of jobs or work, interested parties have to fill the tenders(send quotations or estimated cost) .This pricing is adopted in the case of large orders or contracts, especially those of industrial buyers or government departments. The firms submit sealed bids for jobs in response to an advertisement. In this case, the buyer expects the lowest possible price and the seller is expected to provide the best possible quotation or tender. If a firm wants to win a contract, then it has to submit a lower price bid. For this purpose, the firm has to anticipate the pricing policy of the competitors and decide the price offer. This method is mostly used in case of construction or contact business.

4. Differentiated pricing: Firms may charge different prices for the same product or service. The following are some the types of differentiated pricing:

A. Customer segment pricing:

Here different customer groups are charged different prices for the same product or service depending on the size of the order, payment terms, and so on.

B. Time pricing:

Here different prices are charged for the same product or service at different timings or season. It includes off-peak pricing, where low prices are charged during low-demand tunings or high prices season when the demand of goods is high. For example: woolens are sold at high prices when the winters are approaching and the same are sold at discount prices at the end of winter season to clear the remaining stock.

C. Area pricing:

Here different prices are charged for the same product in different market areas. For instance, a firm may charge a lower price in a new market to attract customers. However where there is a good market for the product and the customers are loyal, the firm may continue to charge high price for the same.

D. Product form pricing:

Here different versions of the product are priced differently but not proportionately to their respective costs. For instance, soft drinks of 200,300, 500 ml, etc., are priced according to this strategy. Similar commodities (available in different quantities) are priced according to the quantity contained in them.

Merits: Firms will be able to increase revenue. Offering discount and others sale promotion tools allow company to expand to customers who might not otherwise buy.

1. The lower price makes the business more attractive to the target groups.

2. The company's overall sales increase due to this expended customer base.

3. The main advantages of differential pricing is that it enables a company to optimize its revenue. In general, a company wants to sell its product or services to a given customer for as much as he is willing to pay.

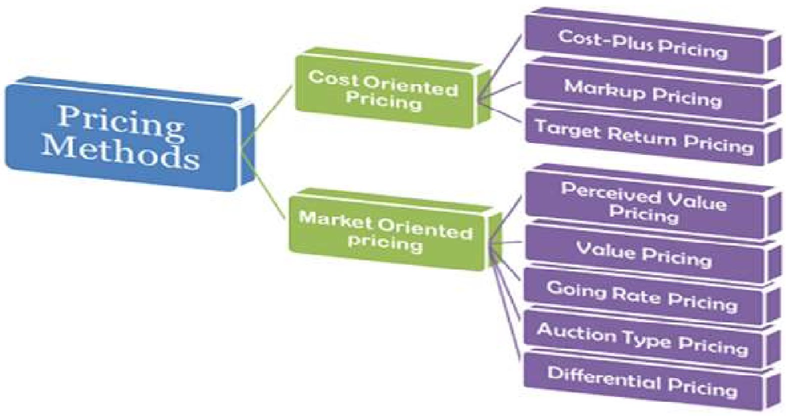
4. The company has a way to charge customer with greater demand a higher price; they can cover most of the common cost of offering the product. This allows more price sensitive customer to cover only what is the marginal cost of these products.

Demerits: 1.The profit on the discounted sales drop since Thew Company won't receive the full amount it normally charges.

2. For a permanent lower price such as a senior discount or lower student rate, this means continued lower profits over time.

3. If the price eventually goes back up after a sale or the end of a coupon offer, the company may lose those new clients who cannot afford to pay the full price.

4. In the case of a physical product being purchased, someone could sell the discounted product to someone else for a higher price. This allows the consumer to profit from the product of the company without the company without the company receiving any of the money.



6.9 Methods of pricing

6.10 STRATEGIES FOR NEW AND ESTABLISHED PRODUCTS

Product pricing strategies frequently depend on the stage a product or service is in its life cycle; that is, new products often require different pricing strategies than established products or mature products

A. NEW PRODUCT PRICING STRATEGY.

Entrants often rely on pricing strategies that allow them to capture market share quickly. When there are several competitors in a market, entrants usually use lower pricing to change consumer spending habits and acquire market share. To appeal to customers effectively, entrants generally implement a simple or transparent pricing structure, which enables customers to compare prices easily and understand that the entrants have lower prices than established incumbent companies.

Complex pricing arrangements, however, prevent lower pricing from being a successful strategy in that customers cannot readily compare prices with hidden and contingent costs. The long-distance telephone market illustrates this point; large corporations have lengthy telephone bills that include numerous contingent costs, which depend on location, use, and service features. Consequently, competitors in the corporate long-distance telephone service market do not use lower pricing as the primary pricing strategy, as they do in the consumer and small-business markets, where telephone billing is much simpler.

Another example is the computer industry. Dell, Fujitsu, HP, and many others personal computer makers offer bundles of products that make it more difficult for consumers to sort out the true differences among these competitors.

B. ESTABLISHED PRODUCT PRICING STRATEGY

Sometimes established companies need not adjust their prices at all in response to entrants and their lower prices, because customers frequently are willing to pay more for the products or services of an established company to avoid perceived risks associated with switching products or services.

6.11 SUMMARY

We come across the concept of price every time we buy something – whether it is in shop, on the move or surfing online .Price is the money charged for the products or services or everything that a customer has to give up in order to acquire a product or service or usually expressed in terms of rupees per unit. The price a business charges for its product or service is one of the most important business decisions management has to take. Unlike the other elements of the marketing mix (product, place and promotion), pricing decisions directly affect revenues rather than costs. Pricing also has to be consistent with the other elements of the marketing mix, since it contributes to the perception of a product or service by customers. Returns on investment, market share, meeting competition, profit are the main objectives of pricing. Setting prices is one of the principal tasks of marketing and finance managers. The price of a product or services often plays a significant role in that products or services success. Setting prices for products and services is not a simple task; it is really tough to get right. Manager should start setting prices during the development stage as part of strategic pricing to avoid launching products or services that cannot sustain profitable prices or scrap products or services that cannot be generated cost-effectively. Setting up of prices involves various steps which should be followed properly. There are so many factors to consider, competitive prices, the percentage of desired market share, and the products positioning are some of the factors that companies consider when determining pricing. There are various methods of setting of prices of the products. Cost-oriented, Demand oriented and Competition Oriented and competition Oriented are the main pricing policies. Generally, pricing policy refers how a company sets the prices of its products and services based on costs, value, demand, and competition. Pricing strategy, on the other hand, refers to how a company uses pricing to achieve its strategic goals, such as offering lower prices to increase sales volume or higher prices to increase sales volume or higher prices to decrease backlog. Through systematic pricing policies and strategies, companies can reap greater profits and increase or defend their market shares. When organizations effectively combine their pricing strategies with value, they are successful in meeting both organizational goals and customer needs.

6.12 GLOSSARY

- **Brand –** The term originally referred to livestock owners who would mark their herd with a distinctive symbol for clear identification. The term now refers to how a target market distinguishes one company and it's values from a similar company.

- **Branding** – As a verb, it's the process of discovering and communicating the overall image of your firm. As a noun, it's the image you project in the market to your target audience.
- **Collateral** – An all-encompassing term referring to any and all marketing materials used for a company. This includes brochures, presentation templates, email signatures, email templates, business cards, data sheets, case studies, etc.
- **Culture** – Every B2B firm and B2C company has a unique set of beliefs, customs, way of thinking, and standards of behavior/work. For many companies, having a clear understanding of the culture is essential to communicating the brand.
- **Customer Service** – Every member of your organization is responsible for an excellent experience for clients. It can make or break your firm's brand.
- **Guidelines** – Refers to a short list of rules and requirements for representing the company visually, in text, and in person. The more specific the overall rules, the more cohesive an organization will appear to potential and existing customers.
- **Identity** – All of the unique attributes that define your company are considered the Brand Identity. Business Name, Logo, Tagline, business card, products and services, dress code, etc, are all things that combine to create the identity of a brand.
- **Image** – How a brand is perceived by its target audience. The way a brand appears to potential customers or clients is essential to the success of a company.
- **Intangible** – Brand assets incapable of being touched. These all work together to create the essence of the brand. Intangibles include trademarks, expertise, designs, etc.
- **Logo** – A unique design or custom symbol that acts as the identifier of a brand. It is a visual representation of a firm's brand.
- **Marketing** – Marketing covers all the activities related to creating awareness, interest, and leads in a company's products or services. Typically, Marketing acts at the brand police for an organization.

6.13 SELF ASSESSMENT QUESTIONS

1. Is Price an important element of marketing mix?

Ans ______________________________

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2. Under what circumstances would you recommend: skimming policy and penetrating pricing.

Ans ______________________________

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6.14 LESSON END EXERCISE

1. What do you understand by pricing?

Ans ______________________________

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2. What are the different pricing deciding factors?

Ans ______________________________

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3. Discuss the various methods of pricing in detail.

Ans ______________________________

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4. Explain the objectives and role of pricing in marketing decision.

Ans ____

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5. What are the basic pricing policies?

Ans ____

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6.15 SUGGESTED READINGS

- Marketing Management: Pankaj Madan; Amit Mittal And Hemraj Verma
- Fundamentals of marketing: Anupreet KKour ; Kamlesh Bajaj And Khushdip Kaur
- Principles of Marketing: S.P. Bansal

C. No. : BM-401	UNIT II
SEMESTER : IV	LESSON : 7

Branding and Packaging Decisions: Marketing Segmentation and Its Basis

Structure

7.1 INTRODUCTION

The purpose of any business is to create customers at a profit and the most valuable asset of a company is its customer's loyalty. Thus the business has not only to look into product features that will fulfill the customer's needs but has also to provide verbal and physical cues that will help the customers to identify the product from the competitors products and would also help to influence the choices when they are unsure. Products needs as we do, to act as a key differentiator in business that helps in generating immediate attention and building perception of being a high value product among customers. Brands are a combination of functional and emotional benefits. They help to simplify shopping, guarantee a specific level of quality and allow self-expression. Packaging is the fifth p of marketing. Packaging now a days become more important due to severe competition in the market and rise in the living standard of people .It facilitates for convenient handling, sale of product by acting as salient salesmen for the manufacturer. Packaging is therefore the designing and producing of the container, wrapper or other receptacle for packing goods. Market consists of buyers, and buyers differ in one or more respects. Buyer's behavior is a complex phenomenon. An understanding the economic, psychological and socio-cultural characteristics of the consumers and their motivations. Attitudes, cognitions, personalities and perceptions can help to discover new market opportunities, clear and specific market segmentation. All markets are made up of segments and these segments are made up of sub-segments.

7.2 OBJECTIVES

After reading the lesson you will be able to:

- To better know the concept of branding, packaging and market segmentation
- To know the role of branding in marketing mix
- To determine the packaging advantages
- To find out the different functions of packaging
- To identify the different market segmentation

7.3 CONCEPT OF BRANDING

Brand: A brand is a name, term, sign, symbol, design or a combination of the above to identify the goods or service of a seller and differentiate it from the rest of the competitors Brand is "The sum of all characteristics, tangible and intangible, that make the offer unique". A brand comprises of Tangible attributes and Intangible attributes Tangible attributes are : Product, Packaging, Labeling, Attributes, Functional benefits Intangible attributes are : Quality, Emotional benefits, Values, Culture, Image Brands & organizations spend considerable sums telling customers what they stand for.

It is sum total of all the impressions created by the buyers over a period of time as he comes into contact with brands products or services, distribution channel, personal and communication. The Norse meaning of the word brand is to burn .The story goes back to the cowboy days grazing, going back and enjoying themselves. In the evenings, in order to identify their cattles, they started marking their cattle with a hot iron bar. Subsequently, the typical marking served as a distinguisher.

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

According to **Seth Goolin,** "A brand is the set of expectations, memories, stories and relationships that taken together account for a consumers decision to choose one product over another'

According to **David Ogilvy**, "A brand is the intangible sum of products attributes: its name, packaging and price, its history, its reputation and the way it is advertised."

The traditional definition of brand focuses on the function of the brand, that is, to identify irrespective of the specific means employed for the identification. A modern definition talks about the brand as a vehicle for delivery of a certain value to the consumer and hence, a brand is a mental patent and set of associations that delivers a set of functional and emotional value to the consumer in a unique way which are not delivered by others in the business.

7.4 CHARACTERSTICS OF STRONG AND SUCESSFUL BRAND

With the volume of competition that businesses face in most industries, it's never been more important to stand out and develop a unique identity and value proposition through strategic branding. While it's obviously important to offer a quality product or service, effective branding is often at the heart of the companies that thrive. According to Jerry McLaughlin, "brand is the perception someone holds in their head about you, a product, a service, an organization, a cause, or an idea. Brand building is the deliberate and skillful application of effort to create a desired perception in someone else's mind." Let's explore the common characteristics of successful brands, so you can build your brand accordingly.

1. Audience Knowledge:

The best brands have a thorough understanding of the demographics of their target market, what their interests are, and how they communicate. Unless it's a mega chain like Wal-Mart, most businesses have a specific target audience they're pursuing. Understanding the target market is critical because it provides direction for the tone and reach of a marketing campaign, along with the overall identity of a brand, while helping to create an organic, human connection between a business and its audience. Trying to appeal to everyone (ie, ignoring the concept of a target market) can be counterproductive, causing a company's brand to become diluted. Finding the right branding approach requires first understanding the target market. For more information on how to find out what your target market wants, see my articles, "7 Ways to Find What Your Target Audience Wants and Create Epic Content" and "6 Steps to Decoding Your Target Audience."

2. Uniqueness:

Establishing a brand identity requires something distinctive. For instance, Apple has become known worldwide for their innovative products and minimalistic, aesthetic appeal. When it comes to service companies, Domino's Pizza used to guarantee that their pizza would arrive in 30 minutes or it'd be free. In terms of a selling point, TOMS shoes donates a free pair of shoes to a child in need for every pair of shoes that are bought. Creating an identity within a niche doesn't demand a revolutionary idea. It simply needs to have one special thing that separates it from the competition. In reality, it's possible to be "a one trick pony" as long as that trick is really good. Once a company figures out what that is, it can concentrate on it and should gain recognition in time.

Do you know what your unique product, service, or selling point is within your niche? If not, start there when building your branding strategy.

3. Passion:

While it's certainly possible to build a brand in the short-term without passion, it's almost impossible to sustain it in the long run. When you examine massively successful people like Steve Jobs, they all have a serious passion that keeps propelling them to work hard and continually deliver greatness. That passion leads to enthusiasm and genuine joy, which is infectious. Consumers often become just as enthusiastic about a product or service, leading to word of mouth advertising and referrals. Passion also helps businesses persevere through inevitable setbacks.

4. Consistency:

When consumers come back to a business for repeat sales, they usually expect to receive the same level of quality as they did the first time. Restaurants and their food and service quality are a great example of this. No one wants to deal with a company they can't rely on for consistency. With so many industries being saturated with competitors, inconsistency is often enough of a reason for consumers to take their business elsewhere. That's why it's so important to adhere to a certain quality standard with a product or service. An example of a brand who offers amazing consistency is McDonald's. This powerhouse of the fast food world provides patrons with a menu that's consistent across the world. Whether someone orders in Florida or China, they know that a Big Mac is going to taste the same.

5. Competitiveness:

Gaining an edge in today's business world isn't easy. For a brand to make a name for itself, team members should thrive on competition and constantly strive to improve. This is the main principle behind Seahawks Coach Pete Carroll's book, Win Forever, as well as the way he runs the team. When it comes to the major players in any industry, none simply sit back and hope that their consumers will do the work for them. Instead, they tend to be the movers and shakers who work tirelessly toward building and optimizing their brand, going above and beyond consumer expectations. The end result tends to be a brand that is continually on the cutting edge of its industry.

6. Exposure:

Another big part of being recognized as a distinctive, successful brand is the ability to reach consumers through multiple channels. Obviously, larger companies have an advantage gaining exposure because they usually have a bigger marketing budget and more existing connections. They can pay for television commercials, be featured in globally-recognized magazines, and rank highly in search engine results pages. However, the Internet and social media have narrowed the gap between small companies and large ones. There are more tools than ever before which offer any company a chance at establishing their brand. By developing a presence on networks like Face book, Twitter, LinkedIn and Google+, anyone is able to reach almost any consumer. You just have to know how (that's the hard part). Here are some resources I recommend for help with that component: The Definitive Guide to Marketing Your Business Online

How to Build a Kickass Content Marketing Strategy

How to Get Big-Brand Search Visibility For Your Small Business

The Three Pillars of SEO in 2013: Content, Links, and Social Media

What is Social Media Marketing, and How Can it Help My Business?

7. Leadership:

Just like any thriving community or sports team, there's typically an influential leader behind every successful brand. For large companies, this may be the CEO. For smaller ones, it's usually the owner. To coordinate the efforts of team members and guide a strategic vision for a brand, someone has to step up and steer the ship. The leader resolves complications and acts as a liaison between different departments to keep everyone on the same page. They are also expert motivators and know how to maximize the strengths of different team members.

Successful brands share these seven common characteristics. How does your brand measure up? Did I miss any characteristics? Let me know in the comments below.

7.5 PURPOSE OF BRANDING

Brand plays an important role as an inseparable part of the product of a business firm. Some firms invest a lot of money in the brand of their products. Brand helps to promote product, to build image, personality and to develop brand loyalty. The main objectives of branding product are as follows:

1. To differentiate a firm's product

Brand helps to differentiate firm's products from competitors' products. This makes customers feel easy to recognize products of genuine producers.

2. To assist in promotion

The other objective of branding is to help in conducting promotional activities. The activities such as advertisement, personal selling, publicity, sales promotion etc. are conducted with brand name.

3. To increase prestige and status

Branding helps to increase prestige, personality and status of the producers, distributors, customers etc.

4. To maintain product quality

One of the main objectives of branding is to pay attention to maintain quality of the products in order to sell and distribute the products with brand name. The firms, which cannot maintain quality of their products, do not want to use brand name.

5. To increase brand loyalty

The other objective of branding is to increase customer' loyalty to brand or branded product. The customers can buy only the branded products repeatedly.

6. To legally protect the firm

The other objective of branding a product is to protect the business firm from any legal obstacles and get legal recognition and protection.

7. To build values for customers

To build consumer value and benefit of the products or value building of products is the other objective of branding. A marketing manager should concentrate his efforts on promoting special quality and advantage of the products of certain brand name. This also should promote the value of the products to the consumers

7.6 BRANDING ADVANTAGES AND DISADVANTAGES

ADVANTAGES OF BRANDING

1. Boosts Awareness and Loyalty:

Branding helps consumers develop a specific image that contains the qualities and characteristics business owners want consumers to associate with their business and its products or services. For example, cartoon images of a happy dog may help a consumer feel more comfortable using a particular pet grooming service. A distinct brand can increase the memorability of a product and build repeat business. If consumers are satisfied after purchasing the product, a strong brand makes it easy for them to make repeat purchases without much reconsideration. This can all translate into a wider customer base, increased sales and revenue growth.

2. Protection from Competition:

Brands offer a certain amount of legal protection from the competition because of trademark law. A trademark can be any unique word, device, or symbol that distinguishes a company. Nike's swoosh and Apple's apple are both trademarked items. Companies can trademark their business name as long as they use it when advertising to customers. Registering a brand as a trademark allows the holder to bring legal action against any competitors that try to infringe on its branding.

DISADVANTAGES OF BRANDING

1. Its Expensive:

One major disadvantage of branding is the expense. Designing a brand involves significant research, naming development, graphic design and brand identity integration, which aren't cheap. Business owners may feel pressured to increase the price of their products to compensate for the increased expense, which could cause customers to switch products. The increased expense of wages and professional fees to develop a brand may or may not exceed the financial benefits of branding.

2. It's Tough to Change:

One of the major benefits of a brand is that it creates a strong product association for customers. However, this can also be a disadvantage in several situations. If a company wants to change direction with its products or target a new segment of consumers, an established brand can make it difficult to change the image of the company. If a company undergoes a public scandal, a strong brand only makes it easier for consumers to associate the business with past wrongdoings. While brands and even company names can be changed, it's an expensive and time-consuming process.

7.7 PRINCIPLES OF SELECTING BRAND NAME

A crucial element of any business is the creation of a brand name by which people could **identify the service or product** it provides. It's also one of the very first things you have to think about, and it's something that will be **stuck with your** business **for long**. This is why it's necessary to be particular about coming up with the perfect brand name for your business. It may not seem like a daunting task, but it requires careful consideration on various aspects of what kind of services or products you will be providing. After all, the brand name, along with the logo and the type, sums up everything your business represents into a symbolic name. Here are a few essential things you might want to consider before you decide on your brand name:

1. Ensure its Web-Friendly:

In this age and time, if you want your business to flourish, it's probably a must to bring it to the Internet. Therefore, you have to ensure if the brand name you'll be coming up with is "**web-friendly**". The brand name should be "web-friendly" in the sense that the name can be put on the web with Internet **users having few issues finding and accessing it to gain information about the business**

First, if you're going to utilize the net for your business, you'll need an official website to serve as a one-stop station for anyone interested to find out more about it. This means getting a domain name that is distinctly associated with your business. Therefore, you should choose a brand name that people could easily remember rather than something complex and meaningless.

Take for example, www.tchm.com versus www.tchmedical.com. The second one seems easier to remember because of the word "medical". People would recall "tch" and "medical" better than simply "tchm", which does not consist of any real word and does not give any clue about the business.

Second, given that social networking sites like Facebook are the in-thing now, you might be considering marketing your business through them in future. One thing you should thus check is that there are no pages created with the same name as your brand. This will prevent the dilution of your branding and easily allow people to find the exclusive page of your business and gather more information about it.

Other things you may also wish to consider include your future business email address (which will most likely bear close resemblance to your brand name), the ease of using your brand name to search for your business on search engines, etc.

2. Simplicity:

The easier it is for the brand name to be pronounced, the better it can be spread through word-of-mouth. Similarly, the fewer the number of words for the brand, the easier it is to be remembered.

Sometimes words are not spelt out the way it sounds, and people may have difficulties searching for the company on the net. For example, although "Xerox" has become an effective brand name that became synonymous with "photocopy", it probably had some pronunciation issues when it first existed. People might have mistaken the pronunciation with the incorrect spelling of "Zerox". The company may have lost a significant portion of their potential customers just because these people couldn't get the spelling right. So when it comes to ensuring that your brand can be remembered accurately, simplicity could be the best policy.

3. Stand Out from the Crowd:

Simplicity aside, brand names need to be memorable as well in order to create a buzz and generate an interest in what is it that your business provides. Making your brand name too descriptive and straightforward may kill the curiositythat is needed to sustain the interest.

Before coming up with a few potential brand names, it would be a good idea to do some research on the ones that your competitors have come out with.Identify what are the similarities across the different brand names. Subsequently, when you generate some potential brand names for your company, resolve not to come up with something similar to them. In other words, your brand name should stand out from the crowd, by which I'm referring to your closest competitors. After all, a large part of your business concerns will revolve around these few. As a potential customer considering the various options between you and your competitors, which one would most likely catch his or her attention initially? The one with a brand name that doesn't sound like the others.

4. Have the Logo in Mind:

Brand name and logo go hand-in-hand for the most part. If you want to have a strong branding for your business, make sure that people can identify the logowith the brand name. The brand "Apple", for instance, has a pretty straightforward logo in the shape of an apple. This makes it simple for people to recall your business. Why? Instead of relying on solely the linguistic memory for the brand name, they are now also able to store the visual memory of the brand by associating it with the logo.

Now that you know how significant the connection between the name and the logo is to your branding, it's necessary to think of a name that affords you more freedom in the creative process of your logo. Personally, I believe an "image" logo is stronger than a "word" logo, so it might be a good idea to consider a brand name that can be symbolized as an object or something.

Try comparing Apple's "image" logo to Microsoft's "word" logo, I think most of us would agree that the former takes lesser cognitive resources to remember than the latter.

5. Contains the Essence of Business:

Just as your business should have a unique selling preposition to distinguish yourself from your competitors, your brand name should also manifest that which is distinct from the others. It can also be used to reflect the strength of your business or give a hint on what kind of services/products it actually provides.

For example, the search engine "Google" might have given us the impression of "googly" eyes, which we can associate with searching for things. Such a company name lets people effortlessly identify with what the company provides and serve as a good anchor in their memory. Other brand names may seemingly bear no relation to the business, but they emphasize on the "feeling" aspect of the name. No one probably have any idea what "Starbucks" is when they first heard it, but once people realize it's a coffeehouse chain, it sticks in a strange way. The name evokes energy and spontaneity, just as a cup of coffee would do to you every morning.

7.8 ESSENTIALS OF GOOD BRAND

Brands are all pervasive. Brands explain the way people live in a particular society. The value of a brand comes from its ability to gain an exclusive, positive and prominent position in the minds of customers. Brands are valuable assets to retailers and also are important to customers.

Brands not only create wealth for the company but also add value to the consumers' life. There is no defined criterion to select or reject a particular brand. However, research and experience have developed the following features which must be considered while selecting a brand name.

These are:

1. It is simple, short and easy to remember, for example, Dabur, Haldiram, Pepsi, Lux, etc.

2. It should suggest something about the product. It may be quality, purpose, action, use, etc. For example, Link locks, Sona Hawai Chappal, Rath Vanaspati, Dabur Oil, Kelvinator Refrigerator, Parle G Biscuits, etc.

3. It should be attractive and unique, for example, Bombay Dying, Chabra 555, Bata, Complan, Surya, Jindal, Nestle, etc.

4. It is stable and unaffected by time. It does not easily change with fashion or style.

5. The brand is consistent.

6. It should provide appropriate value to the customers.

7. It should not be used as a general or common name, for example, Campa, Dalda, Colgate, Maggie, etc.

8. It should be capable of being registered and protected legally under the legislation.

9. It should be properly positioned.

10. It is consistent.

11. The pricing policy is designed as per customers' perception of value.

12. The brand name should not be opposed by any social settings.

13. The brand is easy to publicize and promote.

14. The brand is away from and cut, copy, paste.

15. The brand should not be out of date.

7.9 CLASSIFICATION/TYPES OF BRANDS

A. ON THE BASIS OF OWNERSHIP

1. Manufacturers Brand:

These are initiated by the producers and ensure that the producers are identified with their products at the point of purchase. For example: Walls ice cream, apple computer etc. Usually, the producer becomes involved in distribution, promotion and to some extent in the pricing decisions. Brand loyalty is a valuable asset to the manufacturer and thus is encouraged by promotion, quality, control and guarantee. Efforts of the producer to stimulate demand tent to encourage the middlemen to make products available to the consumer

2. Own label Brand:

Here, manufactures are not identified with products. These brands are intimated and owned by wholesalers and retailers. For example: Westside, lifestyle, easy day etc Own label brands give retailers or wholesalers freedom to purchase products of a specified quality at lowest cost without disclosing the identity of the manufacturer. Many successful own label brands are distributed nationally. For example: If you go to easy day, you buy products under the easy day brand name without caring to know who actually the producer is. These brands are used to develop more efficient promotion, higher gross margins and improved store images. Sometimes retailers with successful distributor brands start manufacturing their own products to gain more control over products cost, quality and design.

3. Generic Brand:

A generic brand indicates only the product category(such as coffee) without showing the company name or other identifying terms. These brands normally sell at lower prices as they do not have attached to them the premium value of an identifying brand. E.G Vegetables are generic terms. Thus, vegetables sold in the local weekly market are cheaper than those showcased in the window of a high profile grocery store.

B. ON THE BASIS OF VALUE OFERED

1. Functional Brands:

They lay emphasis on the value of their offers. These brands offer to do a good job, and serve the basic function for which they are brought. For example, Maruti alto and NANO are conceived as functional brands as they tend to put families on four wheels at an affordable price not very different from a two wheeler. These brands are successful as they are supported by product related efficiencies as well as cost efficiencies.

2. Images Brands:

This brand focuses on image value to the user. It is based on the premier that a person using this brand belongs to a particular class or league of society. For example: Pens are supposed to give smooth writing and be durable but Parker pens do not focus on their functional image but on the high class image that these pens are used by high profile people.

3. Experience Brands:

These lay emphasis on the unique experience that a customer feels on using the particular goods or services. For example: Air India's Maharaja icon creates the image of experience that a traveler will have and so on. Here people, places and process involved in deleivery of experience are crucial for the success of the brand.

7.10 TYPES OF BRANDING STRATEGIES/POLICIES

There are many types of branding strategies in marketing that will build brand equity, adding value to your company. Coupled with **cross-channel marketing**, your brand strategy has the potential to grow dramatically and reach well beyond your target audience. Build value from the customers' perspective. There are many different types of brand strategies that vary based on target audiences, marketing campaigns, and budgets. A well-received brand strategy has the potential to build brand equity and solidify its place as an established brand. Some companies employ multiple strategies to increase the odds of a successful campaign. The research is complete, your target audience is defined, and you're ready to roll out your new product launch. But with so many different types of brand strategies, how do you know if your brand will be received well? Businesses looking to build brand equity can take note of these seven different brand strategies and get an idea of what to expect in a successful marketing campaign. A well-received product will result in strong growth, and these types of marketing strategies will get you there.

1. Name Brand Recognition:

A well-established company will often use the weight of its own name brand to extend to its products. Most often, a company with large name brand recognition can be recognized by its logo, slogan, or colors. Companies such as Coca-Cola, Starbucks, Apple, and Mercedez-Benz are all iconic while featuring multiple subsidiary products featured under the company name.

2. Individual Branding:

Sometimes a larger company may produce products that carry their own weight independent of the parent company. This strategy involves establishing the brand as a unique identity that is easily recognizable. General Mills, for example, distributes Cheerios, Chex, Cinnamon Toast Crunch, Kix, Total, Trix, and more—and that's just the cereal division. The company also distributes other major brands from every food group.

3. Attitude Branding:

Ambiguous marketing can often go above the actual product itself in the case of attitude branding. These brands all use strategies that bring to life personality and a customized experience with products and services. NCAA, Nike, and the New York Yankees made Forbes list of "The World's Most Valuable Sports Brands 2015," and are automatically associated with a certain style. Other brands, such as Apple and Ed Hardy, also reflect a customer's self-expression.

4. "No-brand" Branding:

A minimalist approach can speak volumes. No-brand products are often simple and generic in design. The most successful company to establish this marketing method is the Japanese company, Muji, which simply translates to "no label."

5. Brand Extension:

Brand extension occurs when one of your flagship brands ventures into a new market. Say you have a shoe company that is now making jackets, athletic wear, and fragrances. The brand name carries its own identity to your product mix.

6. Private Labels:

Store brands or private labels—have become popular at supermarkets. Retail chains such as Kroger, Food Lion, and Wal-Mart can produce cost-effective brands to compete with larger retailers.

7. Crowd sourcing:

These brands are outsourced to the public for brand creation, which allows customers the chance to be involved in the naming process, and effectively drives up personal interest in a product.

8. Brand Loyalty:

"The degree of consumers attachment to a brand." It is a situation in which consumers buy same brand of certain product repeatedly for long time even though substitutes are available It is the extent to which the customer is committed to the brand, that he/ she will walk the extra mile to get it. Do not switchover to other brands or competitors' products Brand Equity "Refers to the Value of a brand."

9. Brand Equity:

A key asset for any business and consists of brand awareness, brand loyalty, and brand associations.

A. It is based on consumers' positive attitude towards brand

B. It helps the companies to increase profitability, reduce vulnerability to competition, charge premium prices and introduce new products.

10. Brand Extensions / Brand Stretching:

"Refers to the use of a successful brand name to launch a new or modified product in the same broad market". Is a marketing strategy in which a firm uses the same brand name but in a different product category. Consumers who favorably evaluate the parent brand are more willing to try and adopt the brand extension than an unfamiliar brand in a product category. Brand Extension allows the new product the benefit of the older product's established reputation. Parachute launched Parachute Jasmine Lite and Parachute Advanced hair oil in their hair care range.

7.11 EVALUATING THE BRAND

How do managers know if their brand strategies are working? Managers use four primary measures to "read" the brand's health and evaluate marketing effectiveness.

1. Behaviors:

When the brand increases in value, one expects—all other factors being unchanged that customers will purchase the brand more regularly and will be less likely to switch away from the brand. Thus, one way to measure the strength of a brand is to measure behavioral loyalty. Measurements of loyalty behaviors alone can be misleading, though, because so many factors influence purchase behavior. So marketers commonly look at additional indicators.

2. Attitudes:

Valued brands tend to share certain consumer attitudes: they are well known among the relevant customers for delivering particular benefits, they are associated with influential users, and they are personally relevant. Attitudinal measures are gathered from traditional market research as well as other informal feedback mechanisms (Web sites, customer centers, retailers) to make benchmarked comparisons on attitudinal strength.

3. Relationships:

When brand value is high, customers tend to rely heavily on the brand in their daily life and, so, develop deep relationships with the brand. Like a personal relationship, people come to depend on the brand, enact norms of reciprocity, and exhibit strong emotions and feelings about the brand. Hence, measures of relationship strength can provide accurate indicators of brand value.

4. Equity:

The ultimate measure of brand value is the brand's reservation price (the price at which consumers are indifferent between the brand and competitive offerings). If the demand curve shifts outward, all other factors being equal, the brand is more valued by customers. Successful branding allows firms to charge more for their products or to sell more at the existing price, or some combination thereof. The future stream of earnings produced by this shifting of the demand curve attributed to branding is called brand equity. For many companies, branding has a tremendous impact on profits. Thus, brands are some of the most important

7.12 TESTING BRAND NAMES

Now take these answers and formulate a list of five to seven potential company names. Consider the characteristics that make up your target audience and ask yourself the following questions about each of your potential names:

a) Can the name be pronounced easily?

b) Does it read quickly and clearly?

c) Can you say it, and others understand it, without having to spell it?

d) Is it spelled as it sounds?

e) Is it short?

f) Does it contain negative internal words?

g) Does it spark interest? Is there a story behind it?

h) Does it represent who you are? Is it authentic?

i) Does it express or imply a desirable message?

j) Can your employees say it proudly?

How did your proposed business name do? Is it a keeper, or do you need to go back to the drawing board? In the long run, you'll be better off being honest with yourself now.

Having a great name is a powerful force when it comes to your marketing campaigns. Your name differentiates you from competitors, makes an emotional connection with your audience, and helps to build a strong brand that your customers recognize and trust.

Warnings and Precautions: As mentioned above, there's a chance you'll pick what you think is the perfect name only to find a competitor, or even a totally unrelated business, is already using it. If you go ahead with another company's name, even if the company is in another state and unrelated to your own, you may be liable for trademark infringement. Before you settle on a name, do all your due diligence. You may want to hire a professional; a trademark attorney can help you conduct the proper searches to determine that your business name is unique and get it registered for trademark and tax purposes. Googling a potential name isn't enough.

7.13 IMPORTANCE OF BRANDING

Brands are everywhere in our life. At the most basic level, brand is a mark of ownership and identity. Brand is also a discriminator to distinguish products from one another. A brand is a bundle of distinct attributes and benefits that attempt to convey differences that make it appear superior. Brand is also a set of meanings and beliefs. It is a unique assortment of thoughts and feelings associated with the name. Brands offer benefits for both buyers and sellers. Some of the advantages that branding offers are:

1. A major asset of the firm:

Strong brands are valuable, renewal and lasting assets, CAPABLE OF working for their firms for generations. They are also tradable assets.

2. Development of loyal consumer base:

A brand extends brand value to new introductions. Consumers are willing to try, accept variations and live extensions like Britannia and Intel. Brand loyalty is a strongly motivated and long standing decision to purchase a product or otherwise.

3. Brand offers strategic leverage to firm:

Many different products move under one and the same brand name, giving substantial cost saving and marketing convenience to the firm. Brand names occupying such position no longer stand for a given set of features of one given product but for something common across many different products.

4. Brands provide strategic value to marketers:

The value is well protected when it restricts imitation of the product in the market. It increases value prepositions divergence and restricts price based competition. It controls rising media cost due to its ability to retain a strong relationship with consumers and hence reducing media expenses .It takes care of the evolving needs of consumers and reduces price sensitivity of consumers.

5. Exploring new opportunities:

A strong brand is valuable as it enables the firm to explore opportunities through brand extension and neutralize environmental threats.

6. Brand represents value delivered to consumers:

Brand gives to the customer the benefits and values he seeks, by ensuring that the benefit/ value is enhanced all the while in time with the changing customer needs by convincing him that the best proportion is always being offered to him. Brands exist in the minds of the consumer. And they will exist only as long as the customer wants them and find them useful.

7.14 CONCEPT OF PACKING AND PACKAGING

Packing and packaging are closely related concepts though being totally different. The Task of keeping, packing, wrapping or binding commodity in sack, cloth, paper ,box, can, bottle etc. According to the nature of product is called packing. Packing is meant for the basic protection of the goods like damage, leakage, pilferage etc. While packaging is more about the design, the appearance, colors as perceived by the consumers. But the word packaging does not limit the meaning to only packing; wrapping or binding in anything, rather it also works for sales promotion. Packaging is also concerned with a matter how to put or keep a commodity in a container, box or can in an attractive, safe and comfortable manner. It is mostly done by factory owner who have to send products in bulk. Packaging plays a crucial role in attracting customers and influencing their decision to purchase a product. For example: Amul milk is stored in tetra packs to preserve them for a longer periods as milk is a product that perishes very fast. The tetra packs provide the freshness needed to keep the milk in good condition while each pack having the logo of a girl in it, the blue white color of the pack and photo of milk in it indicates the packaging part of it.

DEFINATIONS

Packing is the process of covering, wrapping or crating the goods into a package.

Packing refers to wrapping up of a single item into a casing so that it arrives in the market in a beautiful manner such as toothpaste and crèmes arriving in their packets.

Philip Kotler, "Packaging includes the activities of designing and producing the container or wrapper for a product"

William J. Stanton, "Packaging is a general group of activities, which concentrate in formulating the design of a package, and producing an appropriate and attractive container or wrapper of the product.

7.15 OBJECTIVES OF PACKAGING:

Three main objectives of packaging are:

1. Protection:

The basic objective of packaging for industrial goods such as components and machinery is to protect the product while in transit. But packaging for consumer goods has a broader aim.

2. Cognizability:

It is not enough for packaging to protect the product. Since the product is meant for sale in final form to the ultimate customers, it must also make the particular brand recognizable and appealing to buyers. This is very important in the case of packaged foodstuffs and other frequently purchased items from supermarkets and self-service stores. Here several brands of a product are dis-played next to one another on the shelves, and it is important that the color and design of a package attract the attention of the customers and thus play a major part in promotional strategy. The packaging lends charm to the product and reinforces the brand name. If the packaging does not induce the consumer to pick the com-modity's brand in this situation, then all previous promotional efforts to differenti-ate these brands are wasted. Thus, packaging is an aid to advertising.

3. Shortage and usage:

Packaging also facilitates the storage and use of products. Thus packages may be so designed as to conduce to the ease of handling by consumers and by members of the channel of distribution.

7.16 NEED AND IMPORTANCE OF PACKING/PACKAGING

Packaging plays a vital role in terms of protection, storage and hygienic handling of a product and it plays a key role in the marketing mix. Even if a company has created a useful product, convicting customers to buy that product often comes down to the way the packaging and product look on store shelves. Product packaging is often the most important feature in attracting potential customers to the product. Packaging can make or break a sale-Most shoppers will look at a product for less than ten seconds, so there is a need to convince them to buy the product in that short amount of time. If the products packaging takes full advantage of those few seconds of attention to explain the products attributes. The potential customer will probably take a closer look and it may even make a sale. If the packaging does not successfully convey that information, the customer will walk away.

1. It holds the product for the total duration of the transport and distribution chain.

2. It protects the product from getting broken or being otherwise spoilt, from the time of manufacturing until the product reaches its final user.

3. It makes the transport and handling of the product as easy as possible. The boxes that are easy and quick to handle would be more competitive than others because manual handling is costly.

4. It informs various people in the transport and distribution chain about the identity destination of the product and how it should be handled and stored, recycled or disposed of. If the product is sold in a retail package, this has to certain information related to the product, its producer and its handling.

5. It is also the task of the packing to make the transport and distribution of the product economical. This requirement means that the total cost has to be considered not only the price of the packing. Total cost includes all costs from the time when the product is manufactured until the product reaches the end user and the empty package is recycled or

disposed of. When goods arrive at their destination, packing is the first thing that the buyer sees. If the boxes look untidy, damaged or dirty, the first impression of the products and the manufacturer is one of low value.

7.17 FACTORS IN PACKAGING DECISIONS

Packaging decisions are important for several reasons as follows.

(i) Protection

Packaging is used to protect the product from damage during shipping and handling, and to lessen spoilage if the product is exposed to air or other elements,

(ii) Visibility

Packaging design is used to capture customers' attention as they are shopping or glancing through a catalog or website. This is particularly important for customers, who are not familiar with the product,

(iii) Added Value

Packaging design and structure can add value to a product. For instance, benefits can be obtained from package structures that make the product easier to use while stylistic designs can make the product more attractive to display in the customer's home,

(iv) Distributor Acceptance

Packaging decisions must not only be accepted by the final customer, they may also have to be accepted by distributors who sell the product for the supplier. For instance, a retailer may not accept packages unless they conform to requirements they have for storing products on their shelves,

(v) Cost

Packaging can represent a significant portion of a product's selling price. For example, it is estimated that in the cosmetics industry the packaging cost of some products may be as high as 40 per cent of a product's selling price. Smart packaging decisions can help reduce costs and possibly lead to higher profits,

(vi) Expensive to Create

Developing new packaging can be extremely expensive. The costs involved in creating new packaging include: graphic and structural design, production, customer testing, possible destruction of leftover old packaging, and possible advertising to inform customer of the new packaging,

(vii) Long Term Decision

When companies create a new package it is most often with the intention of having the design on the market for an extended period of time. In fact, changing a product's packaging too frequently can have negative effects since customers become conditioned to locate the product based on its package and may be confused if the design is altered and

(viii) Environmental or Legal Issues

Packaging decisions must also include an assessment of its environmental impact especially for products with packages that are frequently discarded. Packages that are not easily bio-degradable could draw customer and possibly governmental concern.

7.18 FUNCTIONS OF PACKAGING

Although the definitions given above cover in essence the basic role and form of packaging, it is necessary to discuss in more detail the functions of packaging and the environments where the package must perform those functions.

1. Containment:

This function of packaging is so obvious as to be overlooked by many, but it is probably the basic function of packaging. With the exception of large, discrete products, all other products must be contained before they can be moved from one place to another. The "package", whether it be a milk bottle or a bulk cement rail wagon, must contain the product to function successfully. Without containment, pollution could become widespread. The containment function of packaging makes a huge contribution to protecting the environment from the myriad of products, which are moved from one place to another on numerous occasions each day in any modern society. Faulty packaging (or under packaging) could result in major pollution of the environment.

2. **Protection:**

This is often regarded as the primary function of the package: to protect its contents from outside environmental effects, be they water, moisture vapor, gases, odours, microorganisms, dust, shocks, vibrations, compressive forces, etc., and to protect the environment from the product. This is especially important for those products such as toxic chemicals which may seriously damage the environment.

In the case of the majority of food products, the protection afforded by the package is an essential part of the preservation process. For example, aseptically packaged milk and fruit juices in cartons only remain aseptic for as long as the package provides protection; vacuum-packaged meat will not achieve its desired shelf life if the package permits oxygen to enter. In general, once the integrity of the package is breached, the product is no longer preserved.

3 Conveniences:

Packaging provides convenience in the carriage of the product from one place to another, in stocking and in consuming. For example; The new pet bottles of COKE makes the carriage and stocking easier. Similarly, the pack of FROOTI provides convenience in its consumption.

4 Communications:

There is an old saying that "a package must protect what it sells and sell what it protects". It may be old, but it is still true; a package functions as a "silent salesman". The modern methods of consumer marketing would fail were it not for the messages communicated by the package. The ability of consumers to instantly recognize products through distinctive branding and labeling enables supermarkets to function on a self-service basis. Without this communication function (i.e. if there were only plain packs and standard package sizes), the weekly shopping expedition to the supermarket would become a lengthy, frustrating nightmare as consumers attempted to make purchasing decisions without the numerous clues provided by the graphics and the distinctive shapes of the packaging.

5. Identification:

Packaging gives short introduction at different kinds of products and their producers.

Every producer or middlemen select color, size, design of container or box, and package their products in a way that they look different from competitor's products. This makes customers easy to identify the same nature products of different firms. The customers can recognize and buy the products of their favorite company or brand as they see the package

6. Promotion:

The other important objective and function of packaging is to promote sales of the product. If the product has been packaged in attractive material nicely, it plays important role in sales promotion. Attractive packaging draws attention of customers stimulates their interest toward the product and motivates them to buy.

7. Prestige:

The other function of packaging is to create brand prestige of product. A quality product properly packaged in good material becomes prestigious. Even though the product is good in quality, but its packaging is not attractive, customer's attitude becomes negative towards the product itself. So, packaging is an important function of the firm to increase reputation and prestige.

8. Utility to use:

The convenience packaging has been devised for foods, household chemicals, drugs, adhesives, paints, cosmetics, paper goods and a host of other products. This type of packaging includes dispensing devices, prepackaged hot metals, disposable medical packaging.

9. Protection during transport and ease to transport:

The packaging also has the task of facilitating the transport of a product or actually enabling the product to be transported. Likewise, the packaging form and size should permit the optimal use of the transport space with the lowest possible packaging weight. A package should be designed to make it easy to transport, move and lift

10. Stacking and storage:

Packaging is required to facilitate the storage of product. If possible, packaging should be stackable and meet the demands of the storage equipment. In addition, it should facilitate practical storage of the packaging supplies-eg, through collapsible boxes. In supermarkets and shops it must be possible to stack packages so that space is not wasted on the shelves.

11. Information:

The packaging conveys necessary information to the consumers. The common information that packaging provides include general features of the product, ingredients, net weight of the contents, name and address of the manufacturers, maximum retail price (MRP).Packaging of medicine and some food products is required to provide information on methods of preparations, recipes and serving ideas, nutritional benefits and date of manufacturing, date of expiry, warning messages and cautionary information. Sometimes, the color of the packaging itself provides some information. For example: Orange color of the bottle of marinda or fanta conveys the information that these brands are of orange colored soft drinks.

7.19 PACKAGE ENVIRONMENT

The packaging has to perform its functions in three different environments. Failure to consider all three environments during package development will result in poorly designed packages, increased costs, consumer complaints and even avoidance or rejection of the product by the customer.

1. Physical Environment:

This is the environment in which physical damage can be caused to the product. It includes shocks from drops, falls and bumps; damage from vibration arising from transportation modes including road, rail, sea and air; and compression and crushing damage arising from stacking in warehouses and during transportation, or in the home environment.

2. Ambient Environment:

This is the environment which surrounds the package. Damage to the product can be caused as a result of gases (particularly oxygen), water and water vapour, light (particularly UV radiation), and the effects of heat and cold, as well as micro- and macro-organisms which are ubiquitous in many warehouses and retail outlets. Contaminants in the ambient environment Such as exhaust fumes from automobiles and dust and dirt can also find their way into the product unless the package acts as an effective barrier.

3. Human Environment:

This is the environment in which the package interacts with people, and designing packages for this environment requires knowledge of the vision and strength capabilities and limitations of humans, as well as legislative and regulatory requirements. Since one of the functions of the package is to communicate, it is important that the messages are received clearly by consumers. In addition, the package must contain information required by law such as product description and net weight. To maximize its convenience functions, the package should be simple to hold, open and use by the consumer. For a product which is not totally consumed when the package is first opened, the package should be able to be resealed and retain the quality of the product until completely used. Furthermore, the package should contain a portion size which is also convenient for the intended consumers; a package which contained too much product that deteriorated before being completely consumed clearly contains too large a portion. **Exercise** Determine the environments that packaged vegetable products will have to operate in and discuss the impact these may have on the type of packaging you would choose. Over the past few decades, households have become increasingly busy and convenience has become an important factor in purchases. At the same time, the amount of packaging on an individual food product or other consumer item has increased. While packaging does improve safety, offer convenience and reduce theft, it also comes with a number of disadvantages. Packaging can be bulky, expensive and environmentally damaging over the course of its life cycle.

7.20 ADVANTAGES OF PACKAGING

(i) Rising Standards of Health and Sanitation:

As the people are becoming health conscious they like to buy packed goods. The reason is that the chances of adulteration in such goods are minimised.

(ii) Self-service Outlets:

Nowadays self-service retail shops are becoming very popular, particularly in big cities. Because of this, the role of sales assistants has gone to packaging.

(iii) Innovational Opportunity:

With the increasing use of packaging more innovational opportunity becomes available in this area for the researchers.

(iv) Product Differentiation:

Packaging is helpful in creating product differentiation. The colour, material and size of the package makes difference in the perception of the buyers about the quality of the product.

7.21 DISADVANATAGES OF PACKAGING

1. Cost:

While packaging can do a lot to get customer attention, and may even add value to a product, it also adds to the cost of production and the eventual retail price. According to Know This, packaging can represent as much as 40 percent of the selling price of products in industries such as the cosmetic industry. New packaging can be expensive to develop, adding to the cost of products.

2. Landfill Impact:

Packaging is responsible for significant portions of the waste stream. According to the Ashland Food Cooperative, packaging is responsible for about one third of the municipal waste in the United States. Some waste can be recycled, but many materials are not appropriate for recycling. Post-consumer recycled content is often usable only in specific contexts. For instance, many types of recycled plastic may not be used in food containers, even if the original plastic came from food containers. Much of the waste produced by packaging ends up in a landfill.

7.22 MEANING AND DEFINATION OF MARKET SEGMENTATION

Segmentation is a consumer oriented marketing strategy. It is a process of dividing the market on the basis of interest, need and motive of the consumer. Market segmentation simply means dividing market or grouping of consumers. It refers to grouping of consumers according to such characteristics as income, age, race, education, sex, geographic location etc. Therefore market segmentation is the strategy that subdivides the target market into sub-groups of consumers with distinct and homogenous characteristics with a view to develop and follow a distinct and differentiated marketing programmes for each sub-group in order to enhance satisfaction to consumers and profit to the marketer. According to Philip Kotler, "Market segmentation is the sub-dividing of a market into homogenous sub-sects of consumers where any sub-sects may conceivably be selected as a market target to be reached, with a distinct marketing mix." Normally, the market is made up of people with:

a. Different characteristics

b. Different needs and wants

c. Different purchasing power

d. Differences in the degree of willingness to buy

e. Differences in eligibility to buy.

If marketers wish to do an effective marketing job in such diverse and heterogeneous markets, then they must identify the differences in the different groups of people in the market. This is because one marketing mix will not satisfy them. In other words, different marketing mixes have to be designed to satisfy different marketing groups. Thus, there is a need for market segmentation. Thus, market segmentation refers to subdividing a larger market into smaller markets.

Some selected definitions of market segmentation are as follows:

1. According to **Philip Kotler,** 'market segmentation is a process of identifying groups of buyers with different desires or requirements'.

2. According to **Skinner**, 'market segmentation is a process of dividing a total market into groups of consumers who have relatively similar product needs'.

3. According to **Carl McDaniel**, 'market segmentation is defined as the process of identifying and evaluating various strata or layers of market'. 4. According to William Stanton, 'market segmentation is the process of dividing the total, hetero-geneous market for a product into several sub markets or segments, each of which tends to be homogeneous in all significant aspects'. Normally, the market is made up of people with:

7.23 NATURE OF MARKET SEGMENTATION

1. Systematic process: Segmentation of market demands a systematic process

The process consists of the following steps:

a. Defining the market.

b. Data collection to analyze the characteristics of the potential customers.

c. Identifying the bases of segmentation.

d. Defining the market segments.

e. Evaluating the market segments.

f. Selecting the appropriate market segments.

2. Serves many benefits: Market segmentation brings many benefits to the marketer for selecting target market and using an appropriate combination of the four P's.

3. Subject to certain limitations: Market segmentation is subject to limitations such as:

(a) Difficulties in data collection,

(b) It is a time-consuming process, and

(c) It is expensive.

4. Facilitates customer satisfaction:

Through market segmentation the customers get goods and services of their choice, which helps in satisfying their needs and wants.

5. Operates as promising marketing strategy:

Market segmentation is better than market aggregation, as the current marketing trend is shifting from mass marketing strategy to target marketing strategy

7.24 CRITERIAS OF EFFECTIVE SEGMENTATION

The main criteria's of effective segmentation are

- Measurability
- Substantiality
- Accessibility
- Differentiability

- Actionable
- Nature of Demand
- General considerations

The main purpose of market segmentation is to measure the changing behavior patterns of consumers. The size, profile, and other relevant characteristics of the segment must be measurable and obtainable in terms of data. Therefore, segments should be capable of giving accurate measurements.

Substantiality refers to the size of the segmented market. Segments must be large enough to be profitable. For small segment, it may not be possible for the marketer to develop separate marketing mix for such non profitable segments.

The segment must be accessible, which means marketers must be able to reach the market segments at lower costs. Segments must be reachable by company's sales persons, distributors advertising media etc.

The segment should be large enough to be considered as a separate market. Such segments must have individuality of their own so that it leads to different segments.

The segments which the company wishes to pursue must be auctionable in the sense that there should be sufficient finance, personnel and capability to take them all. Hence, depending upon the reach of the company, the segments should be selected.

Segmentation is required only if there are marked differences in the nature of demand. Nature of demand refers to the different quantities demanded by various segments. Each segmented market must exhibit difference in consumption rates from another segment.

Apart from the above characteristics, the segment must have growth potential, be profitable, carries no unusual risks and has competitors who do not fight directly with the product or brand

7.25 IMPORTANCE OF MARKET SEGMENTATION

The following are the importance of market segmentation:

1. Key to decide target market:

Market segmentation process helps a company to divide the market into segments. Each market segment represents a set of buyers who share similar set of needs and wants. The customers of a particular market segment are desirous of a unique value proposition comprising similar features and benefits in a product. It helps the marketers to identify and select one or more market segments to target. A target market thus is a group of customers that a marketer has chosen to serve through its best marketing plan. Selecting the right segments(s) is the ultimate key to successful marketing.

2. Designing the marketing mix:

It is very important to evolve marketing strategy focusing each target market recognizing well customer differences. Segmentation process provides a company in an depth and sophisticated understanding of a particular target market. A unique marketing mix thus can be designed to serve the needs of customers of a particular segment. A marketer to assess the possibility to club the buyers with similar set of needs before designing best marketing mix. Segmentation helps in serving the target markets through distinctive marketing mix, that too at a reasonable cost to the company.

3. Expansion with differentiation:

Segmentation allows for creating customer value proposition for each of selected target market through unique marketing mix. The differentiated marketing strategy allows a company to connect itself with customers in an efficient and effective manner in comparison with other competitors. Therefore, segmentation enables a company to expand the market with differentiated product through marketing mix that serves the need of its target market. The appropriate marketing mix, thus, provides for the competitive advantage. A company can differentiate and fortify its product territory by understanding well the needs of consumers and effective targeting strategy.

4. To counter the challenges of market dynamics:

Markets have unique features of continuous evolution. No market is static. The economic conditions of every state keep on changing and hence the income of customers. This leads to changes in the needs and aspirations of the buyers. Segmentation allows for understanding emerging needs of buyers, thereby, identifying differentiated customer profile. The success of marketers lies in sensing emerging needs and designing new marketing mix to exploit such opportunities. Segmentation allows a company to select the most attractive target markets. It may compel a company to revisit its existing bases of segmentation to plan for reformation of the target markets.

It becomes clear from the above discussion that market segmentation is primarily aimed at identifying undeserved markets. Managers can then design customer value proposition to create profitable target markets. A customer value proposition is unique offering of a product or service with specific attributes to satisfy the needs, tastes or preferences of a distinctive group of customers. It creates a unique place for the organization or any product of an organization that clearly differentiates itself from competitors. The customer value proposition through internal process of marketing mix leads to establishing effective connectivity with target customers. This is considered the best method by any smart company differentiate itself from competitors and to attract, retain as well as strengthen the relationships with target group of customers.

7.26 BASES OF MARKET SEGMENTATION

Different variables are used to segment the consumer markets. They can be broadly put into four categories

1. DEMOGRAPHIC SEGMENTATION:

Demos mean people and graphic means to measure or to study. In Demography means study of people or population. In Demographic segmentation, the market is segmented on the basis of demographic variables such as age, sex, family size, family life cycle, income, occupation, education etc. Demographic variables or characteristics are the most popular bases for segmenting the market.

(a) Age: Age is an important factor for segmenting the market. This is because demand and brand choice of people change with age. On the basis of age, a market can be divided into four- Children, Teenagers, Adults and Grown-ups. For consumers of different age groups, different types of products are produced. Johnson and Johnson cater to the needs of children below 6 years by presenting baby powders, baby soaps, oils etc.

(b) Sex: Sex based segmentation means grouping customers into males and females. The wants, tastes, preferences, interests, choices etc, of men are different from that of women. For instance, women are more fond of cosmetics and other fancy articles. Marketers use gender differences for marketing garments, personal care products, bikes, cosmetics and magazines.

(c) Family Life Cycle: It refers to the important stages in the life of an ordinary family. Broadly divided into following stages.

Stage1: Childhood. Stage 2: Bachelorhood (unmarried). Stage 3: Honeymooners- Young married couple. Stage 4: Parenthood- a) Couple with children. (b) Couple with grown up children. Stage 5: Post- parenthood- Older married couple with children living away from Parents (due to job or marriage of sons and daughters). Stage 6: Dissolution- One of the partners is dead.

Wants, tastes, interests, buying habits etc vary over different life cycles stages.

(d)Religion: Religious differences have important effect on marketing. The male folk among the Muslims have a demand for striped lungis and the woman folk for pardhas.

(e) Income: Income segmentation is used for automobiles, clothing, cosmetics, travel, financial services etc. For example, BMW (car manufacturer concentrates on high income segment)

(f) Occupation: Market segmentation is done also on the basis of occupation of consumers. For instance, doctors may demand surgical equipment, lawyers may demand coat etc.

(g) Family Size: A marketer launches different sizes of products in the market according to size of the family. For example, shampoos and oil are available in 100 ml. 200ml. 500ml etc.

(h) Education: On the basis of education, market for books may be divided as high school, plus two, graduate and post graduate.

2. GEOGRAPHIC SEGMENTATION:

The marketer divides the market into different geographical units. Generally international companies segment markets geographically. The theory behind this strategy is that people who live in same area have some similar need and wants and that need and wants differ from those of people living in other areas.

(a) Area: This type of segmentation divides the market into different geographical units such as country, state, region, district, area etc. Some manufacturers split up their sales territories either state-wise or district-wise. Markets may also be divided into urban and rural markets.

(b) Climate: Different types of climate prevail in different places. On the basis of climate, areas can be classified as hot, cold, humid and rainy region. Climate determines the demand for certain goods.

(c) Population Density: The size and density of population affects the demand for consumer goods. In those areas where size and density of population is high, there will be good demand for consumer goods.

3. BEHAVIOURAL SEGMENTATION:

Behavioral segmentation is based on buyer behavior i.e. the way people behave during and after purchase.

(a) Attitude: Customers can be segmented on the basis of attitude such as enthusiastic, positive, indifferent, negative, hostile etc. Fashionable and latest products are used by enthusiastic consumers. Liquor, cigarette etc are used by negative consumers.**(b) Product Segmentation:** The market segmentation is done on the basis of product characteristics that are capable of satisfying certain special needs of customers.

(1) Prestige products, e.g., Automobiles, clothing, Home furnishing.

(2) Maturity products, e.g., Cigarettes, Blades etc.

(3) Status products, e.g., Most luxuries.

(4) Anxiety products, e.g., Medicines, soaps etc.

(5) Functional products, e.g., Fruits, vegetables etc.

(c) Occasion Segmentation: According to the occasions, buyers develop a need, purchase a product or use a product. There can be two types of situations- regular and special. For example, for regular use, women purchase cotton or polyester sarees or churidars. For attending marriage or reception (special occasion) they buy silk sarees.

(d) Benefit Segmentation: Benefit segmentation implies satisfying one benefit group. The benefit may be classified into generic or primary and secondary or Evolved.

Product Generic or primary Secondary or Evolved

Utilities Tooth paste Cleaning Breath freshing, brightness.

(e) Volume Segmentation: The market is segmented on the basis of volume or quality of purchase. The buyers are grouped into categories like bulk buyers, moderate buyers, and small buyers. Heavy buyers are often small percentage of the market but account for a high percentage of total consumption. Marketers prefer to attract one heavy buyer rather than several small buyers.

(f) Loyalty Segmentation: Consumers have varying degree of loyalty to specific brands. On the basis of brand loyalty, buyers can be divided into the following five groups. (1) Hard-core loyals (2) Soft-core loyal (3) Shifting loyal (4) Switchers (5) Consumer innovators.

4 PSYCHOGRAPHIC SEGMENTATION:

It refers to grouping of people into homogeneous segments on the basis of psychological mark up namely life style, personality and social class.

(a)Life Style: A person's life style is the pattern of living as expressed in the person's activities, interests and opinions .They express their life styles through the products they use. For example, the life style of a college student is different from that of an ordinary worker. Car, clothing, cosmetics, furniture, liquor, cigarettes etc. are segmented by using life style

(b) Personality: Personality reflects person's traits, attitude and habits. It is in this background that a person is classified as active or passive, rational or impulsive, creative or conventional, introvert or extrovert. For example, Raymond's advertisement says "Raymonds. The Complete Man"

(c) Social Class: On the basis of Social class, consumers may be grouped into lower class, middle class and upper

7.26 ADVANTAGES OR BENEFITS OF MARKET SEGMENTATION

Market segmentation consists of identifying a sufficient number of common buyers. It enables subdivision of the total aggregate demand for a product into economically viable segments. Segments fall between the two extremes of total homogeneity and total heterogeneity. Segments benefit the marketer in several ways which may be discussed under four heads:

1. Proper choice of target market
2. Tapping a particular market
3. Efficient and economic marketing efforts; and
4. Benefits to the customers.

1. Proper choice of target market:

The market for any product is made up of several segments. A market is the aggregate of consumers of a given product. Consumers are not a homogeneous lot. They differ a lot in their characters and buying behavior. Thus, many differing segments exist in a market. Market segmentation helps the marketer divide the heterogeneous market. It is possible to distinguish one customer group from another.

2. Tapping a particular market:

Segmentation enables the marketer to understand the needs of the customers and serve them well. Prediction of the likely response from each segment is possible. With homogeneous responses from each segment, marketer finds it easy to develop appropriate marketing programmes. By tailoring the marketing programmes to individual market segments, marketers perform their tasks effectively. Specialization can be achieved in product distribution, promotion and pricing for catering to a particular segment.

3. Efficient and economic marketing efforts:

Segmentation makes marketing efforts both efficient and economic. Marketers segment the market and try to fulfill the needs of that segment. It helps in designing the kinds of promotional devices that are effective from the view point of customers. Marketing efforts are focused on the well defined needs of the segment. Thus, marketing efforts undertaken by the marketer become more productive. They help the marketer to evaluate the results of his marketing programme. Best time to introduce new products, advertising etc., could be easily determined.

4. Benefits to the customer:

Segmentation benefits not only the marketer but the customer as well. It distinguishes one customer group from another within a given market. It helps the marketer concentrate on the fulfillment of the well defined needs of the specific segment. Now-a-days, segmentation has attained a high degree of sophistication. Though market segmentation offers a lot of advantages, it has some limitations with respect to cost and market coverage.

7.28 LIMITATIONS OF MARKET SEGMENTATION

1. Limited Production:

In each specific segment, customers are limited. So, it is not possible to produce products in mass scale for every segment. Therefore, company cannot take advantages of mass scale production; scale of economy is not possible. Product may be costly and affect adversely to the sales.

2. Expensive Production:

Market segmentation is expensive in both production and marketing. In order to satisfy different groups/segments of buyers, producers have to produce products of various models, colors, sizes, etc., that result into more production costs. In the same way, the producers are required to maintain large inventory for different styles, colors, and sizes of products.

3. Expensive Marketing:

Market segmentation also results into expensive marketing. Due to different groups of buyers, the marketer has to consider all the segments in terms of needs, interests, habits, preferences and attitudes. Marketer has to formulate and implement several marketing strategies for different segments.

4. Difficulty in Distribution:

Company needs to make the separate arrangement for each of the products demanded by different classes of customers. Salesman's recruitments, selection, training, payments, and incentives are more difficult and costly. Company has to maintain separate channels and services for satisfying varied customer groups.

5. Heavy Investment:

Market segmentation leads to heavy investment. In order to satisfy different needs and wants of various groups, a company has to produce variety of product lines and product items. For the purpose, the company requires to invest more on technology and other inputs that may demand heavy investment.

6. Promotion Problems:

Market segmentation also creates promotional problems and multiplies promotional difficulties. It is obvious that different segments are made on the basis of distinguished characteristics of buyers. Each group differs in terms of advertising media, appeal or message. In order to influence various segments of buyers, the company is required to prepare a separate advertising programme or strategy. Similarly, personal selling and sales promotional activities become more complex. Company needs to spend more to take benefits of specialization.

7. Stock and Storage Problems:

To meet needs and wants of different consumer groups, the company must maintain adequate stock of various products on a continuous basis. This creates problem of stocks, storage, and working capital. Most limitations reflect the impact of situation and inability of manager to segment the market purposively and meaningfully. But, limitations cannot restrict segmentation philosophy and practice. These limitations can be overcome by segmenting market carefully and objectively.

7.29 SUMMARY

Product is nothing till it is not given any brand name. Branding refers to decisions about names. Therefore brand is a name, term, symbol, design or combination thereof that identifies seller's products and differentiates them from competitor's products. A trademark is the legalized version of the brand. A trademarks gives the owner exclusive use of a brand name, brand mark, or some part of a brand and legally prohibits others from using it. Packaging is the process of designing and producing appropriate containers for various products. Market segmentation is the strategy that subdivides the target market into sub groups of customers with distinct and differentiated marketing programmes for each sub group in order to enhance satisfaction to consumers and profit to the marketer.

7.30 GLOSSARY

- **Added Value** – Packaging design and structure can add value to a product
- **Brand:** A brand is a name, term, sign, symbol, design or a combination of the above to identify the goods or service of a seller and differentiate it from the rest of the competitors
- **Manufacturers Brand:** These are initiated by the producers and ensure that the producers are identified with their products at the point of purchase.
- **Own label brand:** These brands are intimated and owned by wholesalers and retailers
- **Relationships** When brand value is high, customers tend to rely heavily on the brand in their daily life and, so, develop deep relationships with the brand
- **Packing** is the process of covering, wrapping or crating the goods into a package
- **Packaging** includes the activities of designing and producing the container or wrapper for a product"
- **Protection** – Packaging is used to protect the product from damage during shipping and handling, and to lessen spoilage if the product is exposed to air or other elements.
- **Prestige:** A quality product properly packaged in good material becomes prestigious.
- **Long Term Decision** – When companies create a new package it is most often with the intention of having the design on the market for an extended period of time.
- **Information:** The packaging conveys necessary information to the consumers

- **Demographic segmentation:** Demos mean people and graphic means to measure or to study. In Demography means study of people or population.

- **Substantiality:** Substantiality refers to the size of the segmented market

7.31 SELF ASSESEMENT QUESTION

1. What criteria are used in selecting a brand name?

Ans ______________________________

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2. What are the different kinds of brand?

Ans ______________________________

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3. What is product packaging?

Ans ______________________________

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4. What are the requisite of a good package?

Ans ______________________________

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5. Discuss different basis for segmenting the market.

Ans ______________________________

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6. Explain briefly demographic segmentation.

Ans ____

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7 "Market segmentations is basic to all marketing strategy". Discuss.

Ans ____

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7.32 LESSON END EXERCISE

1. Explain how branding plays an important role in the formulation of marketing mix?

Ans ____

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2. List the characteristics of an effective brand name?

Ans ____

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3. What is product packaging? Discuss the functions of a packaging?

Ans ____

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4. What are the functions a package must perform?

Ans ____

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5. What do you understand by market segmentation? Discuss the importance of market segmentation.

Ans ______________________________

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6. Discuss the approaches for segmentation of consumer markets.

Ans ______________________________

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7.33 SUGGESTED READING

- Marketing Management: Pankaj Madan; Amit Mittal And Hemraj Verma
- Fundamentals of marketing: Anupreet KKour ; Kamlesh Bajaj And Khushdip Kaur
- Principles of Marketing: S.P. Bansal
- https://marketinglord.blogspot.com/2012/06/objectives-of-branding.html
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- https://www.forbes.com/sites/jaysondemers/2013/11/12/the-top-7-characteristics-of-successful-brands/#ec840
- https://accountlearning.com/advantages-and-disadvantages-of-market-segmentation/de42f98

C. No. : BM-401	**UNIT II**
SEMESTER : IV	**LESSON : 8**

Marketing Organisation

Structure

8 .1 INTRODUCTION

An organization refers to any system, body or group of people working together to achieve common goals and objectives of the business. It is a mechanism through which a managerial philosophy is translated into action. The principles of organization apply whether you are designing the entire organization or a department within it. The three most basic functions necessary for any business organization are finance, production and marketing. Marketing organization is a group of marketing persons brought together to make decisions on marketing areas like product, price, place, and promotion. Marketing organization is the foundation of effective sales planning for systematic execution of plans and policies. Marketing organization provides a system of relationships among various marketing functions to be performed by proper coordination among marketing persons. Each of these functions is organized separately. Thus within the organization structure of the firm you would have distinct organizations for each function.

8.2 OBJECTIVES

After study the lesson, you will be able to

- To know the marketing organization
- To identify the essentials of marketing organization
- To find the need of marketing organization
- To study the different types of marketing organization

8.3 MEANING AND DEFINITION OF MARKETING ORGANISATION

The marketing organization is the vehicle for making decisions on all marketing areas viz. products, marketing channels, prices, physical distributions and promotions. It establishes the authority relationships among marketing personals and specialists who are the responsible for making marketing decisions and planning that are essential for the success of any business firm. The marketing manager is faced with the task of achieving various pre-determined objectives. These objectives may relate to profit maximization, customer satisfaction, image building or sales maximization etc. Achieve-ment of these objectives requires proper internal arrangement or organization. Thus, for achieving the objectives, it is essential that marketing policies and strategies are properly implemented. Proper implementation requires a good organizational set up where authority and responsibilities are properly delegated. Organizing is a managerial function. It is a framework of relationship among different person in an organization which specifies their authority, respon-sibilities and duties. Organization is thus, a mechanism through which policies are executed into actions. Marketing organization is made up of two words – marketing and organization. Marketing organization is a framework for planning and executing decisions in marketing activities. It is a group of marketing people working together in a coordinated manner to achieve pre-determined marketing objectives. Organization as a structure in the words of Professor Wheeler is, "Internal organization is the structural framework of duties and responsibilities required of personal in performing various functions within the company. It is the blue-prints, a mechanism".

DEFINATIONS OF MARKETING ORGANISATION

According to **George Terry organization** is "The establishment of effective authority relationship among selected work, person and work places in order for the group to work together".

In the words of **Cundiff, Still and Goroni,** "The marketing organization provides the vehicle for marketing decision on product marketing channels, physical distribution, promotion and prices".

Marketing organization is thus, a mechanism of dividing and then grouping together of various marketing activities and establishing authority and responsi-bility among marketing personnel to ensure coordinated efforts toward achieve-ment of marketing goals. It is a system of relationship among various marketing functions, performed by different marketing personnel in a coordinated manner to achieve marketing objectives.

8.4 PRINICIPLES OF ORGANISATION

Following are the important principles of organization which are mentioned here;

1. Unity of objectives:

The attainment of objectives is the main purpose of the organizing. An organization and every part of it should be directed towards the accomplishment of objectives or goals.

Thus the organizational goals, departmental goals and individual goals must be clearly defined.

2. Efficiency:

An organization is efficient if it is able to accomplish pre-determined objectives at minimum possible cost. An organization must also provide maximum possible satisfaction to its employees and should also contribute to the welfare of the community.

3. Division of work:

For the sound and effective organization, the total task should be assigned to the right person according to his physical, mental and psychological capacities.

4. Span of control:

Due to limitation of time and ability, no executive can effectively supervise more than a particular number of subordinates. Therefore, every executive should be asked to supervise a reasonable number of executives depending upon his ability, his job, the complexities of duties of his subordinates, the nature and importance of work to be supervised, etc.

5. Scalar principle:

It is sometimes also known as the chain command. According to the principle, the authority and responsibility should be in clear line from the top to the bottom of the organization. The clearer the line of authority in an enterprise, the more effective will be communication and responsible decision making.

6. Authority and responsibility:

It is the tool by which a manager is able to create an environment for individual performance. Thus the authority and responsibility of each manager and supervisor should be clearly defined every manager should be held responsible for the acts of his subordinates as well as his own acts.

8.5 NEED OF MARKETING ORGANISATION

As such the need for marketing organization arises on account of following reasons:

1. Lack of Initiative:

In the organization people lack initiative to undertake specific responsibilities on their own. They are unable to maintain close relations amongst themselves. Hence, they have to be brought together and specific authority and responsibilities have to be assigned**.**

2. To Balance Individual Goals and Organizational Goals:

In an organization, people are guided by individual goals which are quite different from organizational goals. To reconcile the two goals, organization became necessary. Every individual tries to balance the individual goals with the organizational goals.

3. To Avoid Conflict:

Organization consists of people who have vertical or horizontal relationship. This may lead to confusion and conflict if lines of authority and responsibility are not cleared defined. Therefore organization of activities became essential. Each individual should know his specific role, responsibility and authority. This will ensure proper coordination of activities in the organization.

4. Organization Ensures Proper Performance of Different Functions:

Marketing involves various functions and sub-functions. People in the marketing department should be clear with their specific marketing responsibilities. Further, a balance is also to be achieved with other functional departments like production, finance and personnel.

5. Nature of Marketing Job:

The nature of marketing job is such that it involves people in activities such as idea, innovation and behavior of consumer and other intermediary. The study of complex human behavior becomes organized. A good organization structure ensures proper coordination and willingness to perform the complex task.

8.6 FACTORS INFLUENCING SIZE OF MARKETING ORGANIZATION:

1. Management's Philosophy:

One of the major factors influencing size of marketing organization is the philosophy of the company's management. Management may pursue different philosophy like that of centralization or decentralization, individual action or group action, their attitude and value judgment.

2. Type of Product:

The nature of product has significant influence on the size of marketing organization. Technical products like engineering goods require greater explanation, hence direct selling became a better option, and this requires larger sales force and organization. On the other hand, fast moving goods (FMCG) can be easily sold through the distribution channel and hence require smaller sales force and small organization.

3. Product Line:

The length of the product line organization is a major factor determining the size of sales organization. If the firm deals in large number of product, it re-quires big size organization. To sell big variety of products, firm has to develop market oriented organization structure so as to cover new areas and new markets. For small number of products, functional organization is suitable.

4. Markets:

Markets relates to various factors like size of the market, location of the market, nature of the market, scope of the market etc. Each of these factors influences the size of the organization. If the markets are widely dispersed, large sales force is required and so the size of the organization is large and vice versa.

5. Channel of Distribution:

The distribution channel developed by a firm has a direct effect on the size of the marketing organization. Under indirect channels, intermediaries are there, who sell the product, thus, the size of organization is small whereas, under direct channel system, firm employees its own sales people to sell the goods, therefore the size of organization is large.

6. Needs and Requirements of the Customers:

Market, today are highly complex as there is a continuous change in the customer's requirements and expectation from the company. As a result as customer's demand better facilities and new facilities, company has to accordingly adjust its sales organization.

7. Business Conditions and Environment:

The environment in which a unit carries out its activities also has an impact on the size of the marketing organization. The requirement of success in that industries and the rate of changes in that industry is an important factor that decides the size of organization.

8. Sales Activity:

The size of marketing organization depends to a large extent on the sales activity of the form. If more sales and sales related activities are there, the size will be large and vice versa.

8.7 METHODS OF DESIGNING THE MARKETING ORGANISATION

An organization's design is a function of the objectives which it has to accomplish, the diversity and complexity of the tasks to be performed and the environment in which the organization operates. Similarly, a marketing organization's design is a function of the diversity of products, markets and product/market combinations that it is involved with and its environment comprising competition, technology, socio-economic and legal factors, and the marketing objectives. Depending on the combination of these factors and the relative importance of each of them in achieving the marketing objectives, you can design an organization which is suited to your specific requirements.

1. Designing an Organization:

Organization refers to any system, body or group of people, comprising various sub-systems or parts which are inter-related and or inter-dependent on each other. An organization may be informal or formal. An informal organization has no specific objective to achieve. A formal organization has specific objectives to achieve and that is the very reason for the organization's existence. Objectives may relate to making profit or there may be no consideration of profit whatsoever. Thus, when we refer to an organization it can mean a firm or company involved in business, a non-business organization such as university, hospital, a social organization such as club, charitable trust, or a government agency. Irrespective of the nature of an organization, the principles involved in its design are the same. These are:

2. Specialization:

The division of labor on the basis of which a particular type (or set) of activity is differentiated from another. Jobs are assigned to individuals on the basis of their specialization.

3. Departmentalization:

The integration of differentiated (or specialized) activities and grouping of individuals into departments, divisions etc. It involves dividing an organization into different departments, which perform tasks according to the departments' specializations in the organization. Departmentalization as a means of structuring an organization can be found in both public and private organizations. An organization can structure itself into departments in the following ways. Functional Departmentalization and Geographic departmentalization

4. Standardization:

Standardization is the process of implementing and developing technical standards based on the consensus of different parties that include firms, users, interest groups, standards organizations and governments standardization can help to maximize compatibility, interoperability, safety, repeatability, or quality. It can also facilitate commoditization of formerly custom processes. In social sciences, including economics, the idea of *standardization* is close to the solution for a coordination problem, a situation in which all parties can realize mutual gains, but only by making mutually consistent decisions. This view includes the case of "spontaneous standardization processes", to produce de facto standards. The existence of procedures and system, which helps to integrates the entire organization.

5. Formalization:

The extent to which all procedures, systems and policies are written, so that the organization becomes independent of the person(s) who founded it and acquires a life-span substantially longer than any one individual.

6. Centralization:

The level at which authority for decision-making is concentrated. It involves designing formal reporting relationships and information systems, leading to hierarchical levels and spans of control.

7. Evaluation:

Evaluation is a systematic determination of a subject's merit, worth and significance, using criteria governed by a set of standards. It can assist an organization, program, design, project or any other intervention or initiative to assess any aim, realizable concept/proposal, or any alternative, to help in decision-making; or to ascertain the degree of achievement or value in regard to the aim and objectives and results of any such action that has been completed. The primary purpose of evaluation, in addition to gaining insight into prior or existing initiatives, is to enable reflection and assist in the identification of future change. Evaluation is often used to characterize and appraise subjects of interest in a wide range of human enterprises, including the arts, criminal justice, foundations, non-profit organizations, government, health care, and other human services. It is long term and done at the end of a period of time. Providing system for appraisal and compensation

8. Structure:

The total configuration or arrangement of individuals, departments, reporting ' relationships, information flows, span of control, all of which give the organization its specific 'shape'. Given these basic principles, you have many kinds of organization structures to choose from. In making the choice, you must evaluate the alternative structures on the basis of:

- facilitating achievement of objectives
- accomplishment of tasks,
- managerial control, and cost

8.8 ESSENTIALS OF GOOD MARKETING ORGANISATION STRUCTURE

1. Clarity of Relationship between Line and Staff People:

While developing a marketing organization, clarity should be ensured in defining the relationship between line function and staff function. In absence of this, conflicts may be there which will disturb the smooth functioning of the organization. To avoid friction and inefficiency, therefore, it is necessary that proper and meaningful integration of the line and staff function is there. Co-operative relationship between various departments and functions signifies a good marketing organizational structure

2. **Levels and Span of Control:**

Another important factor which should be seri-ously considered is the level in the organization and span of control. Span of control refer to the number of subordinates being controlled by a superior. Each executive position must be clear as to its span of control. Efforts should be made to avoid too many levels in the organization.

More levels in the organiza-tion lead to ineffective communication and thereby delay in flow of information. Greater span of control also leads to poor control. A good marketing organi-zation should therefore avoid too many levels.

3. **Role Clarity:**

A good marketing organization structure should try to maintain clarity in the job requirement of an executive. Job requirements include factors like basic function/role of the executive, his authority and res-ponsibility, his financial powers, to whom he will report etc. If the executive is clear regarding his role, smooth functioning will be there in the organization. Otherwise, ambiguity will be there, resulting in fric-tion and inefficiency in the organization.

4. **Effective Co-Ordination:**

Effective coordination among various func-tions and departments of the organization should be ensured. The marketing department should have effective coordination with various other departments of the organization like finance, personnel, production, corporate planning etc. Coordination should be an essential part or a built mechanism of the organization.

5. **Marketing Oriented:**

A marketing organization should represent the interest of the customer within the company, which helps in long term growth of the firm. The requirement of the consumer and the market should be taken care of. Organization should be structured around the products and the markets.

6. **Recognizing Informal Relations:**

An organizational structure in general defines the horizontal and vertical relationship between the people. However, apart from formal relationship, it is the informal relationship also which decides the success of the organization.

Popu-larly known as "Grapevine" in management literature, informal relations are the invisible alliances between the people in the organization. These relations help in building the goodwill and team spirit, and therefore its significance cannot be underestimated. A good marketing organization should thus recognize both the formal and informal relations in the organization.

7. Flexible Structure:

A good marketing organization should be flexible and not static or immov-able. Markets are highly dynamic and therefore the organization should also be dynamic, adjusting to the changing needs of the markets and environment. An organization structure should not be rigid or watertight but flexible so that it can be easily understood and can adapt to the changes. This will help in better response to the competitors and the customers.

8. Maintaining Balance:

The overall effectiveness in the marketing organization calls for the balance in the activities. Whether the organization is big or small, attempt should be made to avoid extremes and excesses and maintain balance. In other words, nothing should be over-emphasized in the organization. Line and staff relationship, centralization and decentralization, short and long span of control, different levels in the organization, etc. should be balanced. This ensures smoothness in opera-tions.

9. Perpetual Existence:

It is important for the organization to stand the test of time and changes in the environment. It should not be such which can be easily destroyed. Building an organization is a complex task involving substantial investment, therefore it should be so developed, so as to easily meet the changes in the market and adapt accordingly. This is reflected in the increasing number of people in the organization and their growing experience.

10. Cost Effectiveness:

Organization should be so structured that it is cost effective. A balance between the cost and benefit should be maintained. For this purpose all types of excesses should be avoided. Undue duplication of efforts and overstaffing should not be there.

11. Flow of Information:

A two-way flow of information should be there in the organization, i.e. from bottom to top and top to back. Smooth flow of information both ways ensures better functioning in the organization. At the same time this information should be authentic and timely. In general, when information flow upwards it turns from specific to general and when it moves downwards, it turns from general to specific

8.9 CONSIDERATIONS INVOLVED AND METHODS OR TYPES OF DESIGNING A MARKETING ORGANISATION

The organization structure of any firm depends mainly on its market needs and management philosophy.

As such there are two important ways in which organizations can be classified:

a) Classical classification based on classical school of thought, who divides organization as Line organization, Line and Staff organization, Functional organization and Committee organization.

b) Modern classification based on modern school of thought, who divides the organization on the basis of functions, products, customers, geography or a combination of uses.

c) Accordingly on the basis of modern school of thought, various types of organization structure are:

1. Functional Organization:

This is the simplest form of organization structure, which is very commonly used. It is suitable for those organizations which deal in few lines of product. A functional organization divide the marketing department on the basis of specialized marketing research, selling, distribution, product planning, pricing, advertising etc. each function assigned to a separate marketing manager.

Functional organization has the merit that it helps in developing managerial and technical skills in different marketing functions. However, the demerit is that the decision making authority and co-ordination are highly centralized. At the same time the marketing manager has to face the problem of improper control and co-ordination, particularly when the organization expands.

2. Product Based Organization:

Product based organization is one which divides the organization into units based on different types of products. Under these types of arrangement different products are identified and organization is classified on the basis of different product.

Here closely related products are grouped together and that group is assigned to a particular product manager. Thus, the product manager of a particular product is responsible for the marketing of the product of his group, as well as building the brand image, brand building, new product development etc.

This method has the advantage that the product manager of a particular group develops indebt knowledge about the product, which may result in more effective marketing of all the products of the firm. However, the main demerit is that too much emphasis can be placed on the product ignoring other aspects, such as customer orientation.

3. Customer Based Organization:

This type of organization structure is used when firm focuses greater attention on different types of customers it serve. As the business units are increasingly becoming customer centric, the firms are trying to organize them-selves on the basis of different consumer group.

This helps them in deciding specialized products, pricing, and distribution and promotion policy for different group of customers. Each customer group is under separate marketing manager who is responsible for all the marketing activities of that particular group.

This type of organization is justified when different customer group are sufficiently different and business is done on a large scale. Under this structure organization is divided in different parts according to different characteristics like – social class, religion etc. The chief merit of this organizational structure is that it focuses on the needs and wants of each class of customers hence, specialization can be achieved. However, the main demerit is that duplication of functions may be there.

4. Geographic Organization:

Geographic organization is used when the companies operate in large geographical areas which are significantly different. Different areas of the total market may have different characteristics, different needs, languages, culture etc. which require different marketing strategy and special attention by the company.

In this case the companies have to organize themselves on the basis of different geographical areas like region or division etc. Each geographical area is under the control of regional sales manager. A commonly used method, geo-graphical organization, is similar to the customer based organization. This is because both focus on the different customer used in different regions. However, flow of information may be disturbed between different regions.

Apart from the above mentioned organizational structure, a very com-monly used organization is a combination on different types of organizational structure like product based, functional based, customer based or geographical based

8.10 MARKETING ORGANIZATION STRUCTURE (TYPES)

Organization is the vehicle for accomplishing the goals and objectives of the business. Organization is essential, when human beings have to collaborate and work for a common purpose. In fact, an organization is often defined as "a group of persons working together towards the attainment of certain common objectives." When the enterprise expands, some pattern of organization should be adopted. Generally, the following are the types of organization.

(a) Military Type of Organization:

This is the simplest and oldest form of organization. It is also referred as line organisation, scalar or hierarchical organization. Under this type of organization, a superior delegate's authority to a subordinate, who in turn delegates authority to another subordinate and so on. Authority descends from the top to the bottom level, through downward delegation of authority. Subordinates become responsible to their immediate superiors. The topmost management has full control over the entire field.

Suitability: This form is suitable:

1. If the business is comparatively small.
2. If the labor management problems are easy to solve.

3. If the processes are easily directed.

4. If the work is of a routine nature.

Merits:

1. It is simple to work.

2. It is economical and effective.

3. It is easy to fix responsibility.

4. It facilitates quick decisions and prompt actions.

5. Quick communication is easy.

6. Discipline can easily be maintained.

Demerits:

1. The organization is rigid and inflexible.

2. It works on a dictatorial basis.

3. Departmental heads act on their own whims and desire, as it is difficult to secure coordination of the activities of workers and departments.

4. In big business it does not operate satisfactorily.

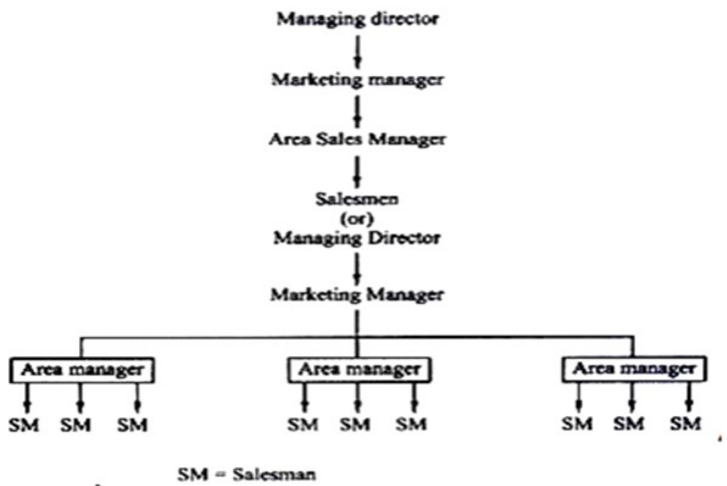

Fig. 3.1

(b) Functional Type Organization:

The limitations of line organization have been removed under this system. All types of work of the organization are grouped and managed by the top executive. There are separate functional departments for major functions of the enterprise; example personnel department, purchase department etc. Each department does its function for the entire organization. Sales department does the function for the whole enterprise. The functional organization works through the line organization. Functional organization is based on expert knowledge and makes the greatest use of division of labor resulting in high efficiency and specialization.

Merits:

1. Greatest use of division of labor is possible.
2. The system is based on expert knowledge.
3. Functional efficiency of the worker can be maintained.
4. Mass production is made by standardization and specialization.
5. Separation of mental and manual functions is possible.
6. Methods and operations can be standardized.

Demerits:

1. Too many experts and bosses (high officials) create confusion in the mind of the worker.
2. It is difficult to fix responsibility on workers.
3. Discipline and morale of the workers are seriously affected, because of contradictory orders from different experts.
4. There is heavy overhead expense.

Functional Type

Fig. 3.2

(c) Line and Staff System:

In this type, the organization is based on the line organization and the functional experts advise the line officers as to the functions of the enterprise. The line officers are the executives and the staff officers are their advisers. Though the staff officers do not have the power to command the line officers, their advice is generally adhered to.

The combination of organization with this expert staff forms the type of organization-line and staff. The 'line' keeps the discipline and the staff provides expert information. The line gets out the production and the staff carries on research, planning, fixing standard etc. This type of organization is suitable for large concerns.

The line officers give orders, decisions etc., to subordinates in consultation or guidance with the staff officers. The underlying idea of this method is that specialized work is to be left to experts who will give advice on specialized groups-investigation, research etc. The staff officers who have no executive positions in the concern, but are only the thinkers, while the line officers are the doers.

Merits:

1. This type is based on specialization.
2. It brings expert knowledge of the whole concern.
3. Increased efficiency of operations may be possible

4. Mass production is possible.

Demerits:

1. There arises confusion unless the duties and responsibilities are clearly indicated by charts and office manuals.
2. Advice and, expert information are given to the workers through the line officers. It is possible that the workers may misunderstand or misinterpret.

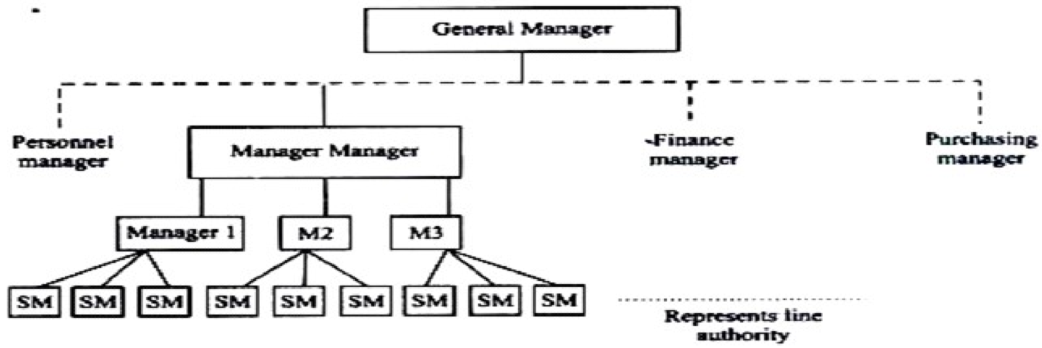

Fig. 3.3

(d) Committee Organization:

Committee organization is widely used for the purpose of discharging advisory functions of the management. Committees are formed in different levels of organization. A committee is a group of people who meet by plan to discuss or make a decision on a particular subject. Because of its advantages, committee organization is preferred. The management committee usually consists of General Manager and departmental heads to deal with current problems. A co-ordinate plan is agreed to in a meeting. Thus group judgment is possible to attain an aimed result.

For a successful committee organization, the following hints may be noted:

1. Number of individuals is to be kept at a minimum, so as to function effectively. If there are many members, it will cause lengthy discussions and delayed decisions.
2. The chairman of the committee must have full control over the members, while they are in meeting.

3. There must be a proper agenda, arranged in order of importance.
4. All the members are to be informed before the meeting about the points to be discussed, so that they may prepare for the meeting.
5. The meeting must be started on time and must end on time.

Merits:

1. It stimulates co-operative action.
2. It can promote better understanding.
3. A problem is discussed in detail and decision taken.
4. It facilitates co-ordination of activities of various departments.
5. Group discussion and decision will bring better results.
6. It gives demographic management.

Demerits:

1. Committees are expensive.
2. Committee weakens individual responsibility.
3. Committee may sometimes become time-consuming rather than time-saving.
4. Responsibility cannot be fixed on any person.
5. It lacks secrecy.

(e) Geographical Type:

The structure is based on territorial or regional basis. When business activities are expanded, the various parts of the market area are divided into territories. The whole world into continents, continent into regions, region into zones, zone into districts etc. This type of organisation gives importance to the consumer's needs and desire, especially in pharmaceutical companies.

In this way, the market is fragmented into different sales territories like national market into regions, region into districts, district into areas as shown in the chart next. Salesmen are controlled by the respective district sales managers (DSM), DSM are controlled by their regional sales manager (RSM), RSM are controlled by the marketing executive.

This type of organization enjoys the knowledge of likes and dislikes of people in the particular areas. A firm can modify or alter the products, on the basis of the needs of the buyers who are represented by sales manager. The competitors can be counteracted soon.

Merits (Geographical Type):

1. Geographical type of divisions allows a manager to pay special attention to the needs and problems of the local markets.
2. Geographic type of organization provides opportunities for local talent to be utilized.
3. Geographic division helps managers gain extensive knowledge of diverse activities.
4. This type of organization improves an organization's relationship with customers.

Demerits (Geographical Type):

1. This type of organization requires more people to work.
2. There arise communication problems.
3. Cost of operations is high.
4. Top managers at HO find it difficult to control and supervise the activities in different locations.

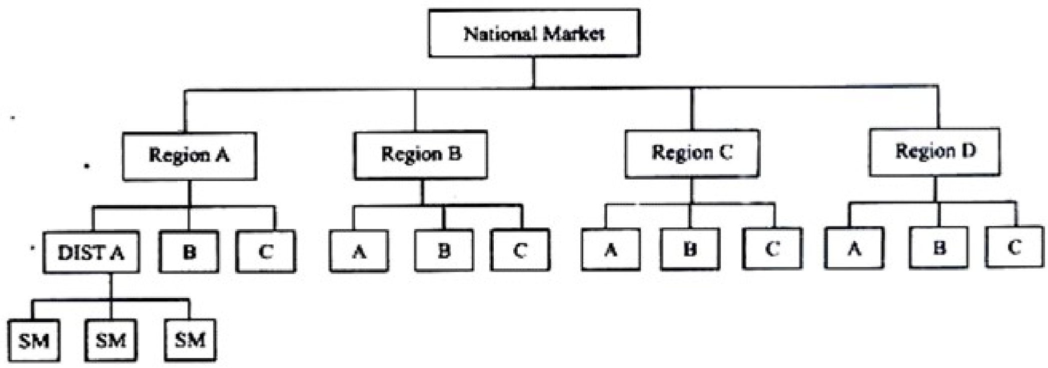

Fig. 3.4

(f) Product Type:

Certain companies produce different varieties of products and it is advantageous to boost the sales on the basis of product or product groups. A separate product manager is appointed for each product. He attends to the production and marketing of his products when the market is competitive, the product type organisation with the product manager can concentrate its attention on the performance of a particular product or brand. Sales promotion, advertising, marketing research etc., remain as the centralized activity for the product group. (Fig. 3.5)

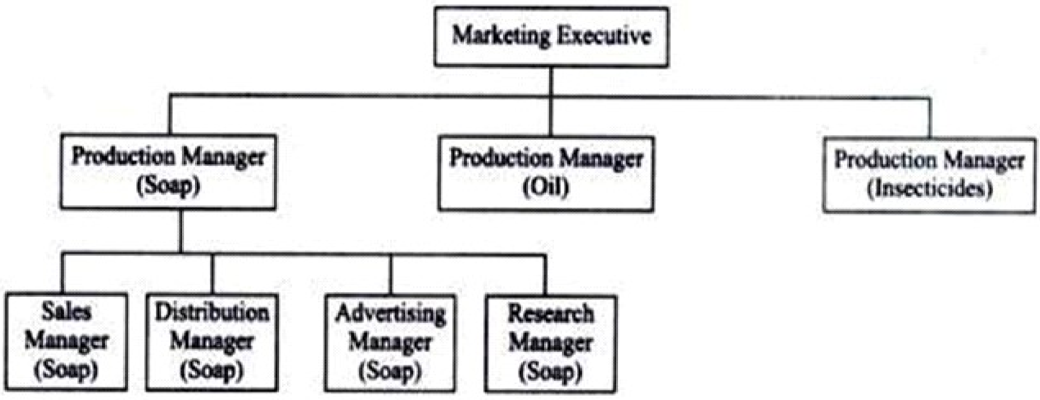

Fig. 3.5

(g) Market Type (Consumer):

This type of organization is based on the different types of customers. The enterprises have adopted customer-oriented marketing and thus there arise two sets of organizations through which the needs of customers or market are met; i.e., subdivision of markets on the basis of government and non-government customers, industrial individual customers, rich and poor customers and on the basis of sex, income, taste, age etc. A firm may have different groups of customers, who have different needs and problems. Thus, each section can look into the needs of each group of consumers and facilitate their buying-wholesale section, retail section etc. (Fig. 3.6)

Merits (Consumer type):

1. This type of organization can encourage consumers with clearly defined services.

2. The specialists can understand the needs of a particular segment of customers.

3. This type of organization is useful to serve different type of customers.

Demerits (Consumer type):

1. Coordination between sales and other functions of marketing is difficult2 More man-power is required thus expenditure is high.

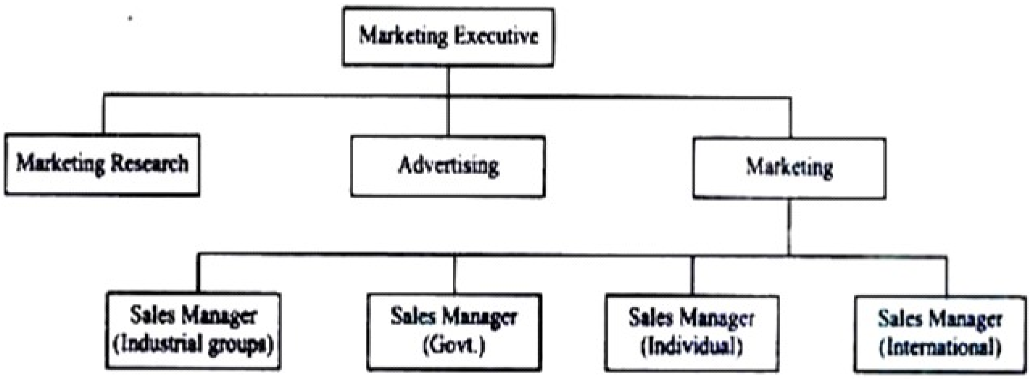

Fig. 3.6

(h) Matrix Type:

Matrix organization is also known as grid or project organization. Matrix organization is created by merging the two or more complementary organizations, say, purchase section and sales section. A team may be set up within the existing organization, to conduct a study of a particular product or design or to complete a specific assignment in time.

A project manager has a project team consisting of people from several functional sections. For instance, a project team is formed to market the television, and for this people will be drawn from different functional departments, say, production, research, marketing, engineering etc.

These specialists are drawn from respective departments, borrowed to perform their part in the project work. When the project work is complete, they go back to their respective departments. This type of organization is needed when a special type or urgent assignment of jobs or complicated job or a new product etc., is introduced. Generally, such organization may be temporary.

Merits:

1. Specialized product knowledge is acquired.
2. It is economical to draw experts from various sections.
3. Expansion, improvements, diversification etc., are the result.
4. The chances of success of the project are higher.
5. It allows effective use of resources.

Demerits:

1. Administrative costs are high.
2. Workers under this type have to report to two bosses.
3. There arise conflicts between functional managers and project managers.

We may adopt any of the organization structures for organizing its marketing operations; it should be goal-oriented and flexible. It must have scope for possible future growth. Market conditions change very frequently. Marketing structure should be capable of accommodating all the changes and marketing people should be dynamic to take up various sales job assignments and marketing challenges. The adopted marketing organization structures should provide for the formulation of marketing policies and programmes from the bottom to the top and every marketing person should have an opportunity for participation in it.

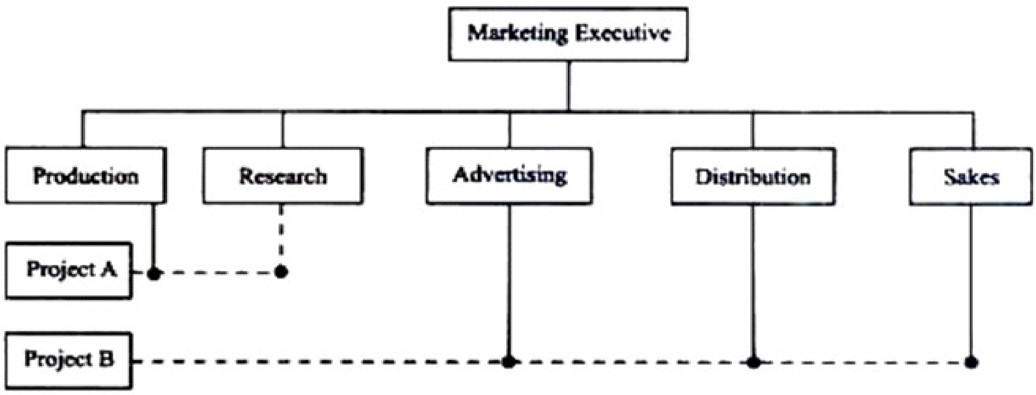

Fig. 3.7

8.11 SUMMARY

Marketing organization is a group of marketing persons brought together to make decisions on marketing areas like product, price, place, and promotion. It is the foundation of effective sales planning for systematic execution of plans and policies. It provides a system of relationships among various marketing functions to be performed by proper coordination among marketing persons. Now Marketing has changed, more than every marketing leader need to prove value, implement and manage complex technology, and adapt to the needs of new buyers. These changes require a new approach to marketing that focused on revenue growth and alignment between marketing and sales. The development of a modern marketing organization can lead the charge into a customer centric universe.

8.12 GLOSSARY

- **Balance:** a situation in which different elements are equal or in the correct proportions
- **Customer:** A person who buys goods or services from a shop or business.
- **Departmentalization:** The integration of differentiated (or specialized) activities. And grouping of individuals into departments, divisions etc
- **Flexible Structure:** A good marketing organization should be flexible and not static or immov-able
- **Geographic:** based on or derived from the physical features of an area
- **Marketing Oriented:** A marketing organization should represent the interest of the customer within the company, which helps in long term growth of the firm.
- **Organization:** It is an entity comprising multiple people, such as an institution or an association that has a particular purpose.
- **Product Line:** The length of the product line organization is a major factor determining the size of sales organization

8.13 SELF ASSESSMENT QUESTIONS

1. What do you mean of marketing organization?

Ans

2. Mention the essentials of marketing organization?

Ans

3. Give in detail the importance of marketing organization.

Ans

4. Write down the meaning of functional organization?

Ans

8.14 LESSON END EXERCISE

1. Define marketing organization. Discuss the factors influencing the size of marketing organization?

Ans

2. What are the considerations involved and methods of designing marketing organization?

Ans ____

____

____

3. Explain the need and importance of marketing organization.

Ans ____

____

____

4. Discuss the various principles of marketing organization.

Ans ____

____

____

8.15 SUGGESTED READING

- file:///C:/Users/best%20buy/Downloads/Marketing%20Organisation_%20Meaning,%20Need,%20Factors,%20Structure%20and%20Essentials.html
- file:///C:/Users/best%20buy/Downloads/Marketing%20Organization_%20important%20material.html
- http://www.yourarticlelibrary.com/marketing/marketing-organisation-structure-8-types/50826
- https://study.com/academy/lesson/departmentalization-in-management-definition-types-advantages.html

C. No. : BM-401	UNIT III
SEMESTER : IV	LESSON : 9

Marketing Research

Structure

9.1 INTRODUCTION

Marketing research is a form of applied sociology with concentrates on understanding the behaviors whims and preferences of consumers in a market based economy. The task of the marketing researchers is to create valuable insight into the customer attitude and buying behavior. Specific problem or opportunities assessment generally require formal marketing studies. These may comprise market survey, a product-preference test or measuring and forecasting demand of a region or advertising. Marketing is a restless, changing, and dynamic business activity. The role of marketing itself has changed dramatically due to various crises material and energy shortages, inflation, economic recessions, high unemployment, dying industries, dying companies, terrorism and war, and effects due to rapid technological changes in certain industries. Such changes, including the Internet, have forced today's marketing executive to becoming more market driven in their strategic decision-making, requiring a formalized means of acquiring accurate and timely information about customers, products and the marketplace and the overall environment. The means to help them do this is marketing research. Research is a systematic and objective investigation of a subject or problem in order to discover relevant information or principles. It can be considered to be either primarily fundamental or applied in nature. Fundamental research, frequently called basic or pure research, seeks to extend the boundaries of knowledge in a given area with no necessary immediate application to existing problems, for example, the development of a research method that would be able to predict what people will be like x years in the future. In contrast, applied research, also known as decisional research, attempts to use existing knowledge to aid in the solution of some given problem or set of problems. Marketing research assists in the overall management of the marketing function. A marketing manager must prioritize the more important and pressing problems selected for solution, reach the best possible solution based on the information available, implement the solution, modify the solution when additional information so dictates, and establish policy to act as a ready-made solution for any recurrence of the problem. Marketing research often focuses on understanding the "Customer" (purchasers, consumers, influencers), the "Company" (product design, promotion, pricing, placement, service, sales), and can also be expanded toward the environment to include "Competitors" (and how their market offerings interact in the market environment). Within this "Company-Customer-Competition" environment, many types of marketing research can be conducted, much of which is focused on using surveys for

- Monitoring customers and markets
- Measuring awareness, attitudes, and image
- Tracking product usage behavior
- Diagnosing immediate business problems
- Supporting strategy development

More specific examples are found in the Qualtrics.com Survey University. This provider of professional survey software identifies twenty different kinds of surveys that are of use to marketing researchers. Each focuses on a different aspect of the "Company" and it's interaction with the "Customer" and "Competition" in the market environment:

9.2 OBJECTIVES

After reading the lesson you will be able to:

- To know and understand the customer
- To analysis the market size
- To evaluate policies and strategies
- To know the competitive position of rival products

9.3 EVOLUTION OF MARKETING RESEARCH

Marketing research activity is said to have begun around 1900 and developed as more companies started taking interest in regional and national markets. The field of marketing research as a statistical science was pioneered by Arthur Nielson with the founding of the AC Nielson Company in 1923.Number of techniques evolved in marketing research like quota sampling, simple correlation, probability sampling, regression methods, consumer and store panels, operations research, and attitude measuring instruments, consumer data processing, marketing simulation, econometric models and the like

9.4 MARKETING RESEARCH

Marketing research is "the process or set of processes that links the producers, customers, and end users to the marketer through information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. Marketing research specifies the information required to address these issues, designs the method for collecting information, manages and implements the data collection process, analyzes the results, and communicates the findings and their implications."

It is the systematic gathering, recording, and analysis of qualitative and quantitative data about issues relating to marketing products and services. The goal of marketing research is to identify and assess how changing elements of the marketing mix impacts customer behavior. The term is commonly interchanged with market research; however, expert practitioners may wish to draw a distinction, in that *market* research is concerned specifically with markets, while *marketing* research is concerned specifically about marketing processes

American Marketing Association "The systematic gathering, recording and analyzing of data about problems relating to the marketing of goods and services."

Glasser "Marketing research is the application of scientific methods of the study of the factors that affect buying decision in a given market and the profitability of the business concerned"

From the above definitions it can be concluded that marketing research involves gathering recording and analyzing of data in a systematic manner so that later on the information can be used for taking decisions and solving problems. Marketing research is a large process in which the producers, indirect and direct customers and users ensure to get linked together with the help of information that's used to learn various marketing opportunities and threats. With the help of the right kind of marketing search teams, a company can learn about its SWOT – Strengths, Weaknesses, Opportunities and Threats.

A marketing research team can help you with:

- Monitoring your performance in the market
- Learning how your product can change the life and lifestyle of your users
- Explain where you product can get an increased or boosted demand, and why
- Evaluate all the actions that have been taken to boost the marketing of your product, services or business as a whole
- Define the opportunities that can be grabbed by your business
- Learn ways with the help of which the threats for your business can be avoided
- Solve all kinds of marketing problems
- Connect you with customers in a much better and easier way

9.5 MARKET RESEARCH AND MARKETING RESEARCH

These two terms are often used interchangeably. Market research and marketing research are not synonymous and should not be used interchangeably. Market research is a part of the marketing research. It is only a sub function of marketing research. Market research is research into a particular market and is just one component of marketing research .However marketing research is of wider significance as it includes all research activities in the field of marketing.

Marketing research is concerned with the investigations relating to all aspects of marketing such as size of market, degree of competition, consumers behavior, future and present customers,

advertisement, sales promotion techniques, Channels of distribution, warehousing etc. On the other hand market research is concerned only with the research of markets and consumers.

9.6 OBJECTIVES OF MARKETING RESEARCH

1. To know and understand the customer:

Marketing researches main objective is to understand the customers tastes, likes and dislikes and their preferences relating to product, design, shape, size and color.

2. To analysis the market size:

It can help the company to know about the total size of the market for a particular product and how much share can be fetched from the total market size. Moreover, it helps in discovering potential markets.

3. To minimize the marketing costs:

Marketing research can help to know and evaluate the various alternatives to minimize the marketing costs and maximize the benefits of marketing activities.

4. To study and understand the price trends available in the markets:

It could help further the manufacture to fix the prices of their product with which they can increase the sales volume and profitability.

5. To get and evaluate policies and strategies:

Marketing research helps to understand and evaluate that whether their marketing policies and programmes moving towards right directions, if not, action can be taken at the right time to correct them so that objectives can be achieved.

6. To get and evaluate the feedback of customers:

Through marketing research, information regarding advantages and limitations of various products can be sought from customers. After getting feedback from customers, products can be modified and altered accordingly. Even new uses of the products can be known from customers. If company's product is being used by the customers for some other purposes, not suggested by the company, it can be publicized for alternatives uses

7. To know the competitive position of rival products:

Through marketing research, company can study the marketing policies, practices arid strategies of the competitors. Information about rivals helps in taking right decision.

8. To select channel of distribution:

To meet the needs of the customers, marketer can select the best channel of distribution for his product after analyzing information collected through marketing research.

9. To measure effectiveness of advertising:

Marketing research helps the marketers to measure the effectiveness of advertising and sales promotion programmes. Necessary step can be taken to improve or change advertising policy and selection of media

9.7 IMPORTANCE AND ADVANTAGES OF MARKETING RESEARCH

Marketing research reduces the risk involved in marketing decisions. Information and facts gathered from research can form the basis of planning. Following are some advantages of marketing research.

1. Introduction of new product:

Whenever company plans to introduce a new product in a market, it takes the help of market research to understand and analyze the price of the similar products available in the market. Market research also helps the company to know the expectation of the customers. Thus, research makes an introduction of a new product a success.

2. Helps in facing the cut throat competition:

Marketing research continuously informs the company management about the latest strategies of the competitors which is very helpful for the company to make its strategies to increase sales volume.

3. Improving the quality of product:

Marketing research frequently informs the concern about the likings and disliking of the customers. It also keeps informing the management about the changing styles and preferences of the customers relating to the product. In this way the company improves or modifies the product resulting in more acceptability by the customers.

4. It provides feedback:

Marketing research helps in establishing direct link with customers and it informs the company about the responses of the customers and their requirements .Thus, it works as an intermediate between the organization and customers.

5. It helps in increasing the market share:

Marketing research helps in increasing the market share of a product not only by retaining the existing customer but also discovering the new product. It helps in increasing the market share of a product by adding a new list of customers every time.

6. Prompt adjustments in policies:

Marketing research provides the latest information relating to the market. On the basis of valuable information received from the market research, the company can make immediate adjustments and changes in its policies relating to product, price promotion and physical distribution. In this way the company can keep itself well informed so that policies can be updated

9.8 TYPES OF MARKETING RESEARCH

There are different types of marketing research classified on the basis of the research objective for which the study is to be carried out and the sources of data used to gather the information. The widely used classification of marketing research is based on the functional objectives of the research and are identified as:

1. **Exploratory Market Research:**

The researcher uses the exploratory research when he has a very little information about the research problem and needs to gain insights about it before finding the solutions to it. It requires the researcher to clear his concept, gain insights, formulate problems, eliminate impractical ideas and formulate a hypothesis to check the relevancy of the research design. This can be done by using the secondary data, i.e. information available both inside and outside the organization, conducting observational studies, consulting experts, and processing feedback from the marketplace and surveys.

2. **Descriptive Market Research:**

The descriptive research is concerned with testing the hypothesis to find out the accurate answers of the research problem. Such as, who are the prospective buyers of the product?, How the products are consumed?, What fraction of the population uses the product?, What is the demand forecast? And who are the potential competitors? The objective of the descriptive market research is to measure the frequency with which the things occur and the extent to which the variables under study are correlated.

3. **Causal Market Research:**

The causal market research is conducted to establish the cause-and-effect relationship between the variables, such as if the packaging of the product is changed then what will be its effect on the product durability? Thus, this research is carried out to explain the facts that why a certain change in one variable is observed due to the change in the other.

4. **Predictive Market Research:**

As the name suggests, the predictive research is conducted to forecast or predict certain market variable for which the research is designed. Such as predicting the future sales, projection of growth, test market to predict the success of a new product, defining of firm's product line, etc.

The marketing research can be further classified on the basis of the type of data generated and the degree of mathematical accuracy required as:

- **Qualitative Market Research**
- **Quantitative Market Research**

Thus, there are several types of marketing research that an organization adopts on the basis of its pursued objectives and the form of data generated.

9.9 MARKETING RESEARCH PROCESS

To begin with the marketing research, following steps has to be followed:

1. Define the Problem-

The foremost decision that every firm has to undertake is to find out the problem for which the research is to be conducted. The problem must be defined adequately because if it is too vague, then it may result in the wastage of scarce resources and if it is too narrow, then the exact conclusion cannot be drawn. In order to define the problem appropriately, each firm must have a clear answer to the questions viz. What is to be researched (content and the scope)? And Why the research is to be done (decisions that are to be made)?

2. Develop the Research Plan–

This step involves gathering the information relevant to the research objective. It includes:

a) **Data Sources**: The researcher can collect the data pertaining to the research problem from either the primary source or the secondary source or both the sources of information. The primary source is the first-hand data that does not exist in any books or research reports whereas the secondary data is the second-hand data which is available in the books, journals, reports, etc.

b) **Research Approaches:** The Secondary data are readily available in books, journals, magazines, reports, online, etc. But the primary data have to be collected and to do so; the following research can be conducted:

c) **Observational Research**: The researcher can collect the information by just observing the happenings in the market and sometimes having a friendly conversation with the customers to know about their purchase experiences.

d) **Ethnographic Research**: It is one of the forms of an observation research where the researcher studies an individual in the real life situation and not under any market setup or a lab. The purpose of this research is to know the way people live (their lifestyles), What they do to earn their livelihood, how they consume goods and services, what they need in their personal and professional lives etc.

e) **Focus Group Research**: It is a form of group discussion wherein six to ten people gather and discuss the common topic given by the moderator. A moderator is a person who conducts the group discussion and is skilled in group dynamics. He also keeps the discussion focused on the topic so that relevant information can be obtained from the group members.

f) **Survey Research**: These are the descriptive research generally conducted to know the about the customer's knowledge about the product, their preferences, and satisfaction level. The best way to conduct surveys is through the Questionnaires.

g) **Behavioral Data:** The customer's actual purchases at the store reflects its behavior and the choice of products. Thus observing what customers are buying gives more accurate information about the customer rather than the planned answers given by them in the surveys.

h) **Experimental research**: This is done to find out the cause and effect relationships. This research is undertaken to study the effects of change in the customer's behavior due to the change in the product's attributes.

i) **Sampling plan**: Once the research approach is decided, the researcher has to design a sampling plan and have to decide on the following: The sampling Unit i.e. whom, shall we survey?, The sample size, i.e., How many units in the population shall be surveyed?, The sampling procedure, i.e. How the respondents shall be chosen?

j) **Contact Methods:** The researcher has to choose the medium through which the respondents can be contacted. The respondents can be reached via emails, telephone, in person or online.

3. **Collect the Information**:

This is one of the most expensive methods of marketing research. At this stage, the researcher has to adopt the methods to collect the information; he may find it difficult to gather the correct information because of the respondent's biasedness, unwillingness to give answers or not at home.

4. Analyze the Information:

Once the information is collected the next step is to organize it in such a way that some analysis can be obtained. The researchers apply several statistical techniques to perform the analysis, such as they compute averages and measures of dispersion. Also, some advanced decision models are used to analyze the data.

5. Present the Findings:

Finally, all the findings and the research are shown to the top management level viz. managing director, CEO, or board of directors to make the marketing decisions in line with the research.

6. Make the Decision:

This is the last step of the marketing research, once the findings are presented to the top level management it is up to them either to rely on the findings and take decisions or discard the findings as unsuitable.

Thus, marketing research is done to gather all the relevant information about the market and design the marketing strategies accordingly.

9.10 APPLICATIONS OF MARKETING RESEARCH PROCESS

Typical Application of Marketing Research

Application of marketing research can be divided into two broad areas:

1. Strategic
2. Tactical

Among the strategic areas, marketing research applications would be demand forecasting, sales forecasting, segmentation studies, identification of target markets for a given product, and positioning strategies identification. In tactical application, we would have applications such as product testing, pricing research, advertising research, promotional research, distribution and logistics related research. In other words, it would be include research related to all the P's of marketing: how much to price the product, how to distribute it, whether to package it in one way or another, what time to offer a service, consumer satisfaction with respect to the different element of the marketing mix (product, price, promotion, distribution), and so on. In general, we would find more tactical application than strategic applications because these areas can be fine-tuned more easily based on the marketing research findings. Obviously, strategic changes are likely to be fewer than tactical changes. Therefore, the need for information would be in proportion to the frequency of changes

The following list is a snapshot of the kind of studies that have actually been done in India. 1. A study of consumer buying habits for detergents-frequency, pack size, effect of promotion, brand loyalty and so forth. 2. To find out the potential demand for ready-to-eat chapattis in Mumbai City.3. To determine which of the three proposed ingredients-tulsi, coconut oil or neem, the consumer would like to have in toilet soap. 4. To find the effectiveness of the advertising campaign for a car brand. 5. To determine brand awareness and brand loyalty for a branded PC. 6. To find the customer satisfaction level among consumers in choosing a brand cellular phone handset. As the list shows, marketing research tackles a wide variety of subjects. The list is only indicative, and the applications of marketing research in reality can be useful for almost any major decision related to marketing.

Some Other Application of Marketing Research Concept Research During a new product launch, there would be several stages-for example, concept development, concept testing, prototype development and testing, test marketing in a designated city or region, estimation of total market size based on the test marketing, and a national rollout or withdrawal of the product based on the results. The first stage is the development of a concept and its testing. The concept for a new product may come from several sources the idea may be from a brain-storming session consisting of company employees, a focus group conducted among consumers, so the brainwave of a top executive. Whatever may be its source; it is generally researched further through what is termed as concept testing. A concept test takes the form of developing a description of the product, its benefits, how to use it, and so on, in about a paragraph, and then asking potential consumers to rate how much they like the concept, how much they would be willing to pay for the product if introduced, and similar questions.

Product Research Apart from product concept, research helps to identify which alternative packaging is most preferred, or what drives a consumer to buy a brand or product category itself, and specifics of satisfaction or dissatisfaction with elements of a product. These days, service elements are as important product features, because competition is bringing most products par with each other. An example of product research would be to find out the reactions of consumers to manual cameras versus automatic cameras. In addition to specific likes or dislikes for each product category, brand preference within the category could form a part of the research. The objective may be to find out what type of camera to launch and how strong the brand salience for the sponsor's brand is. The scope of product research is immense, and includes products or brands at various stages of the product life cycle introduction, growth, maturity and decline. One particularly interesting category of research is into the subject of brand positioning. The most commonly used technique for brand positioning studies (though not the only one) is called Multidimensional Scaling.

Pricing Research Pricing is an important part of the marketing plan. In the late nineties in India, some interesting changes have been tried by marketers of various goods and services. Newer varieties of discounting practices including buy-backs, exchange offers, and straight discounts have been offered by many consumer durable manufacturers. Most FMCG manufacturers/ marketers of toothpaste, toothbrush, toilet soap, and talcum powder have offered a variety of price-offs or premium-based offers which affect the effective consumer price of a product. Price research can delve into questions such as appropriate pricing levels from the customers' point of view, or the dealer's point of view. It could try to find out how the current price of a product is perceived, whether it is a barrier for purchase, how a brand is perceived with respect to its price and relative to other brands' prices (price positioning). An interesting area of research into pricing has been determining price elasticity at various price points for a given brand through experiments or simulations.

Distribution Research Most marketing research focuses on consumers or buyers. Sometimes this extends to potential buyers or those who were buyers but have switched to other brands. But right now there is a renewed interest in the entire area of logistics, supply chain and customer service at dealer locations. There is also increasing standardization from the point of view of brand building in displays at the retail level, promotions done at the distribution of products including service levels provided by current channels, Frequency of salespeople visits to distribution points, routing/ transport related issues for deliveries to and from distribution points throughout the channel, testing of new channels, channel displays, linkages between displays and sales performance

Advertising Research The two major categories of research in advertising are:

1. Copy

2. Media

Copy Testing It include research into all aspects of advertising-brand awareness, brand recall, copy recall (at various time periods such as say after recall, week after recall), recall of different parts of the advertisement such as the headline for prints ads, slogan for TV ads, the star in an endorsement and so on. Other application include testing alternative ad copies (copy is the name given to text or words used in the advertisement, and the person in the advertising agency responsible for writing the words is known as the copy writer) for a single ad, alternative layouts (a layout is the way all the element of the advertisement are laid out in a print advertisement) with the same copy, testing of concepts or storyboards (a storyboards is a scene-by-scene drawing of a TV commercial which is like a rough version before the ad is actually shot on film) of TV commercials to test for positive /negative reactions, and many others. A particular class of advertising research is known as Tracking Studies. When advertising campaign is running, periodic sample surveys known as tracking studies can be conducted to evaluate the effect of the campaign over a long period of time such as six month or one year, or even longer. This may allow marketers to alter the advertising theme, content, media selection or even longer. This may allow marketers to alter the advertising theme, content, media selection or frequency of siring / releasing advertisement and evaluate the effects. As opposed to a snapshot provided by a one-time survey, tracking studies may provide a continuous or near continuous mechanism. But here, one should be careful in assessing the impact of the advertising on sales, because other factors could change along with time.

Pricing Research Pricing is an important part of the marketing plan. In the late nineties in India, some interesting changes have been tried by marketers of various goods and services. There are specialize agencies like A.C. Nielsen worldwide which offer viewer ship data on a syndicated basis (i.e., to anyone who wants to buy the data). In India, both ORG-MARG and IMRB offer this service. Research could also focus on print media and their readership. Here again, readership surveys such as the National Readership Survey (NRS) and Indian Readership survey (IRS) provided syndicated readership data. Media research can also focus on demographic details of people reached by each medium, and also attempt to correlate consumption habits of these groups with their media preference. Advertising research is used at all stages of advertising, from conception to release of ads, and thereafter to measure advertising effectiveness based on various parameters

9.11 TECHNIQUES OF MARKETING RESEARCH

Many times the data required by the researchers does not exist ,not up to date, inaccurate , incomplete or unreliable; in that case researcher will have to collect primary data. There are mainly four techniques or approaches or methods of collecting primary data. These are observation, focus- group research, surveys and experimental approaches.

1. **Observation**:

Primary data can be gathered by observation. This method of investigation is also used in quantitative as wel as qualitative research. Under this method, no questions are asked from the customers rather they are observed by the researcher without letting the person know that he is being observed. This research is carried out by trained persons or with the help of mechanical devices. This method can be used to study sales techniques, customer movement, customer responses and style acceptance etc.

This method is more accurate and objective and eliminates to some extent subjective element in questionnaire method .However, this method is quite expensive and cannot be applied in every type of research

2. **Experimental Method**:

This method is one of the most scientific method for marketing research. This method involves conducting of experiments on a small scale basis which is further helpful in making various marketing policies programmes or strategies. This method is very accurate and reliable. However this method also suffers from limitations as it is time consuming and costly

3. **Focus group-research technique or panel method**:

Under this method a group of persons are invited to spend few hours with or skilled researcher to discuss the product, service or organization. Panel may comprise of retailers, consumers and wholesalers. The members of panel may be personally interviewed by the researcher. A consumer panel may be personally interviewed by the researcher. A consumer panel may represent a family and a complete study is undertaken relating tastes, likings and disliking of members of family with regard to product or organization. However, researchers should not generalize the reported feeling for participants to the whole market because sample size is too small and not randomly selected. So researcher should not draw conclusion

4. Survey Method:

The survey method is most suitable for descriptive research. A survey consists of gathering data by interviewing a limited number of people called sample size selected from a larger group called universe. The most common method of getting primary data. Under this method, data can be collected by three following methods:

(a) Personal Interview Method:

The researchers contact the respondents personally or thorough their trained personnel and ask questions and record their responses. It involves two way communication and researcher and respondents can clarify the questions if they are understood properly. This method is simple and convenient. It saves time and information can be reliable. However, careless attitude of the respondents will affect the degree of accuracy.

(b) Mail Questionnaire Method:

This involves mailing a questionnaire to the respondents with a covering letter and stamped reply paid envelop. It is a very effective and cheap method of survey. This method is widely used when the area of investigation is large. This method also suffers from limitations, as there is no direct contact between investigators and respondent, the data may not be accurate and reliable. Now a days, researcher sent questionnaires through e-mail. This is the cheapest method and moreover it saves time.

(c) Telephonic survey method:

Telephonic, interview is the best method for gathering information particularly when respondents are scattered in distant areas. This method saves time and costs of researcher and is most simple in collecting data .This method also subject to interviewer bias or distortions. Moreover, persons who have no phone connections are omitted.

(d) Online survey method:

The advancement in technology has created sample opportunities for the researchers. The internet, broad band with 3G and 4G, use of mobile phones are becoming popular methods as these are inexpensive and faster means of information collection. The companies are embed questionnaire on its website or decide their apps with lucrative offers for the respondents.

9.12 MARKETING RESEARCH APPROACHES

The approach for conducting marketing research depends upon the objective, complexity of the problem and availability of the resources. A company may have the following choice to select its approach for conducting research

1. The Marketing Department

A company not having enough resources can opt for marketing research through its own marketing department. This approach is more suitable when the number of customers is small or where the company is marketing a premium product whose clientele is exclusive, for example sale of super luxury car rolls Royce. The company can specially train and mandate its marketers to have constant interaction with the customers. This can provide first hand information about the aspiration as well as frustrations of the respondents. The information can further be augmented with secondary sources such as internet, journals or internal records of the company. However, marketing department is generally not capable of handling extensive marketing research projects.

2. Trained Marketing Research Team

A company may create a well trained marketing research team within the marketing department. Such teams are meant to carry out bigger marketing research projects. The team is assigned the specific research objective or specific problem for which the research is expected. The team designs the research projects and implements the same to serve the requirements of the company. If the marketing research becomes extensive, the fieldwork like conducting interviews can be out sourced to a marketing agency. However, designing of the research project, selection of the sample and survey methods are decided by the marketing research team only.

3. Specialized Marketing Research Agencies

Extensive researches or research projects requiring special competencies may not be handled by the marketing department or marketing research teams. Therefore, such research projects are assigned to specialized marketing research agencies. However, the marketing department shall hold detailed discussions and apprise the research agency about the objective or the specific problem that it wants agency to investigate. The project is designed and implemented by the research agency who submits its report with detailed presentation to the company

9.13 LIMITATION OF MARKETING RESEARCH

Now let's have a look on the limitation of marketing research. You would be surprised that how a helping hand has limitations. As marketing research can be extremely rewarding to a firm, it is wise to know that it is subject to certain limitations. One must be aware of these limitations in advance so that one is clear about what marketing research can and cannot do.

- Marketing research tends to be fragmentary in its approach as a result of which it becomes difficult to have an overall perspective in which a marketing problem is to be viewed and studied.
- Marketing research is criticized on the ground that it becomes too superficial and faculty in industry. While the principles of marketing research are good and based on scientific lines, in industry, marketing research is very often used by those who have had no formal training in the subject. Such person avoids using detailed investigations and sophisticated techniques which require both time and patience on the part of marketing researchers.
- There is an absence of a meaningful dialogue between the marketing management and the marketing research team. As a result, marketing researchers get divorced form the main stream of marketing. This denies them any opportunity to test their finding in the practical marketing situation.
- Marketing research is not an exact science. There are several imponderables which come in the way of getting accurate results. For example, consumer behavior is an area which is rather elusive and the theory does not go very far in disclosing it very

precisely. Analytical tools of marketing research are still deficient and cannot give us a precise idea, especially on the behavioral aspects

9.14 MARKETING RESEARCH SCENARIO IN INDIA

India has a vast collection of trained researchers who can supply companies with data processing, analysis and reporting, which is the reason why it is the favored outsourcing destination for market research. Another reason is cost: many companies have seen their market research costs fall by 40-60 percent after outsourcing to India. These companies provide the same services as those in the US: helping companies develop a holistic understanding of marketing programs, market niches and consumers. Many industries are now taking a serious look at the rural markets. Close to seventy percent of India's population (742 million), live in rural villages, while only 285 million live in urban areas. The rural market has been growing five times as fast as the urban market. The problem with rural marketing is the cost, which can be prohibitive due to the vastness of the country. In addition, there are large areas and groups of people who have remained beyond the recent technological breakthroughs, and they will be harder to reach on several levels.

With the wide range of market research firms doing business in India, it's not hard to find one that's a good fit from an industry perspective. It's also easy to find white papers and industry-related publications, and many industries have associations that one can become a member of. Though India is of great interest to brands, doing research is expensive and difficult. The country has twenty-eight states with different cultural nuances, languages and consumption habits. Market research has won acceptance in India and an increasing number of companies have made room for it in their budgets.

TOP MARKETING RESEARCH COMPANIES IN INDIA

1. IMRB International

A name that always tops the list – IMRB International has its corporate office in the most happening city of India – Mumbai. It is a major part of the WPP Company, which has its global existence in 100 different countries around the world. It is said to be a brand in the field of marketing researching.

Headquarters: Mumbai, MH

Key people: Preeti Reddy, Kalpana Sitaraman

Founded In: 1971

2. RNB Research

With its corporate office in New Delhi, India, RNB Research, which was established in the year 1995, is an ISO 9001:2000 certified marketing research as well as data collection company that exists in countries like South Africa, Thailand, India, China, Philippines and Russia. It is said to be one of the top five marketing research companies in India.

Headquarters: New Delhi

Key people: Mr.P Kumar

Founded In: 1995

3. Majestic MRSS

A player in the field of Marketing Research and Survey – Majestic MRSS has its presence in a lot of Asian countries. It provides various businesses with various research services. It has its corporate office in Mumbai, Maharashtra and it is in the market since 1992.

Headquarters: Mumbai

Key people: Sarang Panchal, Sandeep Bhatia, Joseph Eapen, Salil Sabnis, Rashid Pattakal, Majid Dasurkar, Bhawana Sinha, Ashutosh Jathar

Founded In: 1992

4. <u>TNS India Private Limited</u>

This company may not be a very old one in the market, since it was established in the year 1997, but it has been leaving its footprints for all the baby companies in the field of marketing research. With its headquarters in London, UK, it has been serving various businesses in India for quite some time now. It focuses on delivering the insight of a business by providing it with enough marketing data and information.

Headquarters: New Delhi

Key people: Chhavi Bhargava, Hemant Dham, Neerja Wable, Dipika Sharma, Stuart Campbell-Morris

Founded In: 1992

5. <u>IPSOS Indica Research</u>

Even though its corporate office is in Paris, France, it has created a boom in the market of India. Businesses thank this name to be there in the country since it has been a leading player in the field of data research as well as analysis for last 40 years. It is said to be one of the oldest and best marketing research companies in the country.

Headquarters: Mumbai

Key people: Amit Adarkar, Jyoti Malladi, Vidya Sen

Founded In: 1975

9.15 SUMMARY

Identifying new marketing opportunities pose continuous challenge to the marketers. On the other hand, it is equally important measure and forecast the sales growth and profit margins of such identified each new opportunity. Marketing information system helps managers make effective decisions to shape future and support ongoing operations within an organization. Efficient MIS is a computer based system that equips managers with the reliable data and tools to understand the changing marketing environment and make marketing decision wisely. It focuses on the management of information system to facilitate strategic decisions making in most efficient manners.MIS reports can be – summary, trend, exceptions, on demand, action and detailed reports. This can be in the form of tables with numerical value, trends, graphs, visual display or other keys indicators. Reports can be in papers format, electronic format or both. Data processing in simple terms is known as part of information processing with specific objective and in the desire manner by an observer. The stages of its evolution are- manual, automatic electronics and commercial. Date analyzing is considered more scientific and facilitates terms to replace the earlier term- Data processing or information technology. Data analysis has to prominent method: qualitative research and quantitative research. Data analysis is a process of inspecting, cleansing, transforming and modeling data with specific objectives aimed at deriving useful information. Test marketing is a marketing method that aims to gauge consumer response to a product or marketing strategy by making it available on a limited basis before its lunch on a wider scale. This is undertaken at product development stage. Marketing research is a systematic gathering, recording and analyzing of data about problems relating to the marketing of goods and services. Objectives of marketing research are to know and understand the customer, to analyze the market size, to study the price trends, to evaluate marketing policies and strategies, to evaluate the feedback of customers etc. Marketing research reduces the risk involved in marketing decision. Information gathered through marketing research helps in the introduction of new product helps in facing the cut throat competition, improving the quality of product and increasing the market share etc. Marketing research process involves a sequence of steps to be followed in a systematic manner. Research process starts from defining the problem and then developing of report and lastly follows up. There are mainly two sources of data –internal and external. Marketing research has certain limitations also like limitation of time and funds. Researcher can be biased; and therefore, marketing research cannot predict the future and cannot provide solution to all marketing problems.

9.16 GLOSSARY

- **Marketing Research:** It is the systematic gathering, recording, and analysis of qualitative and quantitative data about issues relating to marketing products and services
- **Exploratory Market Research**: The researcher uses the exploratory research when he has a very little information about the research problem and needs to gain insights about it before finding the solutions to it.
- **Predictive Market Research:** As the name suggests, the predictive research is conducted to forecast or predict certain market variable for which the research is designed

- **Data Sources**: The researcher can collect the data pertaining to the research problem from either the primary source or the secondary source or both the sources of information.
- **Research Approaches**: The Secondary data are readily available in books, journals, magazines, reports, online, etc
- **Pricing Research** Pricing is an important part of the marketing plan. In the late nineties in India, some interesting changes have been tried by marketers of various goods and services.
- **Focus Group Research**: It is a form of group discussion wherein six to ten people gather and discuss the common topic given by the moderator
- **Behavioral Data**: The customer's actual purchases at the store reflects its behavior and the choice of products
- **Experimental research**: This is done to find out the cause and effect relationships.

9.17 SELF ASSESSMENT QUESTIONS

1. "Marketing research is vital for the sound marketing strategy" Critically examine the statement.

Ans ______________________________

____

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2. Name four characteristics of a good research brief.

Ans ______________________________

____

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3. What is the importance of marketing research?

Ans ______________________________

4. What is the aim of exploratory research?

Ans

9.18 LESSON END EXCERCISE

1. What do you understand by marketing research?

Ans

2. Explain the procedure and limitations of marketing research.

Ans

3. What is the significance of marketing research?

Ans

4. Discuss the importance of marketing research .What is the contribution of marketing research in decision making?

Ans

9.19 SUGGESTED READINGS

- Marketing Management: Pankaj Madan; Amit Mittal And Hemraj Verma
- Fundamentals of marketing: Anupreet K Kour; Kamlesh Bajaj And Khushdi Kaur
- Principles of Marketing: S.P. Bansal
- Principles of Marketing Management: Kajal Rana; Abhishek Yadava And S.C.
- Aryahttps://www.sisinternational.com/coverage/market-research-asia/market-research-india/
- https://www.sumhr.com/marketing-research-companies-india/
- ttps://is.muni.cz/el/1456/jaro2011/MPH_MVPS/um/IntrotoMarketResearch.pdf

Sales Forcasting, Distribution Channel

Structure

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10.1 INTRODUCTION

The task of business management would be simpler if industry was not in a continuous state of change. This change is precipitated to a large extent by the growth of global competition. The widespread adoption of IT-based commercial applications has speeded up the way that business transactions take place. IT-based innovations in manufacturing and service provision have meant that new ideas and procedures are more quickly adopted and implemented. This makes it increasingly important and necessary for organizations to predict future prospects in terms of sales, costs and profits, otherwise there is a danger that they will stagnate and be overtaken by competition. Forecasting occurs at different levels: internationally, nationally, by industry, etc., until we ultimately reach a specific product forecast. Normally a company does not have to produce general international or national forecasts on such matters as economic growth or inflation. These are provided by government and other agencies. Company forecasters take this information and adjust their individual forecasts in the light of these macro-level predictions. In some industries, forecasts for the industry are sometimes supplied in general terms by an agency such as a Manufacturers' Association. As Shahabuddin1 shows, industries such as the automobile industry are particularly well supplied with this type of information for forecasting. Forecasts for the industry are termed market forecasts, as opposed to a sales forecast that pertains to an individual company. The method where company forecasts are derived from macro-data is termed top-down forecasting. Conversely, a company can forecast from its own data by extrapolating company sales. This is termed bottom-up forecasting. Management planners are thus only interested in a forecast when it relates to the individual firm and specific products or services, because it is from there that they can prepare plans and budgets. It is this pragmatic level of forecasting in which we are interested; what makes the situation better is that management can now place more confidence in forecasts, because more sophisticated techniques are now available.

The path through which goods and services travel from the vendor to the consumer or payments for those products travel from the consumer to the vendor. A distribution channel can be as short as a direct transaction from the vendor to the consumer, or may include several interconnected intermediaries along the way such as wholesalers, distributors, agents and retailers. Each intermediary receives the item at one pricing point and movies it to the next higher pricing point until it reaches the final buyer. Coffee does not reach the consumer before first going through a channel involving the farmer, exporter, importer, distributor and the retailer.

10.2 OBJECTIVES

After reading the lesson you will be able to:

- Able to understand the importance of sales forecasting.
- To find the different methods using for sales forecasting
- To study the selection and uses of sales forecasting
- Examine the various techniques of sales forecasting
- In detail know the concept of distribution channels

10.3 MEANING OF SALES FORECASTING

Any forecast can be termed as an indicator of what is likely to happen in a specified future time frame in a particular field. Therefore, the sales forecast indicates as to how much of a particular product is likely to be sold in a specified future period in a specified market at speci-fied price. Accurate sales forecasting is essential for a business house to enable it to produce the re-quired quantity at the right time. Further, it makes the arrangement in advance for raw mate-rials, equipment's, labor etc. Some firms manufacture on the order basis, but in general, firm produce the material in advance to meet the future demand.

Forecasting means estimation of quantity, type and quality of future work e.g. sales. For any manufacturing concern it is very necessary to assess the market trends sufficiently in ad-vance. This is a commitment on the part of sales department and future planning of the entire concern depends on this forecast. The management of a firm is required to prepare its forecast of share of the market that it can hope to capture over the period of forecasting. In other words, sales forecast is an estimate of the sales potential of the firm in future. All plans are based on the sales forecasts.

This forecast helps the management in determining as to how much revenue can be expected to be realized, how much to manufacture, and what shall be the requirement of men, machine and money.

Thus, we can say that a sales forecast is an estimate of the amount of sales for a specified future period under a proposed marketing plan or programme. sales forecast can also been defined as, an estimate of sales in terms of money or physical units for a specified future period under a proposed marketing plan or programme and under an assumed set of economic and other forces outside the unit for which the forecast is made.

10.4 ELEMENTS OF A GOOD SALES FORECASTING

The following are the main five elements of good sales forecasting are:

1. Sales Planning:

Sales planning are essential for any company – but especially for firms who are in high growth mode or experiencing a change like adding new products or entering new markets. The fundamental job of the forecast is to balance sales and marketing resources against supply capacity planning. Forecasting will help answer the critical questions:

1. Do we have enough sales people to get the volume of orders we have budgeted?
2. Do we have the right mix of price, promotion, and marketing in place to drive demand?

3. Do we have the essential demand-side resources in place (e.g., travel budget, product training, partners)

If your business does a good job in these areas, you might also ask where you could do better. What territories or teams are over-performing/under-performing – and how will this impact achieving the forecast? **Focus** Sales and marketing resource planning, **Prediction** near-term and long-range planning, **Units volumes and dollars**

2. Demand Planning:

Demand and supply needs to be balanced at the volume level to address big picture business planning and mix level to enable customer and product needs. Without **good demand planning**, companies face the unhappy situation of unhappy customers, late shipments, canceled orders, excess inventory, longer lead times, expedited shipping costs, and a host of other potential issues. Modern sales and operations planning uses forecasting as the central input to the demand side of the equation. The statistical forecast is generated to make adjustments to sales and production planning. And, the organization may make adjustments to the forecast to reflect their insights into how market conditions may impact the forecast. **Focus:** supply and demand balancing, prediction Months and quarters, Units Volumes

3. Financial Planning:

Forecasting the firm's future sales is essential to the finance function. It is used to develop the annual budget and maintain the long-range business plan – typically extending out five years. Unlike demand planning, the forecasting is typically done initially in dollars and translated to production volumetric in the annual budgeting cycle. These forecasts are necessary to determine product and G&A costs – which are ultimately required for profit and loss management. For many companies, the annual forecasting cycle can be a huge exercise that carries a lot of time, resource, and risk. Adopting a **Sales and Operations Planning (S&OP)** process and platform can be a great way to address this problem. S&OP is a process that involves generating both dollar and volumetric forecasts to drive visibility into every step of the business process. The output of S&OP includes dollar-based sales predictions, production volume requirements, and inventory levels. By creating a system to capture these metrics, they are available at any time – eliminating the need for the strenuous annual budget preparation exercise. **Focus** Long-range planning and annual budgeting**, Prediction** months and years**, Units** dollars

4. Distribution Center Replenishment:

Companies that fulfill through distribution centers face the challenge of balancing supply and demand at the production, master warehouse and distribution center level. That's not an easy task and is typically handled using Distribution Requirements Planning tools. Demand is captured via customer orders for near-term action and from a forecast for longer-term planning.

The challenge here is that detailed forecasts at a product level must be generated at the distribution center level. While forecasting works great with lots of data, it can choke when the data is too thin. This means good forecasting practice and technology is essential. The best practice here is segmenting out SKU level volumes and dollars and adopting the best forecast strategy for groups of SKUs. ABC/XYZ segmentation is the starting point and groups together SKUs by volume and demand variability to select the best method. Then, forecasting software can automatically choose the right algorithm for the situation, kick out the SKUs with too few data too little forecasting for handling in other ways. **Focus** Mix planning at location level prediction weeks and months **units** volumes at item level

5. Master Scheduling:

The purpose of master scheduling is to balance demand and supply at the mix level. Unlike the demand forecast, it will need to be expressed in SKUs, products, customer orders, etc. and the forecast near-term, usually in weeks instead of months. This helps downstream planners determine more precisely when items will be needed. A weekly forecast can be generated in different ways. A common practice is to divide the monthly forecast by the accounting cycle (4 or 5 weeks) to approximate the number of weeks in a month. Sometimes, the weeks can be weighted for volume based manager input. **Focus** Determining production resource **Prediction** Near-term weeks and months **unit's** volumes

Forecasting to support master scheduling is the foundation for effective customer order promising. It helps to generate an actionable production plan that is more precise, transparent and measurable.

Sales forecasting has tremendous value across the entire organization. To get value though, requires a clear understanding of where it can be used. In general, any planning function requires some educated guess about what will happen in the future – and that's the key value of a good forecast

10.5 IMPORTANCE OF SALES FORECASTING

An accurate sales forecast is an important tool for companies to have. It helps CEOs gauge the demand for their products. It helps companies better manage inventory. It allows CFOs to financially plan for the company's growth. For public companies, forecasting impacts stock prices and market expectations. It allows marketing teams to see if a future dip in sales could benefit from promotional offers. Sales forecasting allows companies to see into the future and strategically plan their moves to increase growth. Yet, a majority of companies get sales forecasting wrong. A recent study shows that 79% of sales organizations miss their quarterly sales forecast by more than 10%. Why do organizations get such an important tool wrong and how is it impacting them**.** Sales forecasting is a very important function for a manufacturing concern, since it is useful in following ways:

1. It helps to determine production volumes considering availability of facilities, like equipment, capital, manpower, space etc.
2. It forms a basis of sales budget, production budget natural budget etc.
3. It helps in taking decision about the plant expansion and changes in production mix or should it divert its resource for manufacturing other products.
4. Its helps in deciding policies.
5. It facilitates in deciding the extent of advertising etc.
6. Sales forecast is a commitment on the part of the sales department and it must be achieved during the given period.
7. Sales forecast helps in preparing production and purchasing schedules.
8. Accurate sales forecasting is a very good aid for the purpose of decision making.
9. It helps in guiding marketing, production and other business activities for achieving these targets.

10.6 FACTORS CONSIDERED FOR SALES FORECASTING

Following factors should be considered while making the sales forecast:

1. Past Economic Performance:

The historical business data across all levels and sectors of the organization matters. Data of this nature is used to show what happened to the business under different conditions in the past. It can be used to determine the way your business will perform if some of the events happen again within the year. The company can use the data to adapt its operations and ride the economic wave. This, in turn, may help create a more positive forecast.

2. Current Global Conditions:

The world is a global village. What happens in one corner of the world will likely affect a business at the other end of the world. Issues that have a global impact like wars and political elections therefore matter a lot to your business forecasts. If the current global or regional conditions look like they could get out of hand, your forecasts should be adjusted for the ongoing events. You must adjust the values of your production levels, marketing efforts, and product pricing. All these things will affect your business forecasts greatly.

3. Current Industry Conditions:

Even if your business is immune to what is going on in the world, it is unlikely to remain unaffected by the current industry conditions. These may include government policies that affect your business, the rate of growth in your industry, and even your market share within that sector. For that reason, the market conditions that your business grapples with will affect your forecast tremendously.

4. Rate of Inflation:

Inflation is usually inevitable. It will affect the value of the currencies that you use for your business operations. You may also have to deal with artificial adjustments in inflation depending on the part of the world in which you will be doing business. Since you have minimal control over inflation, your business needs to adjust your predictions based on what you can expect to happen. It is always better for you to err on the side of caution regarding this matter.

5. Internal Organizational Changes:

Changes within the business organization usually bring about a certain level of unpredictability for investors. Many of them may have a problem investing in your business or its products during the transitional period. If your business or organization is set to go through internal changes, you should factor them into your forecasts. This will help all the stakeholders adapt well if the sales do not meet your original targets.

6. Marketing Efforts:

It is quite possible that the marketing efforts of the previous years will have a significant impact on the current sales and revenues. When making your business forecasts, consider the possible effects of your marketing activities that have already occurred. This will help you get a better picture of what exactly is expected to happen on the earnings front.

7. Seasonal Demands:

If there are seasonal demands based on periodic events that are expected, consider them when making your forecasts. These demands may help raise your sales and revenues significantly.

8. Competition:

To assess demand, it is the main factor to know about the existing and new competitors and their future programmes, quality of their product, sales of their product. Opinion of the customers about the products of other competitors with reference to the product manufactured by the firm must also be considered. Business forecasting is at best an estimation game for businesses. However, the level of accuracy is dependent on the factors that you consider. The more factors that you take into consideration, the closer to reality your business forecasts will be.

10.7 TYPES OF SALES FORECASTING

There are two types of forecasting:

1. Short-term forecasting
2. Medium-run Forecast

3. Long-term forecasting

1. Short-Term Forecasting:

This type of forecasting can be defined when it covers a period of three months, six months or one year. Generally, the last one is most preferred. The period is dependent upon the nature of business. If the demand fluctuates from one month to another, forecasting may be done only for a short period.

Purpose of Short-Term Forecasting:

a) To adopt suitable production policy so that the problem of overproduction and short supply of raw material, machines etc. can be avoided.

b) To reduce the cost of raw materials, machinery etc.

c) To have proper control of inventory.

d) To set the sales targets.

e) To have proper controls.

f) To arrange the financial requirements in advance to meet the demand.

2. Medium-run Forecasting:

This type of forecast may cover from more than one year to two or four years. This helps the management

Purpose of Medium term forecasting

a) To estimate probable profit and control over budgets, expenditure, production etc.

b) Factors-price trend, tax policies, institutional credit etc., are specially considered for a good forecast.

3. Long-Term Forecasting:

The forecasting that covers a period of 5, 10 and even 20 years. The period here also de-pends upon the nature of business, but beyond 12 years, the future is assumed as uncertain. But in many industries like ship-building, petroleum refinery, paper making industries, a long term forecasting is needed as the total investment cost of equipment is quite high.

Purpose of Long-Term Forecasting:

a) To plan for the new unit of production or expansion of existing unit to meet the demand.

b) To plan the long-term financial requirements.

c) To train the personnel so that man-power requirement can be met in future.

10.8 METHODS USED FOR SALES FORECASTING

Following are the methods generally employed for sales forecasting:

1. Survey of Buyers' Views:

This is direct method for making forecasting for short-term, in which the customers are asked what they are thinking to buy in near future say, in the coming year. In this method all the burden is with consumers, which may misjudge or mislead or may be uncertain about the quantity to be purchased by them in near future.

The disadvantages of this method are as follows:

1. Consumer's buying intentions are irregular.
2. When consumers have to select between different alternatives, they are unable to foresee their choices.
3. Buyers may be anxious for purchasing the products but due to certain limitations they may be unable to purchase them.

2. Collective Opinion or Sales Force Polling:

In this method forecasting depends upon the salesman's estimation for their respective areas, because the sales-man is closest to the customers, hence can estimate more properly about the consumers' reaction about the product and their future requirements. All the esti-mates of salesmen are consolidated to know the total estimate of the sales. This final estimate then goes through severs checking to avoid undue imagination which is done many times by the salesmen. The revised estimates are then again examined in the light of factors like expected change in design, change in prices, advertisements, competition, purchasing power of local people, employment, population etc. This method of collective opinion takes advantages of collective wisdom of salesmen, senior executives like production manager, sales manager, marketing officials and managers.

Advantages:

1. This method is simple and requires no statistical technique.
2. The forecasts are based on the knowledge of salesmen, who are directly responsible for the sales.
3. In practice, this method is much useful in the case of new products.

Disadvantages:

1. This method is useful only for short-term forecasting, i.e. maximum for one year.
2. As the forecasting is dependent upon the salesmen's estimation and if sales quotas are fixed then they, in general under-estimate the forecast.
3. As Salesmen have no knowledge about the economic changes, the estimate by them are not so correct many times.
4. As the estimation is full time job, the quality to look into the future must be with the salesmen.

3. Economic Indicators:

In this method the forecasting is dependent upon certain economic indicators, which are generally published by Central Statistical Organization under the national income estimates.

Some of these indicators are:

1. Personal income for the demand of consumers' goods.
2. Agricultural income for the demand of agricultural inputs, implements etc.
3. Construction contracts sanctioned for demand of building materials.
4. Registration of automobiles for the demand of accessories, petrol's etc.

The forecasting is done with the help of least square equations. The examples illustrated below will give an idea, how the forecasting is done. This method has some limitations, likewise.

1. Appropriate economic indicator is difficult to find out.

2. For newer products, no past data are available.

Example 2: Suppose a firm is manufacturing automobiles and finds a relationship between sale of automobile and the Index demand for cars.

The sales for the last five years are:

Year	*1970*	*1971*	*1972*	*1973*	*1974*
Sales	*110*	*130*	*150*	*160*	*180*
Demand Index	*100*	*110*	*140*	*150*	*200*

Find the relation between the demand index and sale of automobile. Further, make a forecast for the year 1975; supposing the demand index rise to 210. Use least square method.

Solution:

Year	(Index) X 'in' 0	(Sales) Y n'0	X^2	XY
1970	10	11	100	110
1971	11	13	121	143
1972	14	15	196	210
1973	15	16	225	240
1974	20	18	400	360
n=5	$\Sigma Y = 70$	$\Sigma X=73$	$\Sigma X^2 = 1042$	$\Sigma XY = 1063$

Now putting values from table in the least square equations

$$\Sigma Y = n.a + b\,\Sigma X \qquad ....(i)$$

$$\Sigma XY = a\,\Sigma\,X + b\,\Sigma\,X^2 \qquad ....(ii)$$

Now, we get $73 = 5a + 70b$ .....(iii)

$$1063 = 70a + 1042b \qquad \text{....(iv)}$$

Solving equation, (iii) and (iv), we get a = 5.63, b = 0.66

Now the trend equation will be $y = 5.36 + 0.66\ x$ ....(v)

The y and x in equation (v) are one-tenth of actual (Y,X)

The equation (v) will be $\frac{Y}{10} = 5.36 + 0.66\left(\frac{X}{10}\right)$

Then, $Y = 53.6 + 0.66\ X$ ...(vi)

Thus equation (vi) is the relation between the demand Index and sales.

Forecasting for year 1975 with demand Index 210.

Y = 53.6 + 0.66 (210) = 192 automobiles.

4. Market Factor Analysis:

A company's sales may depend on the behavior of certain market factors. The principal factors which affect the sales may be determined. By studying the behaviours of the factors, forecasting should be made. Correlation is the statistical analysis which analyses the degree of extent to which two variables fluctuate with reference to each other. The word 'relationship' is of importance and indicates that there is some connection between the variables under observation. In the same way, regression analysis is a statistical device, which helps us to estimate or predict the unknown values of one variable from the known values of another variable. For instance, you publish a text book on "Banking", affiliated to different universities. The permitted intake capacity of each and the medium through which the students are taught are known. Is it a compulsory or an optional subject? By getting all these details and also by considering the sales activities of promotional work, you may be able to declare the probable copies to be printed. The key to the successful use of this method lies in the selection of the appropriate market factors. Minimizing the number of market factors is also important. Thus the demand decision makers have to consider price, competitions, advertising, disposal income, buying habits, consumption habits, consumer price index, change in population etc.

Merits: (a) It is a sound method.

(b) Market factor is analyzed in detail.

Demerits: (a) It is costly.

(b) It is time-consuming.

(c) It is a short run process.

5. Expert Opinion:

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

Merits: (a) Forecasting is quick and inexpensive.

(b) It will be more accurate.

(c) Specialized knowledge is utilized.

Demerits:

(a) It may not be reliable.

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

(c) A broad outlook may be lacking.

6. Econometric Model Building:

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

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

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

(a) Simple Sales Percentage:

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

Next year sales = Present year sales + This year sales/Last year sales

or = Present year sales + 10 or 5% of present sale

(b) Time Series Analysis:

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

(a) No guess-work creeps in.

(b) The method is simple and inexpensive.

(c) This is an objective method.

Demerits:

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

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

8. **Statistical Methods:**

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

They are: (i) Trend Method (ii) Graphical Method (iii) Time-series Method: (a) Freehand method (b) Semi-average method (c) Moving average method (d) Method of least square (iv) Correlation method (v) Regression method.

Trend Projections:

Well-established firms which have considerable data on sales, these data are arranged in a chronological order, known as 'time series'. Thus 'time series' are analyzed before making the forecasts. There is a common method known as 'Project the trend'. In this method the trend line is projected by some statistical method, generally, by least square method. The time series forecasts are the demand characteristics over time. These time series data are analyzed for forecasting future activity levels. Time series data refer to a set of values of some variables measured. The demands have following patterns

(i) Constant Pattern:

In this pattern demand remains constant throughout the period.

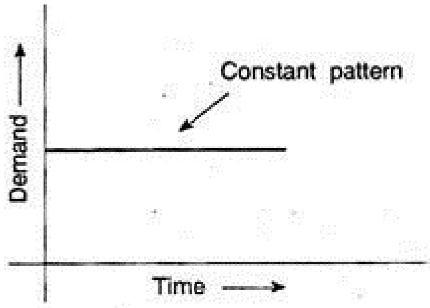


Fig. 42.4.

(ii) Trend Pattern:

It refers to the long-term growth or decline in the average level of demand, as shown in Fig. 42.5.

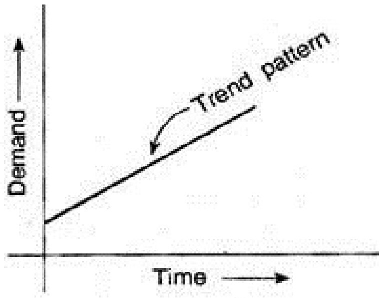


Fig. 42.5.

(iii) Seasonal Pattern:

It refers to the annually repetitive demand fluctuation that may be caused by weather, tradition or other factors. (Refer Fig. 42.6).

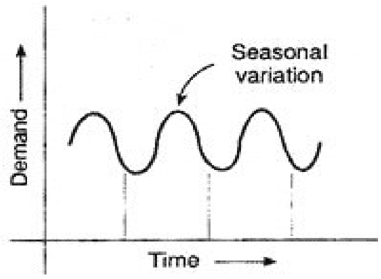


Fig. 42.6.

(iv) Cycle Pattern:

Business cycle refers to the large deviation to actual demand values due to complex environmental influences. Refer Fig. 42.7. These are similar to the seasonable components except that seasonality occurs at regular intervals and is of constant durations whereas it varies in both time and duration of occurrence.

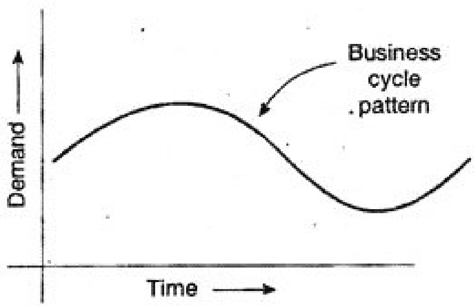


Fig. 42.7.

(v) Combination of Different Pattern:

In long term forecast (more than 2 years) seasonal factors are ignored and focus is given on trend component with a minor emphasis on business cycle. In medium term forecasts (few months to 2 years), the trend factor becomes less important and the seasonal and random factors are given more impor-tance.

For short duration (one week to 3 months) main concern is random fluctua-tions. Generally when a business concern is in operation, combination of trend and seasonal variations are given importance. Such a pattern is shown in Fig. 42.8.

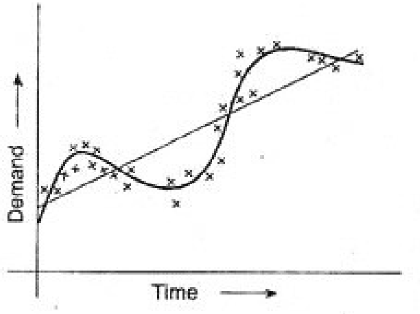


Fig. 42.8.

Example 1:

The annual sales of a company are as follows:

Year *1968 1969 1970 1971 1972*

By the method of least squares, find the trend values for each of the five years. Also estimate the annual sales for 1973.

Solution:

Year	Sales (1000 Rs.) Y	X	X^2	XY
1968	45	1	1	45
1969	56	2	4	112
1970	78	3	9	234
1971	46	4	16	184
1972	75	5	25	375
n = 5	$\Sigma Y = 300$	$\Sigma X = 15$	$\Sigma X^2 = 55$	$\Sigma XY = 950$

Substituting the value in the least square equations

$$\Sigma Y = n.a + b\Sigma X \quad \text{...(i)}$$

$$\Sigma XY = a\,\Sigma\,X + b\,X^2 \quad \text{...(ii)}$$

Putting the values from the above table in equations (i) and (ii)

$$300 = 5a + 15b \quad \text{...(iii)}$$

$$950 = 15a + 55b \quad \text{...(iv)}$$

Solving equations (iii) and (iv), we get $a = 45, b = 5$

This is trend equation $Y = 45 + 5x$

Now trend values are

Y 1968 = 45 + 5 (1) = Rs. 50,000

Y 1969 = 45 + 5 (2) = Rs. 55,000

Y 1970 = 45 + 5 (3) = Rs. 60,000

Y 1971 = 45 + 5 (4) = Rs. 65,000

Y 1972 = 45 + 5 (5) = Rs. 70,000

The forecasting for the year 1973 will be

Y 1973 = 45 + 5 (6) = Rs.75,000

The above statistical methods can easily be studies with the help of any statistics book.

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

1. Availability of raw materials
2. Plant capacity
3. Government policies
4. Buying habits of consumers
5. Fashion changes
6. Distribution system

7. Financial capacity

8. Market competition

9. National income movement

10. Sales promotion

10.9 PROCEDURE OF MAKING A SALES FORECAST

Sales Forecasting Process is Preparation to Execution. First things first – before we do anything it's important to understand the market you are operating within. This will affect the type of sales forecasting process you choose. I like to break this section down into 2 distinct segments: market definition and market characteristics.

1. Definition of your market segment:

Here you need to define the specific areas or niche of the market that your product or service serves. Let's say for example, you work in the automotive sector. Ask yourself if you target a specific segment of that sector? Is your product geared more towards the assembly of vehicles or after their distribution to the dealer? Are you serving a niche sector of the market? i.e. do you target high-end cars or more those available for general distribution. Choosing to label your market as simply "automotive" leaves you at risk of undervaluing your actual market share. If you specialize in auto parts, define your market as such. That way when drawing up your sales forecast it's being done within context of that niche, not in an obviously much larger market like "auto-parts".

Characteristics Now that you've defined the playing field you'll be competing on, it's the role of the area sales manager to look at some of its particular characteristics.

This could include:

Market growth are you operating in an established market with a steady increase in forecast growth, or is a relatively new, openly volatile market full of unpredictability.

Seasonality is there certain times of the year you are likely to sell more than others? Ice cream or sun lotion distributors are more likely to be busier in summer months than in the winter one would assume. This should be factored in when choosing your sales forecasting process.

Price sensitivity how do you compare to your competitors? Are you undercutting the market? Or are you substantially higher than the market average? This too will affect both the volume and/or value of your product.

Upcoming changes sticking with the automotive industry, the introduction of self-driving vehicles will bring with it a whole set of new laws and legislation. So too will the switch to electric powered cars. How will these changes affect your sales output? Will you need to make costly adjustments to your product to align with new regulations? Are your auto-parts likely to be used by electric car manufacturers? Knowing of these changes in advance allows you to adjust your sales forecasting process accordingly.

Historical Sales Data Something else you'll want to figure out early on in your preparation is whether or not you have any hard sales data to work with. If your product is completely new and ready to launch into the market then this obviously isn't going to be possible. However, if this isn't your first rodeo there should be something for you to work with.

Now it's important to remember that data extrapolation only works in steady, stable markets that experience little fluctuation. If there is a lot of disruptive, unpredictable changes then alternative methods of forecasting, Such as exponential smoothing should be explored.

2. Choosing the Right Model:

Now that you've got your basic preparation out of the way it's time to choose the sales forecasting process that best fits your business. The two types of sales forecasting process are generally split into two groups: quantitative sales forecasting and qualitative sales forecasting.

(A) Quantitative Sales Forecasting

The so called quantitative methods of sales forecasting are those used with the availability of historical sales data that can be extrapolated to predict future revenue. These methods rely more on sound, mathematical equation than opinionated judgment from expert peers. Three of the most popular techniques include:

Trend analysis: The idea here is that through the study of past sales data you can pick up on certain trends that with reason, could be used to predict similar fluctuations in the future. This could either be from seasonality, random factor analysis and economic demand.

Exponential Smoothing: Probably considered the most accurate and widely used for an accurate sales forecasting process it makes an exponentially considered average of past sales to try and predict future revenue.

Simple Moving Average: This technique requires the sales manager to extrapolate sales data from a "dynamic" set period of time; a rolling window of maybe 2,3 or maybe even 6 months. So if you **have sales data available** research the pros and cons for each of these techniques to find one that best suits your business model.

(B) Qualitative Sales Forecasting

The qualitative methods of forecasting are the complete opposite of their quantitative cousins; these techniques are subjective, relying more on the opinion of market experts or surveys than any complicated mathematical equations.

That does not make them any less useful mind. They are going to be the best method of forecasting if you are absent of any historical sales data of which you could use. Some of the more popular techniques include:

- **Delphi Method**: This requires employing the help of an expert panel. Assemble an unbiased team of market leaders to throw in their 2 cents and conduct a forecast for a set period of time. The key here is to get them to do it first alone, and then as a group. What you'll often find is that the average of an expert's opinion is never far off from the reality**.**

- **Market Survey**: Ask cooperative partners and customers to give you their sales expectations. This gives you a rough idea of what you can expert in terms of market growth in your industry.

- **Ask your sales team**: Works best if you deal in large ticket items for a small number of customers. They are in regular touch with your customers and can therefore give you the names of accounts, how much they purchase, how frequently do they purchase and their budget size. Again, before choosing make sure to do some thorough research into which of the techniques you think will be most applicable to your sales process. You can always conduct tests to determine accuracy but it helps if you already have a shortlist from which to work from.

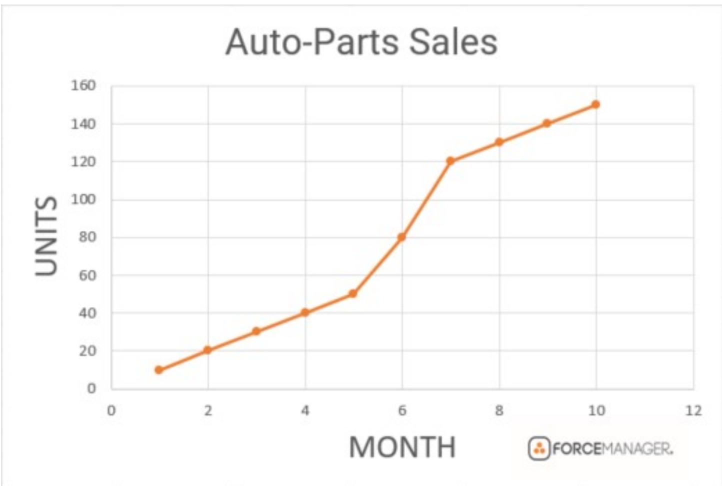
3. Collection and Validation of Sales Data:

The next step in the sales forecasting process is to make sure the data you're about to use to conduct your forecast is as clean and accurate as possible. Without it, even the most sophisticated sales forecasting process will struggle to give you any insight. Think of the idiom *garbage-in, garbage-out.* Feed a system crap data and it's going to give you even crapper insight.

A lot of blame is heaped on the field sales guys for this as at the end of the day it's them entering the data. But we shouldn't be so quick to judge. Often the tools they are given just aren't suitable for the job. You have to remember these guys spend most of their day travelling, meeting with clients before dashing off again for another appointment. They don't have time to sit down, fire up a laptop, rifle through a groggy CRM and leave a comment. They need something more intuitive.

Mobile CRM apps are designed specifically to increase data accuracy by making life as easy as possible for the field rep. If they can enter data quickly, in real-time via an easy-to-use application the info is going to be fresh, live and extremely accurate. This is what you want before conducting a sales forecast.

Also, if you are using historical, extrapolated data with the idea of choosing one of the suggested quantitative forecasting techniques then there are a couple of things to watch out for. The first is to highlight any anomalies by plotting your data into a standard excel graph as follows:



As you can see between months 5-7 there appears to be an abnormal amount of units sold during this period of time when comparing it to the rest of the data. Now this could be down to a number of reasons: seasonality, perhaps there was an acquisition or company merger or human error. If you determine that this was in fact just "rogue" data and a one-off occurrence it's normally recommended that you remove it completely before continuing with your forecast. This same logic applies when deciding to use a qualitative method of sales forecasting. Your data, whether gathered from internal reports, markets surveys or expert panels will need to be checked for credibility. If there are other data sets available for alternative market reports, cross check for any obvious anomalies.

4. Putting Theory to the Test:

The next step of the sales forecasting process is to build out your model and test it. This could be either through an Excel grid or specialized software program, depending on the model you chose to go with. To do this I recommend you try what is called a Within Sample technique. Basically this means using a set of available data, so your survey, market research or own sales data to forecast a set period of time and then compare it to the known outcomes or results. If the out-sample forecast error (the difference between the known results and those forecast by your model) is better than the in-sample **MANE** (mean absolute naive error) then there's a good chance you're on to a workable model for you sales process. The more data you have the, better, as you will be able to more accurately compare your output sample deviation over a longer period of time. If you're unsure on how to calculate the MANE, it can be down as follows: Sum of ANE (absolute naive error) divided by the number of ANE.

5. It's time to Validate:

Don't worry; we are heading into the penultimate stage of the sales forecasting process as we look to validate the results of our selected model. So how do we go about this? First you can try **adding some real life variables to the model**. For example, imagine a new car manufacturing plant is due to open up in your sales territory. And, as a result of the prowess and due diligence of your well-trained field sales team, you manage to win the account over your competitors. If everything goes well, within 6 months they'll be demanding (x) amount of product causing a serious spike in projected sales. Add this to assumption to your sales forecasting model and **record the results**. This is extremely easy to do both within Excel and the majority of leading forecast software providers. Now let's say your model forecasts an increase in sales by over 400%. You now have to decide whether you think that's an overly optimistic and inflated prediction or a reasonable assumption based on the opening of the new factory. To aid in your decision you could fact check it against some previous historical sales data, maybe from the acquisition of a client of similar size or a large increase in orders. If you don't have that data available try getting it form a competitor or maybe from a completely different industry, as long as the same logic applies. If the results really don't match, then perhaps you have to go back and tweak your model. Either the assumptions you made were incorrect or the logic of the model is flawed. Again, you'll have to decide what you think is the most likely explanation.

6. Which one to choose:

The final step in the sales forecasting process is to now choose the model that worked for your business model. I'm quietly confident it will have been the exponential smoothing method, as it normally accounts for slight unexpected changes that some of the other models have difficulty adjusting too. But honestly, this will all have depended on your testing:

a) Which model consistently delivered the most accurate results?

b) Which had the better out-sample forecasting error?

c) Which model better accounted for A/B tested assumptions?

The importance of sales forecasting really cannot be overstated so please, please, please make sure you don't skip this part. Testing all of the models on your shortlist, despite being a major pain the backside is going to be a damn sight better than making incorrect forecasts for the foreseeable future. However, remember whichever model you end up choosing that the data you enter into it MUST be accurate, or as close to it as feasibly possible. Inaccurate data throws any forecast off track meaning all your hard work will have been for nothing!

10.10 SELECTION OF A SALES FORECAST

There are several guidelines for selecting a forecast from available forecasts, one of them is as follows:

1. Prefer those forecasts which have reasoning's underlying forecast.

2. Prefer those forecasts which are prepared by qualified personnel, as the future is uncertain, he must tell his assumptions on which forecast is based.

3. Look into the previous year's forecasts, surveys should be examined as to why the forecasts are right or wrong.

4. Use only those forecasts which are reliable. Prefer only those of the forecasts which are prepared using different techniques.

5. Reject that particular forecast in which forecaster injected himself too strongly as an individual into his forecast.

10.11 USES OF SALES FORECAST

The sales forecast are helpful for various divisions of a concern. Some of such uses are given here under:

1. Product Planning:

From forecasts we find out which product is more profitable and which should be manufactured and which should be dropped.

2. Planning Expansions:

Long range forecasts can predict future demand trends, which will enable the planning for expansion of the concern.

3. Financial Planning:

Sales forecast permits an evaluation of expenses and income etc.

4. Inventory Control:

It facilitates better planning and control over the inventories.

5. Production Control:

It will help in better production control, i.e. better use of equipment's, controls over-time of labor, better deliveries, better control over work-in-progress in-ventories.

6. Sales Planning:

It helps in finding out which territory needs more attention. Various sales programme can be reassessed looking to their achievements.

10.12 STATISTICAL DATA HELPFUL IN SALES FORECASTING:

(A) For assessing general economic conditions of the country:

1. Industrial Production Index:

This index is based on the physical output of the factories and mines.

2. Bank Debits:

This will give overall financial condition of the business.

3. Employment:

Increased employment anticipates growth in demand, while decline in employment anticipates decline in production.

(B) For Assessing Future Price Trends:

1. Money in Circulation:

Increase of money in circulation without corresponding in-crease in goods supply indicates prices will rise.

2. Crop Production:

It indicates the trend of prices for agricultural products.

3. Price Index:

It is a reliable indicators prepared by the government.

(C) For Assessing Purchasing Power of the Consumer:

1. Rate of Wages:

Wage rates, bonus etc., indicates worker's purchasing power.

2. **Disposal Income:**

This shows the actual amount of money the consumer is left to spend.

10.13 APPLICATIONS OF SALES FORECAST:

Sales forecast can be used for following purposes:

1. It helps the management to decide marketing strategies.
2. It helps in preparing the budget and for setting financial policies.
3. With reliable sales forecast it is possible to produce at an average rate so that plant capacity and man power is fully utilized during the entire period. Thus the forecast-ing enables to overcome seasonal variations.
4. It helps in material planning and avoids the evils of both the over-stocking and under- stocking.
5. From forecasts we can find out which product is more profitable and which should be manufactured and which should be dropped.
6. Long range forecasts can predict future demand trends, which will enable the plan-ning for expansion of the concern.
7. It helps in finding out which territory needs more attention. Various sales programmes can be reassessed looking to their achievements.

10.14 APPROACHES /TECHNIQUES OF SALES FORCASTING

The approaches to forecasting include the causal and non-causal approaches. In the causal approach, the business has no control over the causal variables in the society. These variables include gross national product, population and general economic conditions. However, a business does exercise some control over its prices, advertising, production lines and the size of its sales team.

Following an in-depth analysis and study of the underlying causes and variables, the analysts employ various mathematical methods to project future trends. Based on these projections, management gets its sales forecast. The non-causal approach is concerned with a thorough and detailed analysis of historical sales patterns. These patterns are plotted by analysts on graphs to reflect future sales projection. As the identification and evaluation of the underlying causal variables does not take place, the analysts work on the assumption that the underlying causes will affect future sales in a manner similar to the past.

The approach of applying particular statistical methods to deduce future sales from that of the past is often criticized because experts are of the opinion that rapid modifications in technology are resulting in vital changes in various business operations.

The indirect technique is used by analysts by first projecting sales for the industry. This data is used to project the company's share in the industry total. In the direct technique, the step related to industry projection is skipped and a simple and straightforward estimation of sales for the company is arrived at. Any one of these techniques can be applied to the causal and non-causal approaches. A number of **sales forecasting techniques** are available for the use of businesses, big and small.

(i) Top-down forecasting:

It is a technique commonly used in industrial applications. This is the method commonly used for industrial applications. First, the management makes an estimation of the sales potential before developing the sales quotas. The last stage is the construction of a sales forecast. However, when the underlying assumptions of the past are not applicable, problems arise with this method. Over time, the correlation between the quantity demanded and the economic variables may become weak or change.

(ii) Bottom-up forecasting:

This is a technique used by analysts wherein the market is broken into segments and the demand for each segment is calculated separately. Industry surveys, intention- to-buy surveys and sales force composites are used by analysts to gather data. An aggregate of the segments is used to prepare a total sales forecast.

This is not a simple technique because the data may not always be accurate or uncomplicated. The data's usefulness depends on the accuracy, completeness and honesty of the customers' responses. It also depends on the importance given to the survey by the sales staff.

The two forecasting techniques comprise many methodologies which can be classified as causal, qualitative, times-series analysis and regression.

(a) Qualitative Techniques

Qualitative techniques depend on non-statistical methods of preparing a sales forecast. A company invites the opinion of experts, sales executives, the sales team, the supervisor of the sales department as well as external experts or consultants. Qualitative methods can be said' to be judgmental composites of sales expected or anticipated. These techniques are often preferred in situations when

(i) The variables affecting consumer buying habits have changed;

(ii) Current data is unavailable;

(iii) None of the qualitative techniques prove successful in a particular situation;

(iv) The planning horizon is beyond the reach of the standard quantitative methods

(v) When the data has not taken into account the technological advances or breakthroughs that have occurred or are expected to occur.

The **Probability Assessment Method (PAM)** forecasts sales volume by employing the opinion of internal experts. This provides probabilities between approximately 1-99 per cent on certain target volumes. To translate these estimates into a cumulative probability curve, analysts plot the volumes by the probabilities they are assigned. This curve helps in forecasting.

The **PERT or Programme Evaluation and Review Technique:** It involves estimates of 'pessimistic', 'optimistic' and 'most likely' future circumstances. These three estimates are considered and weighed by analysts to form an expected value which helps in the computation of a standard deviation. In this manner, analysts convert the small businessman's estimates into measures of dispersion and central tendency. Due to the standard deviation, it is possible for the forecaster to estimate on interval of confidence around the anticipated value.

The **Delphi Technique** depends on the assumption that it is possible for many experts to come up with a better forecast than a single expert working alone. Users of the Delphi method invite the opinions of a panel and reprocess the outcome through the panel till a consensus is reached on a narrow, firm median.

In the Delphi Technique, panelists are isolated due to which many aspects of group behavior are prevented from exerting unnecessary influence. These aspects include domination by a handful of members, aggressiveness and social pressure. Most small businesses avoid pursuing this because of the expense it involves.

A **visionary forecast** depends heavily on the personal opinions, insights and judgment of a respected and responsible individual. The visionary forecast is supported by facts, information and data related to different future scenarios. Yet, it is non-scientific in nature and is characterized by imagination and subjective guesswork. Although scientific information does not form the basis of such forecasts, many small businesses have gained by depending on such subjective data.

Historical analogy methodologies are aimed at determining future sales through analysis of the launch or introduction of a product and the sales growth of a similar item or product. Historical analogy looks for patterns that can be applied to the product currently considered for introduction. The past record, of several years, for one or more products is required for this technique which is then applied to new product introductions.

(b) Quantitative Techniques

Time-series analysis and projection: In situations where the forecaster can infer the future impact of a variable on sales, from its behavior in the past, the trend project methods would work best. Forecasters seek out trends that form patterns that can be identified and recur frequently. While random variables lead to complex projections, obvious trends are formed by cyclical patterns and seasonal variations.

In its most simple form, **trend projection analysis** is concerned with the examining of past events. Analysts come up with a particular linear percentage trend expecting that the trend will continue. Randomness-the random element or event that majorly affects the forecast-is an issue/problem that arises in simple trend projection.

Yet another sophisticated form of trend projection is the **moving average**. This projection is based on the assumption that instead of following a particular linear percentage trend, the future will be an average of the post performance.

Industry surveys are concerned with the survey of various businesses or firms that comprise the industry of a certain product. These surveys may include manufacturers as well as consumers or users. Use of a top-down forecasting approach in the industry survey technique results in the same benefits and drawbacks as the sales force composites and executive opinion.

A **regression analysis** may be multiple or linear. In case of linear regression, a relationship is created by analysts between a single independent variable and sales. This relationship is then used for sales forecasting. With multiple regressions, analysts study the relationships between multiple independent variables and sales.

Usually, this is achieved using a computer that helps in the estimation of the values of the independent variables and in their incorporation into a multi-regression equation. If analysts discover a relationship among various independent variables, a multiple regression equation can be developed to forecast sales for the year to come.

Another time-series approach which is similar to the moving average is **exponential smoothing**. Analysts use an exponentially increasing set of weights rather than a consistent set of weights for the observation made. This ensures that more weight is given to the more recent or latest values instead of older values. Various adjustments are made to handle seasonal patterns and trends in the more sophisticated models.

Causal methods: When a cause-effect relationship is established by analysts between a variable and sales, forecasts made by a causal model may be better than those made by other methods. Rates of new product growth are forecast by life cycle analysis on the basis of projections of analysts of the product acceptance phases by various groups. These groups include early or late majority, innovators, laggards and early adapters. This method is usually used to forecast new product sales.

10.15 LIMITATIONS OF SALES FORECAST

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

1. Fashion:

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

2. Lack of Sales History:

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

3. Psychological Factors:

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

4. Other Reasons:

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

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

10.16 MEANING AND DEFINATIONS OF DISTRIBUTION CHANNELS

The distribution of products is the most essential and powerful element among the elements of marketing mix. Distribution is defined as the process of getting the product from the producer to the ultimate consumer. Producer reaches to the consumers with the help of bridge of intermediaries that make possible the movement of goods and services and make available for use of consumption. These intermediaries may be merchants and middlemen. Channels of distribution are concerned not only with the physical movement of goods but also with their promotion, selling and marketing control. Marketing managers may use more than one channel which depends upon how we can reach with the product more efficiently and economically .Selecting the most appropriate channel for output to reach the consumer is a decision of great strategic importance. Intrinsically sound products died their infancy due to lack of using distribution channel. Therefore, it is very essential for the company to develop a sound distribution network and launching aggressive advertising campaign.

American Marketing Association defines a channel of distribution as the structure of intra-company organization units and extra ordinary company agents and dealers, wholesale and retail, through which a commodity, product or service marketed.

Cundiff and still defines "It is a path traced in the direct or indirect transfer of title of a product, as it moves from producer to ultimate consumers or industrial users".

Thus we may define distribution or marketing channel as "A pathway for the movement of goods and services from producer to consumer and through intermediaries ensure to perform certain marketing functions in order to achieve marketing objectives of a company."Flow of goods or transfer of title may be direct when the producer sells the product directly to a wholesaler or retailer or it may be indirect when an agent middleman simply negotiates its transfer to the ultimate consumers.

10.17 THE CHANNEL DEFINED

The channel is defined as a team of merchant and agent business institution that combine physical movement and title movement of products in order to create useful assortments for specified markets.

The channel has the following characteristics

First, a channel is a team rather than a random collection of institution; consequently there must be some cooperation among members to achieve the common goal.

Second, since some members are merchants and some are agents, it follows that some pass title and some do not. It is not necessary for every channel to have an agent, but every channel must have at least one merchant. Because, only merchants have the rights of owners to move title.

Third, the objective of the marketing channel is to reach specified markets. No single channel may attempt to reach all markets.

Fourth, the channel performs two important operations in meeting its objective: it creates assortments and distributes them. The assortment refers to the number of types of products necessary to satisfy the market. Both goods and services are part of the assortment, and it is understood that each product has an accompanying price.

10.18 NATURE AND IMPORTANCE OF DISTRIBUTION CHANNELS

The major important role that distribution plays in any economy is to achieve the marketing objectives of a company. Distribution function has assumed a great importance which is characterized by special and temporal separation of production from consumption .Distribution channel facilitates the function of breaking large quantities in small quantities. The actual mass scale delivery of these offerings to the consuming public requires a different kind of specialize effort which generates time, place and ownership utility. There is a lot of time gap between the production and consumption of goods. Cloth mill located in Bombay produces a large quantity of cloth of the millions of consumers located in different locations all over the country. It means the distribution or trade channels offering to consume a final product after transporting it to a place where consumer can get access to it, stored till they are ready to buy it and ultimately exchange for money so that they can obtain physical possession of and title to the product.

The presence of intermediary between the producer and consumer improve the efficiency of exchange process. To maximize the profit, the activities of the producer or manufacture need to be coordinated with those of intermediaries used in the distribution of a given product. Distribution without the help of any intermediary becomes more complicated and costlier. For example, in situation A, the producer reaches to the consumer by spending Rs 2 each i.e. for a total transportation cost to Rs 32(16 contacts @Rs 2).Let us suppose in situation B, producer spend Rs 4 to reach to the intermediary may be wholesaler and further the wholesaler spends Rs 1.50 to reach each consumer. Thus the total transportation cost would be Rs 16(Rs 4x4) +Rs (1.50x4) i.e Rs 22 thereby creating saving of Rs 10 in the transportation cost. Distribution channel also makes possible to reduce the cost of any transaction by routinization of purchasing decisions. Once a customer is satisfied with a product brand of a company and once they become part of a producers channel system, most of the purchase decisions of middlemen become routinized. Distribution channel act as communication agent often guided the consumers in the right direction to fulfill their wants.

However, choice of distribution channel is very important decision due to the following reasons;

a) Other elements of the marketing mix like price, promotion and physical distribution influence on the channel may affect adversely the whole marketing mix of the firm

b) Channel choice influences sales volume and profits. An accurate channel decision enables the firm to cut down costs and maximize sale revenue.

c) Right channel decision determines where and when the product will be available to ultimate consumers.

d) Choice of appropriate channels of distribution decides the relations between the manufacture and the middlemen

e) Proper channel choice may reduce the fluctuations in production due to continuous and effective distribution.

10.19 OBJECTIVES OF CHANNELS DISTRIBUTION

Channel distribution refers to the processes through which a business moves a product through distribution channels and gets it to its customers. Physical distribution is the sum of a firm's warehouse location decisions, inventory control processes and order handling and transportation decisions. The goal of a firm is to manage all these aspects so as to minimize its total physical distribution.

The objectives of physical distribution are:

1. To improve customer service:

The critical aspect of physical distribution is to improve the service a firm renders for its customers or client. This is applicable to when an organization is dealing with middlemen or directly with the ultimate users or consumers.

2. **To reduce distribution cost:**

An effective and efficient physical distribution system is expcted to create cost cutting avenues in the system with the aim of reducing the overall distribution cost and having a positive impact on the price of the product.

3. **To create time, place and possession utilities:**

Distribution helps to create time utility through the storage of the products in the warehouses until such a time when he retailers come to buy to complete the chain of distribution for such products as per the demands of the market. A physical distribution also creates place utility by taking products (by means of transportation) from the place of production to the place where consumers can have access to them. Moreover, marketing intermediaries through transactional activities ensure that consumers pay the money worth of products and thereafter, take possession of the items paid for. This is how the channel distribution creates possession utility as the products are being exchanged for cash

4. **To stabilize prices:**

Distribution system helps in the stabilization of prices by adjusting demand and supply situations through creation of time and place utilities. The imbalance between supply and demand conditions are usually corrected by physical distribution processes. If there is less demand for a particular product in a certain market, marketers could store it until supply and demand conditions are better balanced.

5. **To control shipping costs:**

A physical distribution manager with the responsibility for shipping or merchandize in organizations are to ensure that their firms enjoy the best combination of delivery times and shipping rates or whatever methods of transportation they choose for such shipment. In business, decision making regarding transportation cost is the most difficult to make in order to achieve timely delivery at lower transportation cost

6. **To enhance sales:**

By making sure that basic products in regular demand are always available, and having contingency plans for quick order processing of items through the distribution, stocks cab be speedily converted into cash and need of working capital can be minimized.

7. To facilitate continuous production:

An efficient distribution network facilitates continuous production by enhancing the sales of the company. This is possible through the use sophisticated storing facility, rapid means of transportation and communication, access to global market, etc.

8. To achieve economy:

To suitable distribution system result in lowering overall cost by speedy order processing, availability of latest transportation, benefits of scale of economy, rapid scale turnover. It thus helps to achieve economy in operations.

9. To reduce damages:

Another objective of physical distribution is to use cold storage rapid and safe means of transportation and other facilities related to distribution which can reduce damage or wastage of the product.

10. To increase competitiveness:

A company can increase its competence the competition network. Every company aims to have the best distribution network so that it can supply the product well in time to the consumer and provide them better satisfaction than its competitors.

10.20 LEVELS OF CHANNEL

This indicates the number of intermediaries between the manufactures and consumers. Mainly there are four channel levels. They are:

1. Zero level channels:

Here the goods move directly from producer to consumer. That is, no intermediary is involved. This channel is preferred by manufactures of industrial and consumer durable goods.

2. One level channel:

In this case there will be one sales intermediary ie, retailer. This is the most common channel in case of consumer durable such as textiles, shoes, ready garments etc.

3. **Two level channel**:

This channel option has two intermediaries, namely wholesaler and retailer. The companies producing consumer non durable items use this level.

4. **Three level channel:**

This contains three intermediaries. Here goods move from manufacture to agent to wholesalers to retailers to consumers. It is the longest indirect channel option that a company **has.**

10.21 FACTORS DETERMINING THE LENGTH OF THE CHANNEL

The following factors will determine the length of the channel of distribution.

1. **Size of the market:** larger the market size, longer the channel. Conversely, smaller the market, smaller the channel.

2. **Order lot size:** If the average order lot size is small, it is better to have a longer channel and vice -versa.

3. **Service requirements:** If the product and market require a high level of service, and it a major factor in the buying decision, it is better to keep a shorter channel.

4. **Product variety:** If a wide variety of the same type of product available in the market, then it is advisable to select a wider channel

10.22 FACTORS INFLUENCING CHOICE OF DISTRIBUTION CHANNEL:

It is very important to select a channel for the distribution of goods and services to the ultimate consumers in an effective way. The marketer has to select the most suitable channel. While selecting the channel of distribution, the marketer has to consider the following factors:

1. **Nature of Product:**

The selected channel must cope up perish ability of the product. If a commodity is perishable, the producers prefer to employs few middlemen. For durable and standardized goods, longer and diversified channel may be necessary. If the unit value is low , intensive distribution is suggested. If the product is highly technical, manufacture is forced to sell directly, if it is not highly technical, intensive distribution can be selected. Seasonal products are marketed through wholesalers.

2. Nature of market:

If the market is a consumer market, then retailer is essential. If it is an industrial market, we can avoid retailer. If consumers are widely scattered large numbers of middlemen are required. When consumers purchase frequently, more buyer seller contacts are needed and middlemen are suggested. 3. Competitors' Channel: The distribution channel used by the competitors will influence the channel selection. There is nothing wrong in copying the channel strategy of the competitor if it is a right one.

4. The financial ability of channel members:

Before selecting the channel, the manufacture has to think about the financial soundness of the channel members. In most of the case financial assistance are required to the channel members in the form of liberal credit facilities and direct financing.

5. The Company's financial position:

A company with a strong financial background can develop its own channel structure. Then there is no need to depend other channel intermediaries to market their product.

6. Cost of Channel:

The cost of each channel may be estimated on the basis of unit sale. The best type of channel which gives a low unit cost of marketing may be selected.

7. Economic factors:

The economic conditions prevailing in he country have bearing on channel selection decision. During the period of boom, it is better to depend channels directly. During the periods of deflation direct relation with the consumers are desirable.

8. The legal restrictions:

Before giving the final shape to channels of distribution, we have to consider the existing legal provisions of the various Acts. For e.g. MRTP Act prevents channel arrangements that tend to lessen competition, create monopoly and those are objectionable to the very public interest.

9. Marketing policy of the company:

The marketing policies of the company have a greater and deeper bearing on the channel choice. The marketing policies relating to channels of distribution are advertising, sales promotion, delivery, after sale service and pricing. A company has a heavy budget on advertising and sales promotion, the channel selected is bound to be direct as it requires a few layers of people to push the product.

10.23 SUMMARY

Forecasting is of utmost importance to business as it is the precursor to all planning activities and lies at the base of corporate strategic planning. The strategic plan determines how the company will go about achieving its share of the total forecasted sales. Thus sales forecasting and strategic planning are interlinked. Sales forecasting does, however, have three principal dimensions, short-term (about three months), medium-term (normally one year) and long-term (usually two years minimum and a lot longer in some industries). Each of these dimensions is for specific tactical (normally short or medium-term) or strategic (normally medium or long-term) purposes. Once the sales forecast and the strategic plan have been agreed, business budgeting can take place and the sales budget is the medium through which sales are generated. Forecasting therefore lies at the base of all company planning. It is of paramount importance that this forecast is the best that can be produced within the resource constraints of the company, for if the sales forecast is incorrect in the first place, then the whole planning exercise for the organization will have been in vain. Distribution involves placing goods and services where they are needed at a time when they are wanted. Channel of distribution denote the path through which a product passes from the producer or manufacturer to the ultimate consumer. It is concerned with flow of goods from points of origin to the points of use. It involves transportation, warehousing, inventory control and order processing functions. Transportation creates place utility by removing the distance barrier, railways, roadways, airways and waterways are the main modes of transportation. Warehousing/storage create time utility by removing the time gap between production and use of goods. Channels of distribution are the individuals and institutions that direct the flow of goods and services from producer to users. This channel provides three types of flows-flow of goods flow of information and flow of payments.

10.24 GLOSSARY

- **Forecasting:** It is the process of making prediction of future based on past and present data and most commonly by analysis of trends.
- **Trend:** A trend is a change or development towards something new or different**.**
- **Distribution:** It is the process of making a product or services available for the consumer or business user who needs it.
- **Economic factors:** The economic conditions prevailing in he country have bearing on channel selection decision
- **Seasonal Pattern:** It refers to the annually repetitive demand fluctuation that may be caused by weather, tradition or other factor

10.25 SELF ASSESSMENT QUESTIONS

1. Write down the methods of sales forecasting?

Ans ______________________________

____

____

2. Give the concept of long term and short term forecasting?

Ans ______________________________

____

____

3. What are channels of distribution?

Ans ______________________________

____

____

4. What are the objectives of physical distribution?

Ans

10.26 LESSON END EXERCISE

1. What do you mean by sales forecasting. Explain its methods?

Ans

2. Briefly explain the factors considered for sales forecasting?

Ans

3. What is physical distribution? What are its objectives?

Ans

4. Explain the importance of channels of distribution.

Ans

10.27 SUGGESTED READING

1. Marketing Management: Pankaj Madan; Amit Mittal And Hemraj Verma

2. Fundamentals of marketing: Anupreet KKour ; Kamlesh Bajaj And Khushdip Kaur

3. Principles of Marketing: S.P. Bansal
4. http://www.businessmanagementideas.com/sales/forecasting-sales/sales-forecasting-meaning-importance-and-methods/7122
5. https://www.freelancer.com/community/articles/sales-forecasting-factors-to-consider
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C. No. : BM-401	**UNIT IV**
SEMESTER : IV	**LESSON : 11**

Channels of Distribution

Structure

11.1 INTRODUCTION

Once the product is produced, the ownership of the product has to be transferred from the individual or organisation that makes it to the consumer who needs and buys it. Goods also must be physically transported from where they are produced to where they are needed. Services ordinarily cannot be transported rather they are produced and consumed in the same place. Broadly speaking there are two categories of issues and decisions which need to be handled while designing the distribution strategy as part of marketing mix. These are :- i) Management of marketing channels and ii) The management of physical distribution.

1.2 OBJECTIVE

After going through this lesson, you should be able to

- Understand and define the meaning of distribution channel
- Know different types of marketing intermediaries
- Understand the meaning of wholesalers & retailers

11.2 NATURE OF DISTRIBUTION CHANNEL

Distribution role within a marketing mix is getting the product to its target market. The most important activity in getting a product to market is arranging for its sale from producer to final consumer, other common functions are promoting the product, storing it and assuming some of the financial risk during the distribution process. Often producer appoints some intermediaries or middlemen to perform these functions.

A middle man is a business firm that renders services related directly to the sale and/or purchase of a product as it flows from producer to consumer. A middleman either owns the product or actively aids the transfer of ownership.

11.3 WHY ARE MIDDLEMEN USED ?

Why do producers give some of the selling job to middlemen? Doing so means giving up control over how and to whom the products are sold. The use of middlemen results from their greater efficiency in making the goods available to target markets. Through their contacts, experience, specialisation and scale of operation, middlemen usually offer the firm more than it can achieve on its own.

11.4 MARKETING CHANNELS- MEANING & DEFINITION

Meaning of Channel of distribution: A channel of distribution is an organised network or system of agencies and institutions, which, in combination, perform all the activities required to link producers with users and users with producers to accomplish the marketing task. It consists of the set of people and firms involved in the transfer of title to a product as the product moves from producer to ultimate consumer or business user. A channel of distribution always include both the producer and the final customer for the product as well as any middleman such as retailer and wholesalers. The channel of distribution is a structure which is organised and represents a choice among alternative channels of distribution, or it may involve a description of the different marketing situations faced by the retailers, wholesalers and producers within the structure.

According to **Phillip Kotler**, "It is a set of independent organisations involved in the process of making a product or service available for use or consumption."

According to **American Marketing Association**, "A channel of distribution, or marketing channel, is the structure of intra company organisation units and extra-company agents and dealers, wholesalers and retailers, through which a commodity, product, or service is marketed."

Thus, a channel of distribution is a path way directing the flow of goods and services from producers to consumers composed of intermediaries through their functions and attainment of the mutual objectives.

11.5 MAJOR CHANNELS OF DISTRIBUTION

Channels of distribution can be grouped under two major heads:

i) Direct marketing channels

ii) Indirect marketing channels.

Direct Marketing Channels :

Direct marketing channel has no intermediary involved in distribution; it implies manufacturer selling directly to the consumers. It may be through personal selling, mail order or own retail shops. Bata Ltd. for example has established its own retail outlets.

Indirect Marketing Channels :

In indirect marketing channels one or more than one middleman are involved in between the manufacturer and consumer. In consumer markets, these middlemen are wholesalers and retailers. Wholesalers purchase the product from other middlemen or directly from manufacturers and supply it to different retailers, who are the ultimate link with the consumers.

11.6 LEVELS OF CHANNEL

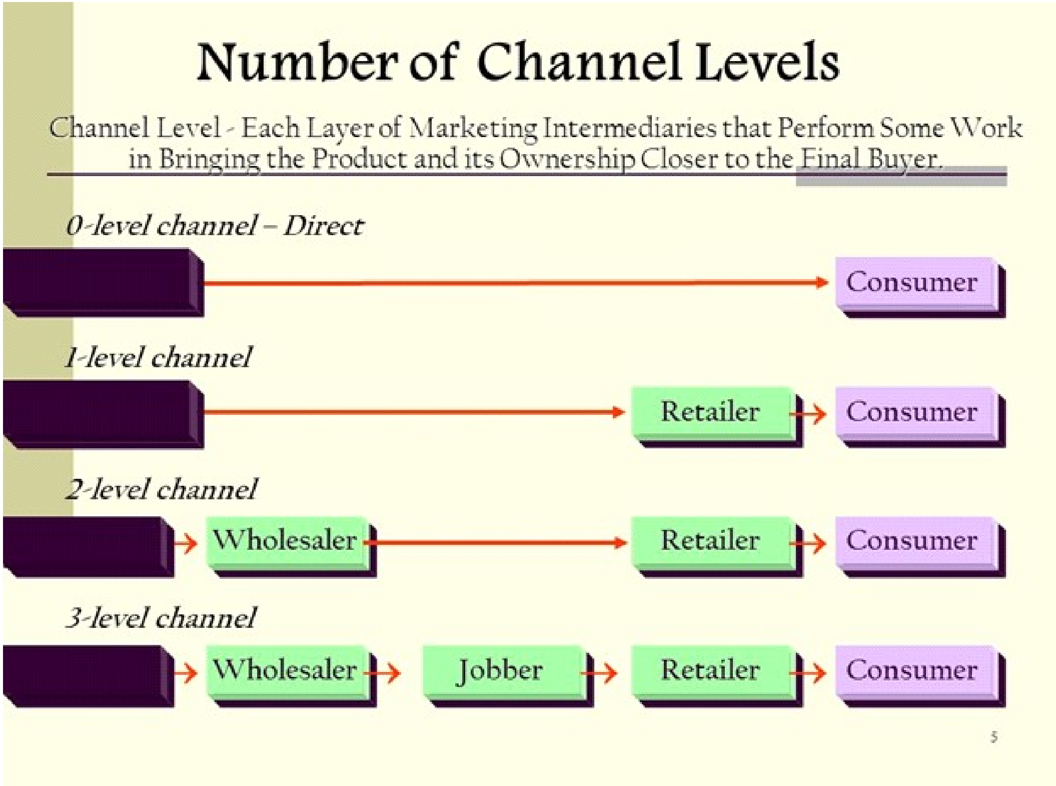
This indicates the number of intermediaries between the manufacturers and consumers. Mainly there are four channel levels. They are:

1. **Zero level channel:** Here the goods move directly from producer to consumer. That is, no intermediary is involved. This channel is preferred by manufacturers of industrial and consumer durable goods.

2. **One level channel**: In this case there will be one sales intermediary, i.e., retailer. This is the most common channel in case of the consumer durables such as textiles, shoes, readymade garments etc.

3. **Two level channel**: This channel option has two intermediaries, namely wholesaler and retailer. The companies producing consumer non durable items use this level.

4. **Three level channel**: This contains three intermediaries. Here, goods move from manufacturer to agent/jobber to wholesalers to retailers to consumers. It is the longest indirect channel option that a company has.



11.7 DISTRIBUTION CHANNEL FUNCTIONS

Besides making the product available to the customers, the middlemen performs several other roles and functions which are as under :-

a) **Information**: Middlemen provide the information regarding different developments in the market like changes in customers demography, psychography, media habits and the entry of a new competitor or a new brand and changes in customer preferences etc.

b) **Price Stability**: Maintaining price stability is another function a middleman performs by absorbing an increase in the price of the product and continuously charging the same old price to the customer may be due to inter middlemen competition.

c) **Promotion**: They also promote the product in their territory. Many of them design their own sales incentive programmes for attracting the customers.

d) **Financing**: Middleman finance manufacturers' operation by providing necessary working capital in the form of advance payments for goods and services.

e) **Title**: Most middlemen take title to the goods and services and trade in their own name. This helps in diffusing the risk between the manufacturers and the middlemen.

f) **Physical distribution**: It helps in transporting and storing the goods. This way, they help the marketers in reducing their inventory costs.

g) **Risk taking**: It assumes the risks of carrying out the channel work.

Distribution Channel Functions

Information	It involves collecting and sharing market research and intelligence - important for marketing planning and decisions.
Contact	It involves finding and communicating with prospective buyers.
Financing	Financing basically involves acquisition and allocation of funds to cover the costs of the distribution channel in a cost effective manner.
Matching	Matching is to adjust the offer to suit a buyer's needs, including grading, assembling and packaging.
Negotiation	Negotiation is to reach at an agreement on quality, price and other terms of the offer.
Physical Distribution	Physical distribution basically is to transport and store the goods in the warehouses.
Promotion	It is to develop and spread communications about offerings.
Risk Taking	It is to assume some inherent commercial risks by operating the channel (e.g.) holding stock for precautionary or speculative motives)

11.8 MARKETING INTERMEDIARIES

Middlemen or distribution intermediaries are an important part of the product distribution channel. Intermediaries are individuals or businesses that make it possible for the product to make it from the manufacturer to the end user, essentially facilitating the sales process. "Middlemen is one who specialises in performing operations or rendering services that are directly involved in the purchase and sale of goods in the process of their flow from producer to final buyer." These middlemen are classified into the following:

a) **Merchant middlemen**, who takes title to the goods and services and resell them.

b) **Agent middlemen**, who do not take title to the goods and services but help in identifying potential customers and even help in negotiation.

c) **Facilitators**, to facilitate the flow of goods and services from the producer to the consumer, without taking a title to them.

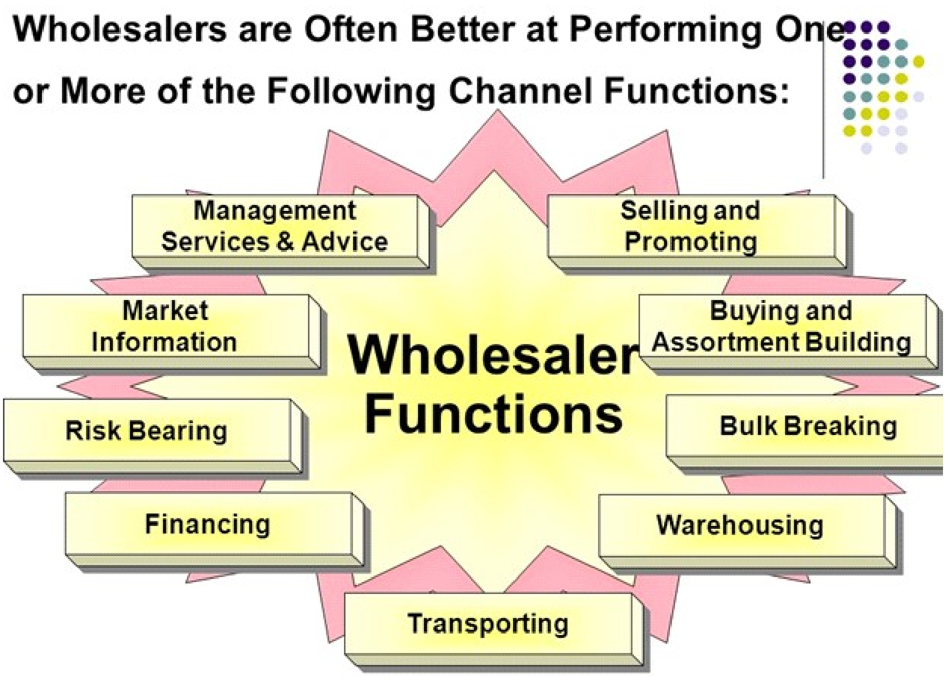
11.9 WHOLESALERS- Meaning, Functions & Services

MERCHANT MIDDLEMEN: Merchant middlemen are those who take title to the goods and channelize the goods from previous step to the next step with a view to make profit. They buy and sell goods in their own risk and the price for their effort is profit. They act as intermediaries between the producers and the consumers. These merchant middlemen are broadly classified into **wholesalers and retailers.**

Wholesalers: Wholesaler is a trader who deals in large quantity. He purchases goods from the producers in bulk quantity and sell it to the retailers in small quantity. The term wholesaler applies only to a merchant middleman engaged in wholesaling activities, i.e., he takes title to the goods he handles. According to **American Management Association**, "Wholesalers sells to retailers or other merchants and/or individual, institutional and commercial users but they do not sell in significant amounts to ultimate consumers."

Wholesaling includes all marketing transactions in which purchases are intended for resale or are used in marketing other products. The wholesaling functions are assembling of merchandise breaking bulk, storage selling, and delivery etc. Regardless of whether they are performed by a manufacturer, a wholesaler or a retailer, these functions are all part of wholesaling.

Functions of wholesalers



1. **Assembling and buying**: It means bringing together stocks of different manufacturers producing same line of goods, and making purchases in case of seasonal goods.

2. **Warehousing:** The warehousing function of the wholesalers relieves both the producers and the retailers from the problem of storage.

3. **Transporting:** In the process of assembling and warehousing, the wholesaler do undertake transportation of goods form producers to their warehouse and back to retailers.

4. **Financing:** They grant credit on liberal terms to retailers and take early delivery of stock from the manufacturers to reduce their financial burden.

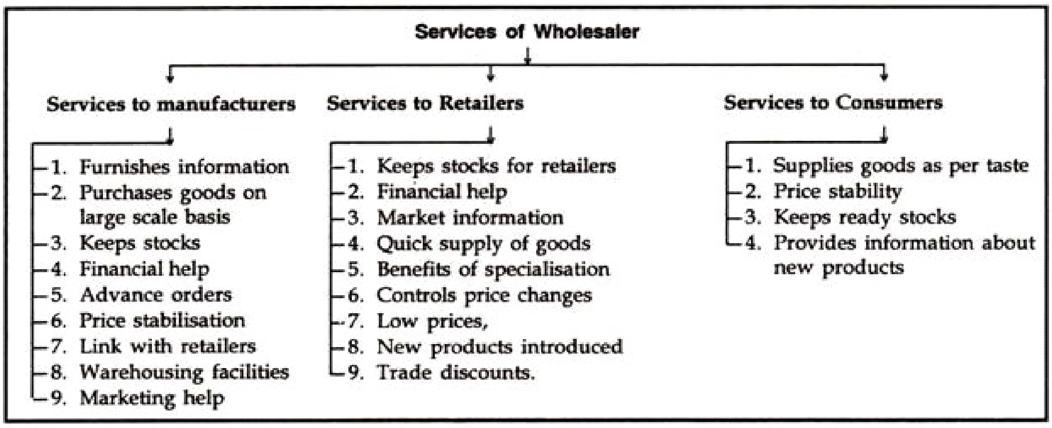
5. **Risk bearing:** The wholesaler bears the risk of loss of change in price, deterioration of quality, pilferage, theft, fire etc.

6. **Grading, packing and packaging:** By grading they sort out the stocks in terms of different size, quality, shape and so on.

7. **Dispersing and selling:** Dispersing the goods already stored with them to the retailers.

8. **Market information:** Finally providing the market information to the manufacturers.

<u>Services of wholesalers:</u>



A. **<u>Services to Manufacturers:</u>**

(i) Wholesaler furnishes information to the manufacturer about consumer behaviour, the changes in the tastes and fashions and also the latest demands of the customers.

(ii) Wholesaler enables a manufacturer to get benefit of economies of large-scale production by manufacturing on a large-scale basis.

(iii) Wholesalers relieve producers from keeping stock since they usually make forward dealings with producers.

(iv) Wholesalers render financial assistance to manufacturers and also provide long-term soft loans to them.

(v) Wholesaler helps manufacturers in maintaining an even place of production by placing advance orders for periods which are usually characterised by slack demand.

(vi) Wholesalers help in price stabilisation since they stock goods in the slack season and S' 11 them when the demand is high.

(vii) Wholesalers enable the manufacturers to save their capital by not tying it up in stocks. Instead, capital can be utilised for production activities.

(viii) Wholesalers are an important link between the manufacturers and the retailers.

(ix) Wholesalers provide warehousing facilities for goods till they are required by the retailers.

(x) Wholesalers take over the marketing functions from the manufacturers, thereby enabling them to concentrate on production.

B. Services to Retailers:

(i) Wholesalers relieve retailers from keeping huge stocks with themselves since a retailer can approach a wholesaler for the replenishment of his stocks whenever they are exhausted.

(ii) Wholesalers provide financial assistance to retailers by selling goods to them on credit.

(iii) Wholesalers provide necessary market information to retailers regarding the type, quality and price of goods.

(iv) Wholesalers enable retailers to obtain supplies more quickly than they could by placing orders directly to manufacturers,

(v) Wholesalers provide the benefits of specialisation to retailers.

(vi) Wholesalers help retailers to take favourable advantage of price fluctuations.

(vii) Wholesalers enable retailers to share the economies of transport.

(viii) Wholesalers bring to retailers in bulk, but charging less prices.

(ix) Wholesalers bring to the notice of retailers new products through advertisements and travelling salesmen.

(x) Wholesalers give trade discounts on the bulk purchases to retailers.

C. <u>Services to Consumers:</u>

(i) Wholesalers make available the goods according to consumers' needs, tastes, fashion and demand.

(ii) Wholesalers maintain stability of price by adjusting demand and supply and factors in the economy.

(iii) Wholesalers make large-scale production of goods possible, thereby keeping the overall price level low.

(iv) Wholesalers have always ready stocks with them and the consumers do not have to wait for the replenishment of stocks.

(v) Wholesalers provide knowledge of new products to consumers.

11.10 RETAILERS-Meaning, Functions & Services

The term 'retail' implies sale for final consumption. A retailer is the last link between final user and the wholesaler or the manufacturer. A retailer is a merchant, or occasionally an agent, or a business enterprise, whose main business is selling directly to ultimate consumers for non-business use. He performs many marketing activities such as buying, selling, grading, risk taking, and developing information about customers wants. They are marketers and customers of producers and wholesalers.

According to **Professor William Standton**, "retailing includes all activities directly related to the sale of goods and services to the ultimate consumers for personal or non business use."

In other words retailer is one whose business is to sell consumers a wide variety of goods which are assembled at his premises as per the needs of final consumers. In India, most of the Indian retail outlets are owner managed and have few or no sales assistant. Most important issues of these outlets are those of inventory management and funds management.

<u>Functions of retailers</u>:

The Retailer - role & functions

- Role – retailers link producers & consumers. That is major role of retailers.

- ✓ Perform valuable service for both-producers & consumers.
- ✓ Sale of goods to the ultimate consumers.
- Functions-
- ✓ Customer service - retailers act as service agent to consumer. Also after sales service is essential.
- ✓ Creating a place in market - retilers
- ✓ demonstrates product to consumer. The consumer can satisfy all queries about product.
- ✓ Building the image - this fuction of building image is important. For this retailer should be convinced himself about the product before selling.
- ✓ Delivery of product- retailer arranges physical delivery of the product to consumer. The delivery can be taken at point of purchase or customer can ask to deliver at any other place.
- ✓ Arranging credit - two wheelers, TVs, electronic goods, cars are bought on credit. The retailer arranges for the credit facilities through a bank or finance co.
- ✓ Solution of any problem of consumer- this function of retailer stems from the fact that consumer purchases product from retailer. For any problem, he contacts te retailer & retailer has to exert & arrange for solutions.

a) **Buying and Assembling:-** A retailer buys goods from the best and most dependable wholesalers and assemble the goods in a single shop.

b) **Warehousing:** It helps the retailer to ensure adequate and uninterrupted supply of goods.

c) **Selling:** A retailer sells the products in small quantities to the needy consumers.

d) **Risk bearing:** It is the basic responsibility of a retailer to bear the risk arising out of physical deterioration and changes in prices.

e) **Sales promotion:** Retailer undertakes some sales promotion through displaying of goods in the shop, distribution of sales literature, introduction of new product etc.

f) Financing: A retailer granting credit in liberal terms to the consumer and it helps the consumers a lot to purchase the required goods.

g) Supply of market information: As being in close and constant touch with the consumers, a retailer can supply the market related information to the wholesalers and manufactures at the earliest.

h) Grading and Packing: Retailers undertake second round grading and packing activities left by the manufacturers and wholesalers.

<u>Services rendered by Retailers:</u>

A retailer renders a number of services to the manufacturers, wholesalers and to the final users. These services are outlined below:-

A. Services to the manufacturers and wholesalers:

i) Providing information: Retailers do provide the wholesalers and manufacturers the information about the latest consumer movements and it helps the manufacturers to produce goods according to the needs of consumers.

ii) Looks after the distribution process: A retailer, in general, looks after the entire distribution process and it helps the manufacturers to concentrate on production.

iii) Creation of demand: By giving local ad and display of goods, retailers helps to create demand for the goods.

iv) A big relief: A retailer gives a relief to the manufacturers and wholesalers from the problem of selling goods in small quantities.

B. Services to the consumers:

i) No need to store goods: A retailer holds goods on behalf of the customers at a convenient place and in convenient lot. Hence, the consumers need not buy and stock in large quantity.

ii) Largest choice: Retailers collects products of different manufactures and it enables the consumers to have a largest choice at cost, quality and so on.

iii) Providing information: A retailer supplies information about the introduction of a new product in the market and its features.

iv) Granting credit: Most of the retailers grant credit facilities to regular customers.

v) After sale services: In certain cases a retailer provides after sales services to the ultimate consumers to ensure the customers shop loyalty.

TYPES OF RETAILERS

Retailing can be broadly classified as:

(i) Store Retailing

(ii) Non Store Retailing

STORE RETAILING

Store retailing is when retailing function is carried out in the stores.Retailers can further be classified on different basis.

A) Form of ownership: The different types are :

i) Corporate Chains

A corporate chain is an organization of two or more centrally owned and managed stores that generally handle the same lines of products. Technically two or more stores constitute a chain. It has central ownership and has little autonomy.

These are characterized by a high degree of standardization. Bata shoe Company, Delhi Cloth Mill (DCM) have corporate chain stores.

ii) Independent stores

An independent retailer in a company with a single store that is not affiliated with a contractual vertical marketing system. In India most retailers are independent and quite small.

Independent retailers are viewed as having higher prices than chain stores. But the prices cannot be compared directly because often chains have their own private brands that are not sold by independents. Independent stores provide various types of services to the customers also.

iii) Franchise Systems

Franchising involves a continuing relationship in which a franchiser (the parent company) who provides the right to use its trade mark and management assistance in return for payments from a franchisee (the owner of the individual business unit). The combination of franchisor and franchisee is called a franchise system.

Franchising can further be of two types. First is Product and trade name franchising in which distribution agreement is reached. Supplier authorizes a dealer to sell a product line using the parent company's trade name for promotional purposes. Example is auto industries, petrol pumps etc.Business format franchising is another kind in which a successful retail business sells the right to operate the same business in different geographic areas. The franchisee receives from parent company a proven method of operating a business in return the franchisor receives from each business owner payments and also conformity to policies and standards. The focus is on 'consistency of operations' as opposed to 'consistency of product' which is a hallmark of product of trade-name franchising.

B) By marketing strategies :

Whatever the form of ownership, a retailer must develop marketing strategies to succeed in its chosen target markets. In retailing, the marketing mix emphasizes product assortment, price, location, promotion and customer service. Customer services consist of services designed to aid the sale of a product which includes credit, delivery, product installation, merchandise returns, personal service. We will discuss under this heading major types of retail stores, paying particular attention to three elements of their marketing mixes i.e. breadth and depth of product assortments, price level amount of customer service.

Type of store	Breadth and depth of assortments	Price Level	Amount of customer services
Department Stores	Very broad, deep	Avoids price competition	Wide array
Discount houses	Broad, Shallow	Emphasizes low prices	Relatively few
Limited line stores	Narrow, deep	Traditional type, avoid price competition, new kind.	Vary by type
Specialty store	Very narrow, deep	Premium pricing	At least standard extensive in some
Super market	Broad, deep	Some emphasizes low prices	Few
Convenience Store	Narrow, Shallow	High prices	Few

Classification of retail stores on the basis of three elements.

i) Departmental Store

It carries several product lines, all those that will be required by a typical household. These include food, clothing, appliances, other household goods, home furnishings etc., Each product line is managed independently by specialist buyers of merchandisers. In India these stores are still in the introduction phase, and are mainly located in metros like Bombay, Delhi, Madras and other Cities like Bangalore, Hyderabad and Chandigarh. The closest to the concept of departmental stores is akbarallys, which has three stores in Bombay.

In the U.S. market, department stores are believed to be in the decline phase at the retail life cycle mainly because of increased rivalry among these.

ii) Discount houses

These are the ones that sell standard merchandise at lower prices than the (196)

conventional merchants are stores by accepting lower margins but pushing for higher sales volume. A discount store has following features.

* It regularly sells its goods at a discounted price.
* It carries national or reputed brands to enhance its image.
* It keeps operational costs to the minimum.
* Its location trends to be in low-rent areas.

The biggest discount store in the U.S. is Wal-Mart. The nearest to this concept are some of the textiles stores like Babubhai Bhawani (BB) and Babubhai Jag Jivanram (BJ) in Bombay. There are bright prospects for these houses in India as most of customers are price conscious and look for discount sales. These stores serve the middle class and low middle class consumers because they want to buy national brands but at low prices.

iii) Limited line stores

This type of institution has a narrow but deep product assortment and customer services that vary from store to store. Breadth of assortment varies somewhat across limited line stores. A store may choose to concentrate rate on:

* Several related product lines.
* A single product line.
* Part of one product line.

iv) Specialty stores

As the name implies, all the ones that carry a narrow product line with a deep assortment within that line. Typically these are Jewellery stores like Tribhovandas Bhimji Zaveri in Bombay and Delhi, garment or apparel stores like Instyle, Chirag Din in Bombay etc. These stores can further be classified as single line stores-a store like Shopper's Stop that retails ready made garments for the family.

Limited line store-Raymond's showrooms that retail only men's clothing and accessories.

Super specialty stores- that retail designer clothes for men like Chirag Din, Van Heusen etc.

According to some marketing thinkers, the future scenario belongs to super specialty stores as they provide increasing opportunities for market segmentation, focussed marketing and creation of brand equity.

v) Super Markets

This is a large, low cost, low margins, high volume, self-service operation designed to serve the customers need for food, laundry and household, maintenance products. These super markets are not there in India in true sense, buth the closest are Foodland Garware's in Bombay and similar stores in New Delhi and other major cities. Future prospects of these types of stores are bright, as customers will have very little time to shop around, with women taking to employment.

vi) Convenience stores

These are food stores much smaller in size than super markets. These are conveniently located near residential areas and have long hours of operations and carry a limited line of high turnover convenience products. In Indian context, the street Comer Grovery store or Cold storage or just the food store are the ones that can be called convenience stores. Due to high degree of personalized service and home delivery these stores fill in a very important need of a housewife that is not carrying the purchases back home. These stores occupy a niche position in retail marketing. These are in existence in India for the longest time.

NON-STORE RETAILING

Although more than 80% of retail marketing is done through stores, non-store retailing is increasing at a very fast rate. Some of the non-store retailing is done as under :

i) Direct-Selling

In the context of retailing, direct selling is defined as personal contact between a sales person and a consumer away from a retail store. In India, the originator of this concept is Eureka Forbes, who were the first to sell their vacuum cleaners on a door to door basis. Though it is an expensive alternative but it has been preferred to store retailing mainly because the firm is able to compete effectively in the market place without having to give in trade's demand.

ii) Telemarketing

It refers to contacting prospects on phone or giving them a phone no. (sometimes toll free) where they can ask for product information or place their orders. The goods/services are delivered to their place and payment is collected.

iii) Television Direct-Response Marketing

Television marketing takes one of two major forms. The first is direct response advertising. Direct marketers air television spots, that persuasively describe a product and give customers a toll free number for ordering Home Shopping Channels another focus of television direct marketing are television programmes or entire channels dedicated to selling goods and services.

iv) Automatic Vending Machines

These are very common in Europe and North America for selling food products, soft drinks, newspaper, and and cigarettes. These are coin-operated machines and are found in all those areas that have high density of consumers. An extension of these are automatic tellers in banks, which allow customers to perform any of the banking transaction twenty four hours a day. In India also we have seen automatic vending machine selling hot beverages, soups and soft drinks fountains at major airports and commercial centres in the country.

v) Buying Services

A buying service is a storeless retailer serving specific client groups, usually employees of large organizations like companies, governments, Universities, Hospitals etc. The organizations' members become members of the buying service and are entitled to buy from a selective list of retailers who have agreed to give discounts to buying service members. Several consumer durable companies like. TVs-Whirlpool, Bajaj electrical and autodealers like Autoriders have had such arrangements with major industrial groups and Universities.

11.11 SUMMARY

The channel of distribution may be considered as a series of functions which must be performed in order to market products effectively. The channel starts from the producer and extends to the last person who buys it without making any significant change in its form. When its form is changed, another product emerges, and a new channel is started.

To bring maximum profits to all institutions concerned, a channel of distribution should be treated as a unit-a total system of action. The activities of the manufacturers need to be co-ordinated with those of the middlemen used in the distribution of a given product. However, a marketing channel is often treated as a fragmented assortment of competing, independently operating organization. For example, a manufacturer may think his own retailers as his competitor, or a middleman may be in conflict with his supplier.The importance of middlemen in channels of distribution cannot be overemphasized. It is he who:

a) collects or concentrates the output of various producers;

b) sub divides these into lots desired by the customers, gathers the various items together in the assortment wanted, and

c) disperses this assortment to consumers or industrial buyers.

The role of a middleman is that of a specialist in concentration, equalization, and dispersion. Besides, he also aids in the creation of time, place, form and possession utilities.

What middlemen offer is distribution, making products available at the right place and in the right quantity.

11.12 GLOSSARY

- **Distribution channel.** An institution through which goods or services are marketed giving time and place utilities to users.
- **Physical distribution.** The act and functions of physically distributing goods and services including the elements of transport, warehousing and order processing.
- **Retailer.** A channel institution which acts as an intermediary between other channel institutions and the end user and who usually breaks bulk, charging a margin for its services.
- **Wholesaler.** A channel institution which purchases and sells in bulk from either original suppliers and/or other channel intermediaries, charging a margin for its services.
- **One Level structure**- one intermediary acting as a link between the manufacturer and the consumer

- **Three Level structures**- Firms when they go global they use the help of agents to take their products to the wholesalers and then to the retailers before reaching the end consumer.
- **Two level structure**- two people interceding before the product reaches the consumer.
- **Zero Level structure**- the product is moves from the manufacturer directly to the consumer without any intermediary**.**

11.13 SELF ASSESSMENT QUESTIONS

1. What do you mean by marketing channels?

Ans ____

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2. What is the significance of marketing channel?

Ans ____

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3. What are the different levels of marketing channel?

Ans ____

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4. What do you mean by wholesalers & retailers?

Ans ____

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11.14 LESSON END EXERCISE

1. What are the functions of wholesalers?

Ans ______________________________

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2. What are the major Channels of Distribution?

Ans ______________________________

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3. What are the services provided by retailers?

Ans ______________________________

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4. What are the functions of retailers?

Ans ______________________________

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11.15 SUGGESTED READINGS

- Kotler Philip, Armstrong Gary, Principles of Marketing, Sixth edition, Prentice Hall.
- Stanton William J, Walker Bruce, Fundamentals of Marketing, Tenth edition, Mc Graw Hill. J.Taylor Sims, J.Robert Foster, Marketing Channels: Systems and Strategies, Harper and Row, New York.
- Saxena Rajan, Marketing Management, Tata Mc Graw Hill. Ramaswamy and Namakumari, Marketing Management.

C. No. : BM-401	UNIT IV
SEMESTER : IV	LESSON : 12

Physical Distribution

Structure

12.1 Introduction

12.2 Objective

12.4 Nature of Physical Distribution

12.5 Physical Distribution Objectives

12.6 Tasks in Physical Distribution Management

12.7 Designing Distribution Channel

12.8 Factors Determining the Length of Channel

12.9 Factors influencing Choice of Distribution Channel

12.10 Types of Channels of Distribution

12.11 Summary

12.12 Glossary

12.13 Self–assessment Questions

12.14 Lesson End Exercise

12.15 Suggested Readings

12.1 INTRODUCTION

Physical distribution can be defined as those activities involved with the storage and movement of products from the producer to the consumer. It creates time and place utility, which maximizes the value of products by delivering them when and where they are wanted. When the product is finally ready for the market, it has to be determined what methods and routes will be used to bring the product to the market, i.e. , to ultimate consumers and industrial users. This process involves establishing distribution strategies, including channels of distribution and providing for physical handling and distribution. Distribution is concerned with various activities, such as the movement and storage of goods, the legal, promotional, and financial activities involved in the transfer of ownership from the producer to the consumer or user. A channel of distribution for a product is the route taken by the title to goods as they move from the producer to the ultimate consumer or industrial user. Every marketing channel contains one or more of the transfer points at each of which there is either an institution or a final buyer of the product. Furthermore, the transfer of title may be direct, as when the producer sells the product outright to a wholesaler or retailer, or it may be indirect, as when an agent middlemen simply negotiates its transfer to the consumer, From the viewpoint of the producer, such a network of institutions used for reaching a market is known as marketing channel. A channel always includes both the producer and the final customer for product, as well as all agents and merchant middlemen involved in the transfer of title. The channel does not include firms such as rail roads, bank, and other institutions which render a marketing service but play no major role in negotiating purchases and sales.

12.2 OBJECTIVE

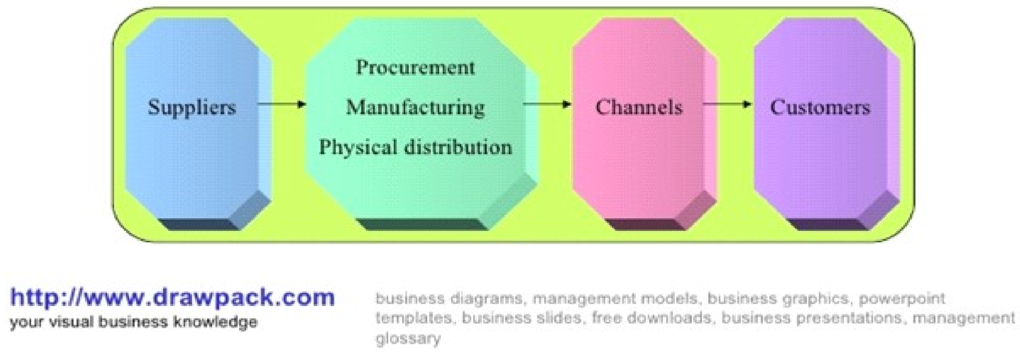
After reading this lesson, you will be able to

- Know the meaning of physical distribution.
- Know the various physical distribution tasks.
- Know the different decisions on channels of distribution.

12.3 NATURE OF PHYSICAL DISTRIBUTION

Physical distribution is also known as market logistics. It involves planning, implementing and controlling the physical flow of materials and final goods from points of origin to points of use, to meet customer requirements at a profit. The major physical distribution cost is transportation, followed by inventory carrying, warehousing and order processing and customer service. Management in most companies has become concerned about the total cost of physical distribution. Experts believe that large savings can be gained in the physical distribution area. Poor physical distribution decisions result in high costs. Moreover physical distribution is more than a cost it is important tool in demand creation. On the one hand companies can attract more customers by giving better service or lower price through better physical distributions on the other hand companies may lose customers when they fail to supply goods on time.

Nature of Physical Distribution



12.4 PHYSICAL DISTRIBUTION OBJECTIVES

Many companies state their objective as getting the right goods to the right place and at the right time for the least cost. Objectives which a firm may want to achieve through physical distributions may be:

a) **To create time and place utilities**: Storage which is part of warehousing, creates time utility. Storage is essential to correct imbalances in the timing of production and consumption. Transportation adds value the products by creating place utility.

b) **Reduce distributions costs**: Many avenues to cost reductions may be opened by physical distribution management. For example, eliminating unneeded warehouse will lower the costs. Inventories and their attendant carrying costs and capital investment may be reduced by consolidating stocks at fewer locations.

c) **Improve customer service**: A good logistic system can improve the service a firm provides to its customers, whether they are middlemen or ultimate users. To achieve this objective, management should set standards of performance for each subsystems of physical distribution. These standards should be quantitatively measurable.

d) **Stabilize price**: Another objective of stabilisation of prices can be achieved through careful management of warehousing and transportation.

e) **Influences channel decision**: Decision regarding inventory management have a direct bearing on producer's selections of channels and the location of middlemen. Logistical considerations may become paramount, for example, when a company decides to decentralise its inventory. In this case management must determine how many sites to establish and whether to use wholesalers, the company's own warehouse or public warehouses.

12.5 TASKS IN PHYSICAL DISTRIBUTION MANAGEMENT

Physical distribution management is the development and operation of processes resulting in the effective and efficient physical flow of products. An effective distribution system is build around five inter dependent subsystems: Inventory location and warehousing, material handling, inventory control, order processing and transportation.

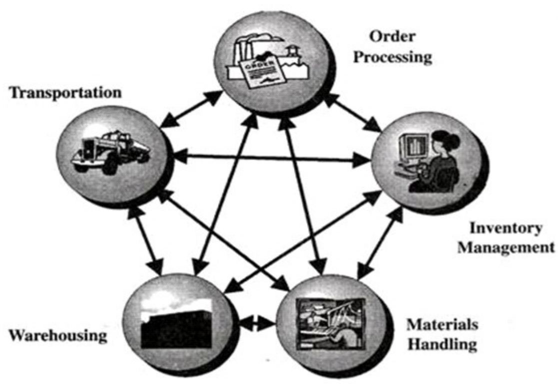
a) **Inventory:** Inventory level effect customer satisfaction. Marketers would like their companies to carry enough stock to fill all customer orders right away. However it costs too much for a company to carry that much inventory. Inventory decision involve knowing both when to order and how much to order. In deciding when to order, the company balances the risks of running out of stock against the costs of carrying too much. In deciding how much to order the company needs to balance order processing costs against inventory carrying costs.

b) **Warehousing:** A storage function is needed because production and consumption cycles rarely match. A company must decide on the best number of stocking locations. The more stocking locations, the more quickly goods can be delivered to customers. However more locations means higher warehousing costs. The company, therefore, must balance the level of customer service against distribution costs.

c) Distribution Centres: Companies may use either storage warehouses or distribution centres. Storage warehouses store goods from moderate to long periods. Distribution centers are designed to move goods rather than just store them. They are large and highly automated warehouses designed to receive goods from plants and suppliers, take orders, fill them efficiently and deliver goods to customers as quickly as possible.

d) Transportation: Marketers need to take an interest in their company's transportation decisions. The choice of transportation effects the pricing of the products delivery performance and condition of the goods when they arrive all of which will effect customer satisfaction. For transporting the goods the company can choose among five transportation modes-rail, water, truck, pipeline and air. Railways are one of the most cost effective modes for shipping large amounts of bulk products - coal, sand, minerals, farm and forest products over long distances. Transportation through roads is highly flexible in their routing and time schedules. They can move goods door to door, saving shippers the need to transfer goods from truck to rail and back again at loss of time and risk of theft of damage. Other mode is through ships cost of water transportation is very low for bulky, low value, non-perishable product but water transportation is the slowest transportation mode and is sometime effected by weather. This mode is not so popular in India. Pipelines are a specialised means of shipping petroleum, natural gas and chemicals from sources to markets. Pipeline shipment of petroleum products costs less than rail shipment. Although Air carriers transport less than one per cent of the nations goods they are becoming more important as a transportation mode. Air freight rates are much higher than rail or truck rates, but air freight is cheaper when speed is needed.

Figure 17.3
Functions of Physical Distribution



12.6 SIGNIFICANCE OF PHYSICAL DISTRIBUTION

The importance of physical distribution lies in the following directions:

a) **Creates utilities of time and place:** It creates utilities of time and place by making available a product when it is needed at the place where it is needed.

b) **Accounts for major portion of marketing costs:** According to one estimate, physical distribution costs require as much as 60% of the total marketing cost and range according to industries, from 10% to 30% of sales revenues- for machinery these were 9.8%; wood products 16.1%; paper and allied products 16.7%; chemicals, petroleum and rubber 23.1%; and primary and fabricated metals 26.5%.

c) **Represents large share in the national wealth:** It represents large share in the national wealth in the form of facilities- rail, road, trucks, highways, aircrafts, ships, docking facilities, pipelines, storage facilities and equipment.

d) **Facilitates geographic specialization:** Each area produces goods that its natural resources, climate or pool of manpower resources enable it to produce more efficiently.

e) **Determines standard of living:** This is so because distribution of products properly make them available to a large number of people at a relatively lower cost.

Thus, it will be noted that physical distribution directly affects sales, customer service and satisfaction and costs.

12.7 DESIGNING DISTRIBUTION CHANNEL

Similar firms often have dissimilar channels of distributions. A firm may want to have a distribution channel that not only meets customer needs but also provide an edge over competitors. To design channels, that satisfy customers and outdo competitors, an integrated approach is required. Different decisions to be taken are:

a) **Specifying the role of distribution**: A channel strategy should be designed within the context of the entire marketing mix. Firstly, the firm's overall marketing objectives are reviewed. Then the roles assigned to product, price and promotion are specified. Each element may have different roles or two elements may share the common goal.

b) Selecting the type of channel: Once distribution's role in the overall marketing program has been agreed on, the most suitable type of channel for the company's product must be determined. At this point the company has to decide whether middlemen will be used in its channel and if so, which type of middleman.

c) Determining the intensity of distribution: The next decision relates to intensity of distribution, or the number of middleman used at the wholesale and retail levels in a particular territory.

Till now company knows that what role has been assigned to distribution within the marketing mix, whether direct or indirect distribution is better and which type of middlemen will be used. Next, the company must decide the intensity of distribution, that is, now many middlemen will be used at the wholesale and retail levels in a particular territory.

Intensive Distribution:

It involves all the possible outlets that can be used to distribute the product. Intensive distribution is often used by manufacturers of convenience goods like in the case of soft drinks firms distribute their brands through multiple outlets to ensure their availability at the nearest possible outlet. Hence, on the one hand these brands are available in restaurants and on the other hand they are also available through countless soft drink stalls, tea-shops etc.

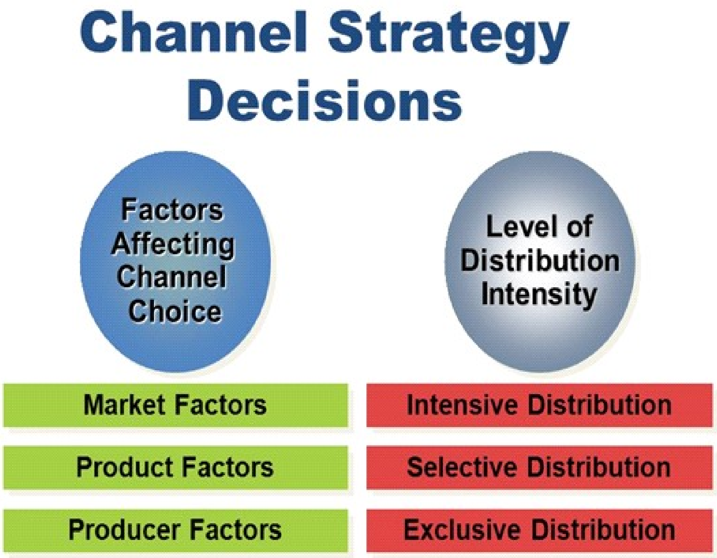
Selective Distribution:

In this, a producer sells its product through multiple, but not all possible, wholesalers and retailers in a market where a consumer might reasonably look for it. This alternative helps the selling effort of the manufacturing firms on a few outlets rather than dissipating it over countless marginal ones. Selective distribution can help the manufacturer gain optimum market coverage and more control but at a lower cost than intensive distribution.

Exclusive Distribution:

When the firm distributes its brand through just one or two major outlets in a particular market area who exclusively deal in it and not the competing brands, we say the firm is using an exclusive distribution strategy. This is a common form of distribution in products and brands that seek high prestige image. Typical example are of designer wares, major domestic appliances. By granting exclusive distribution rights, the manufacturer hopes to have control over the intermediaries price, promotion, credit, inventory and services policies.

d) **Choosing the specific channel members:** The last decision is selecting specific firm to distribute the product. For each particular category of middlemen there are number of alternatives.



12.8 FACTORS DETERMINING THE LENGTH OF THE CHANNEL

The following factors will determine the length of the channel of distribution.

1. **Size of the market:** The larger the market size, longer the channel. Conversely, the smaller the market, smaller the channel.

2. **Order lot size:** If the average order lot size is small, it is better to have a longer channel and vice –versa.

3. **Service requirements:** If the product and market require a high level of service, and it is a major factor in the buying decision, it is better to keep a shorter channel.

4. **Product variety:** If a wide variety of the same type of product available in the market, then it is advisable to select a wider channel.

12.9 FACTORS INFLUENCING CHOICE OF DISTRIBUTION CHANNEL

It is very important to select a channel for the distribution of goods and services to the ultimate consumers in an effective way. The marketer has to select the most suitable channel. While selecting the channel of distribution, the marketer has to consider the following factors:

1. **Nature of Product:** The selected channel must cope up perish ability of the product. If a commodity is perishable, the producer prefer to employ few middlemen. For durable and standardized goods, longer and diversified channel may be necessary. If the unit value is low , intensive distribution is suggested. If the product is highly technical, manufacture is forced to sell directly, if it is not highly technical, intensive distribution can be selected. Seasonal products are marketed through wholesalers.

2. **Nature of market:** If the market is a consumer market, then retailer is essential. If it is an industrial market, we can avoid retailer. If consumers are widely scattered large number of middlemen are required. When consumers purchase frequently, more buyer seller contacts are needed and middlemen are suggested.

3. **Competitors' Channel:** The distribution channel used by the competitors will influence the channel selection. There is nothing wrong in copying the channel strategy of the competitor if it is a right one.

4. **The financial ability of channel members:** Before selecting the channel, the manufacture has to think about the financial soundness of the channel members. In most of the case financial assistance are required to the channel members in the form of liberal credit facilities and direct financing.

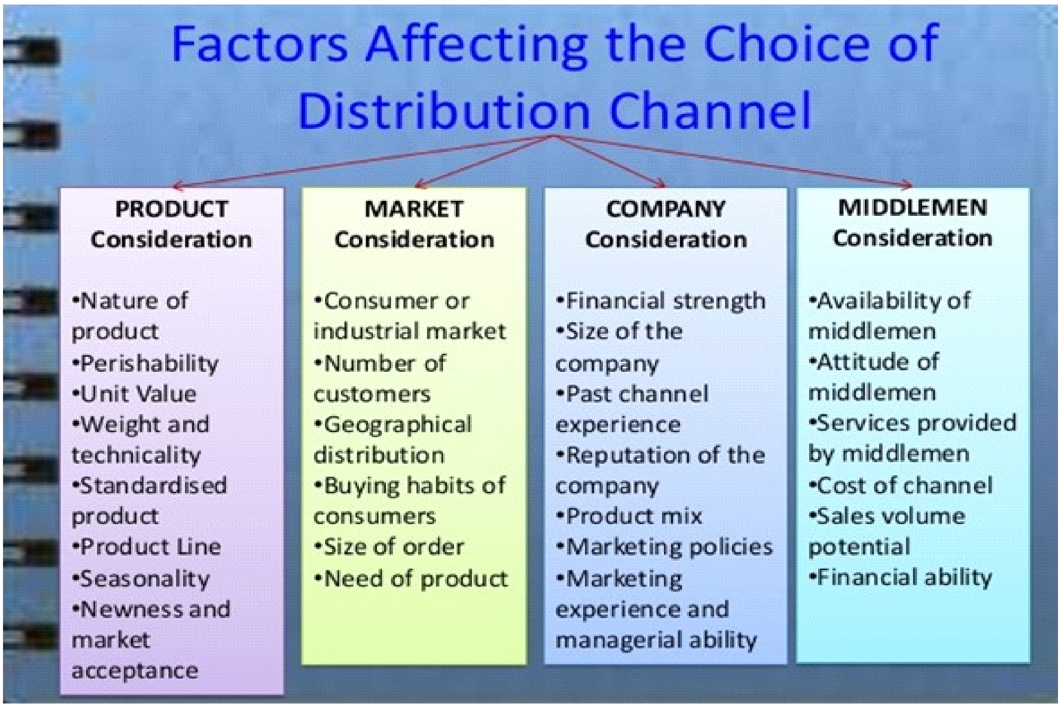
5. **The Company's financial position:** A company with a strong financial background can develop its own channel structure. Then there is no need to depend other channel intermediaries to market their product.

6. **Cost of Channel:** The cost of each channel may be estimated on the basis of unit sale. The best type of channel which gives a low unit cost of marketing may be selected.

7. **Economic factors:** The economic conditions prevailing in the country have bearing on channel selection decision. During the period of boom, it is better to depend channels directly. During the periods of deflation direct relation with the consumers are desirable.

8. **The legal restrictions:** Before giving the final shape to channels of distribution, we have to consider the existing legal provisions of the various Acts. For eg. MRTP Act prevent channel arrangements that tend to lessen competition, create monopoly and those are objectionable to the very public interest.

9. **Marketing policy of the company:** The marketing policy of the company have a greater and deeper bearing on the channel choice. The marketing policies relating to channels of distribution are advertising, sales promotion, delivery, after sale service and pricing. A company has a heavy budget on advertising and sales promotion, the channel selected is bound to be direct as it requires a few layers of people to push the product.



12.10 TYPES OF CHANNELS OF DISTRIBUTION

The structure of a marketing channel describes the arrangement and linkage of its members. The number of distribution paths that consumers want and the company can design is very large. The various stages in a channel are composed of merchants (including producers) and agents who have managerial responsibility for a product as it moves through the channel. The manufacturer or producer may select, for his use, any channel. The channel for consumer products ad industrial products is discussed below:

Channel for consumer products

Consumer goods may be distributed generally through channel, in each of which the sales branch or sales office may be used as the additional alternative by the manufacturer. The channels used are:

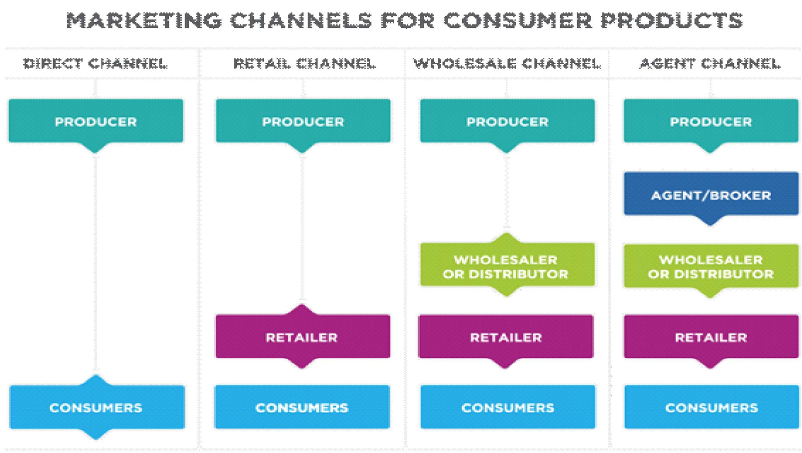
A) Producer-Consumers, when no middlemen is involved; sales are made from house-to-house or by direct mail.

B) Producer-Retailer-Consumers, where goods may be purchased directly from manufacturers and agricultural producers; or retail stores may be opened by manufacturers.

C) Producer-Wholesalers-Retailers-Consumers, which is the traditional and most economically used channel.

D) Producer-Agents-Retailers-Consumers, in which mano-producers use a manufacturer's agents, selling agents, brokers, etc. for reaching the retail market.

E) Producer-Agents-Wholesalers-Retailers-Consumers, where the services of agents are utilized by the smaller retailers, who purchase from wholesalers and sell to small stores.



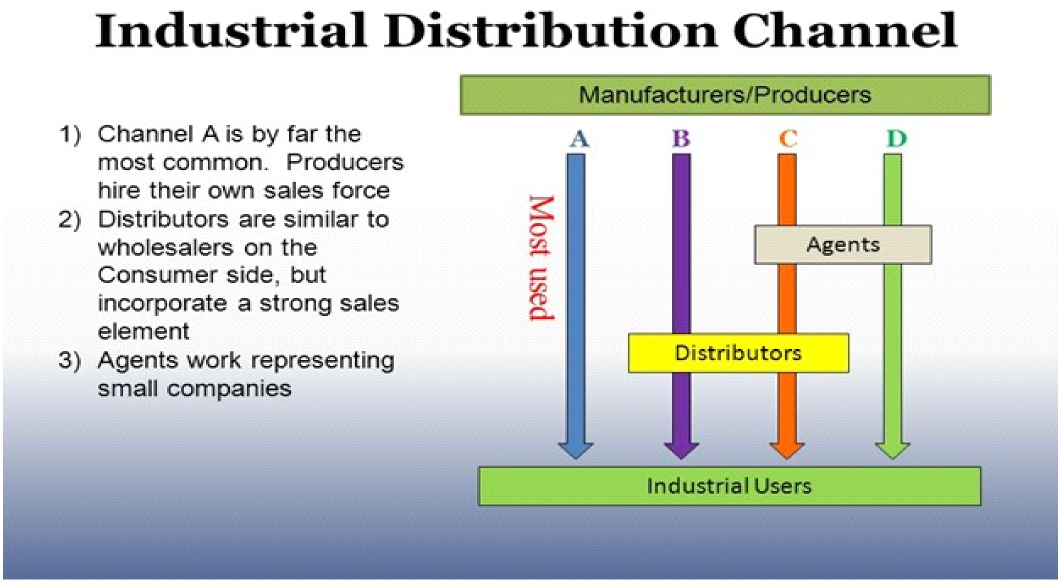
Channel for Industrial Products

Industrial products are distributed by manufacturers through following channels, although he may also use his sales branch or sales office for the purpose.

A) Producer-Industrial user, through this direct channel are sold large installations like generators, heating plants, etc to the users.

B) Producer-Industrial distributor-User, through which channel are sold operating supplies and small accessory equipment, such as building materials, construction equipment, air-conditioning equipment.

C) Producer-agents-Users, channel is often used when a new product is introduced, or a new market is entered.



Stanton provides some guidelines for the use of the marketing management while developing channels of distribution:

a) The channels analysis should begin with the final customer and work backward to the producer because essentially channels of distribution are determined by consumer buying habits: i.e. appropriate outlets should be available to the customers.

b) Channels finally established must be totally appropriate to the basic objectives of the firm's marketing programme.

c) Channels should provide a firm with access to a predetermined share of the market, including a definite level of intensity of market penetration.

d) T he channels must be adequately flexible so that the use of one channel will not permanently close off another.

e) There is a high degree of interdependence among all firms in the channels for any given product, i.e., there should not be a weak link in the chain if it is to be successful.

f) Constant evolutionary and sometimes almost revolutionary changes occur, which necessitates that economic forces should be taken into account while making for constant changes.

g) Middlemen survive only when their existence is economically sound and socially desirable. Furthermore, new middlemen and channels arise to do new jobs or to do those which are not being done properly.

12.11 SUMMARY

Channel decisions are among the most critical of marketing decisions, because channels of distribution affect product, price, and promotion decisions. Channel decisions are not always made prior to other marketing decisions but they exercise a powerful influence on the rest of the marketing mix. Another significant aspect of marketing channels is that relationships among channel members usually involve relatively long term commitments. While prices usually can be changed and producers may have considerable control over products and promotion, marketing channels are less flexible. There are legal commitments to intermediaries, and replacing or bypassing them requires extra botheration, efforts and responsibility. Therefore, the decision has to be taken with caution.

12.12 GLOSSARY

- **Exclusive Distribution:** When the firm distributes its brand through just one or two major outlets in a particular market area who exclusively deal in it and not the competing brands, we say the firm is using an exclusive distribution strategy.
- **Intensive Distribution:** It involves all the possible outlets that can be used to distribute the product.

- **Selective Distribution:** In this, a producer sells its product through multiple, but not all possible, wholesalers and retailers in a market where a consumer might reasonably look for it.

12.13 SELF ASSESSMENT QUESTIONS

1. Discuss the objectives of physical distribution.

Ans ____

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2. What are the tasks involved in physical distribution?

Ans ____

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3. Discuss the factors affecting the choice of distribution channel.

Ans ____

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4. What are the decisions to be taken while designing a distribution channel?

Ans ____

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12.14 LESSON END EXERCISE

1. What do you mean by physical distribution?

Ans ____

____

2. What are the factors determining the length of the channel of distribution?

Ans

3. Discuss the significance of physical distribution.

Ans

4. Discuss the nature of physical distribution.

Ans

12.15 SUGGESTED READINGS

- Kotler Philip, Armstrong Gary, Principles of Marketing, Sixth edition, Prentice Hall.
- Stanton William J, Walker Bruce, Fundamentals of Marketing, Tenth edition, Mc Graw Hill.
- J.Taylor Sims, J.Robert Foster, Marketing Channels: Systems and Strategies, Harper and Row, New York.
- Saxena Rajan, Marketing Management, Tata Mc Graw Hill.
- Ramaswamy and Namakumari, Marketing Management.

Consumer Behaviour

Structure

13.1 INTRODUCTION

Consumer is the reason why business exists. Without them no company can survive or thrive. In their absence, an organisation doesn't have a business or purpose. The main purpose of a company is to satisfy customer's needs and wants. Though similar, consumers are unique in themselves; they have needs and wants which are varied and diverse from one another; and they have different consumption patterns and consumption behaviour. The marketer helps satisfy these needs and wants through product and service offerings. For a firm to survive, compete and grow, it is essential that the marketer identifies these needs and wants, and provides product offerings more effectively and efficiently than other competitors. A comprehensive yet meticulous knowledge of consumers and their consumption behaviour is essential for a firm to succeed. Herein, lays the essence of Consumer Behaviour, an interdisciplinary subject, which emerged as a separate field of study in the 1960s. Peter Drucker, a leading management expert, once stated that the aim of marketing is to know and understand the consumer so well that the product or service fits him and sells itself. Ideally, marketing should result in a consumer who is ready to buy. All that should be needed then is to make the product or service available. In short consumer or customer satisfaction is the key to an organisational success.

13.2 OBJECTIVE

After studying this lesson you should be able to:

- Know and understand the meaning of consumer behavior.
- Know the importance of consumer behavior.
- Know the different types of consumers.

13.3 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. In other words, consumer is an ultimate user of a product or service. According to **International Dictionary of Management**, "consumers are purchasers of goods and services for immediate use and consumption". From a marketing management perspective, there is no important difference between the terms customer and consumer. On posters displayed prominently around the very successful L.L. Bean Company in Freeport, Maine employers are constantly reminded of what a customer is to them:

- A Customer is the most important person ever in this office…in person or by mail.
- A Customer is not dependent on us…we are dependent on him.
- A Customer is not an interruption of our work… he is the purpose of it. We are not doing a favor by serving him…he is doing us a favor by giving us the opportunity to do so.
- A Customer is not someone to argue or match wits with. Nobody even won an argument with a customer.
- A Customer is a person who brings us his wants. It is our job to handle them profitably to him and ourselves,

13.4 CONSUMER BEHAVIOUR

Human beings differ from one to another. It is not easy to predict the human behaviour. Human beings differ in their taste, needs, wants and preferences. But one constant thing is that we all are consumers. Consumer Behaviour is a vast and complex subject. Understanding Consumer Behaviour and "knowing consumers' is not that simple. It is almost impossible to predict with one hundred per cent accuracy, how consumer(s) will behave in a given situation. Marketers are interested in watching people shopping, flirting, parading, playing, entertaining, as they are keenly interested in the wide variety of behaviours they display. The efforts of all marketers is to influence the behaviour of consumers in a desired manner. The success or failure in this pursuit determines the difference between success and failure of marketing efforts or even the business itself.

Consumer behaviour explains the reasons and logic that underlie purchasing decisions and consumption patterns; it explains the processes through which buyers make decisions. Consumer Behaviour may be defined as "the interplay of forces that takes place during a consumption process, within a consumers' self and his environment. This interaction takes place between three elements viz. knowledge, affect and behaviour; it continues through pre-purchase activity to the post purchase experience; it includes the stages of evaluating, acquiring, using and disposing of goods and services". The "consumer" includes both personal consumers and business/industrial/organizational consumers.

Definitions

1. "The behaviour that consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs."- **Schiffman and Kanuk**

2. "…..the decision process and physical activity engaged in when evaluating, acquiring, using or disposing of goods and services."- **Loudon and Bitta**

3. "The study of consumers as they exchange something of value for a product or service that satisfies their needs"- **Wells and Prensky**

4. "Those actions directly involved in obtaining, consuming and disposing of products and services including the decision processes that precede and follow these actions".- **Engel, Blackwell, Miniard**

5. "The dynamic interaction of effect and cognition, behaviour and the environment by which human beings conduct the exchange aspects of their lives" - **American Marketing Association**

By analysing the above definition, it reveals that the study includes within its purview, the interplay between cognition, affect and behaviour that goes on within a consumer during the consumption process: selecting, using and disposing off goods and services.

i. **Cognition:** This includes within its ambit the "knowledge, information processing and thinking" part; It includes the mental processes involved in processing of information, thinking and interpretation of stimuli (people, objects, things, places and events). In our case, stimuli would be product or service offering; it could be a brand or even anything to do with the 4Ps.

ii. **Affect:** This is the "feelings" part. It includes the favourable or unfavourable feelings and corresponding emotions towards stimuli (towards a product or service offering or a brand). These vary in direction, intensity and persistence.

iii. **Behaviour:** This is the "visible" part. In our case, this could be the purchase activity: to buy or not to buy (again specific to a product or service offering, a brand or even related to any of the 4 Ps).

13.5 ORGANIZATIONAL BUYER VERSUS INDIVIDUAL BUYER

The obvious difference between industrial or institutional markets and consumer markets is that, instead of purchases being made for individual consumption industrial markets are made for business use. There are several factors that differentiate consumer markets and their buying behavior from organizational market and their buying behavior. The key factors of differentiation are:

1. **Market Structure and Demand:** The distinguishing factors of market structure and demand are as follows:

➢ In organizations, buyers are more geographically concentrated than consumer markets.

➢ Organizational buyers are fewer in number but they are bulk buyers compared to individual buyers.

➢ Organizational buyer markets are either vertical or horizontal. In vertical structures they cater only one or two industries, whereas in horizontal structure the buyer base is too broad.

➢ Organizational demand is derived from consumer demand. The nature of the demand is fluctuating and inelastic.

2. **Buyer Characteristics:** The distinguishing factors of buyer characteristics are as follows:

➢ Many individuals or group involvement is seen in decision making process.

➢ Organizational buyers are quite knowledgeable and professional.

➢ The buying motive is mostly rational than individual buyer.

3. **Decision Process and Buying Patterns:**The major differences are as follows:

➢ In organizational buying lot of formalities like proposals, quotations, procedures are to be followed unlike consumer buying.

➢ Decision process is much complex with high financial risk, technical aspects, multiple influencing factors etc.

➢ Organizational buying requires more extensive negotiation over larger time period than consumer buying.

13.6 NATURE OF CONSUMER BEHAVIOUR

i) **Process:** Consumer behaviour is a systematic process relating to buying decisions of the customers. The buying process consists of the following steps;

a) Need identification to buy the product

b) Information search relating to the product.

c) Listing of alternative brands.

d) Evaluating the alternative (cost-benefit analysis)

e) Purchase decision.

f) Post-purchase evaluation by the marketer.

ii) Influenced by various factors: -Consumer behaviour is influenced by a number of factors. The factors that influenced consumer are as follow; marketing, personal, psychological, situational, social, cultural etc.

iii) Different for different customers: -All consumers do not behave in the same manner. Different consumers behave differently. The difference in consumer behaviour is due to individual factors such as nature of the consumer's life style, culture, etc.

iv) Different for different products: -Consumer behaviour is different for different products. There are some consumers who may buy more quantity of certain items and very low/no quantity of some other items.

v) Varies across regions: -The consumer behaviour vary across states, regions and countries. For instance, the behaviour of urban consumers is different from that of rural consumers. Normally, rural consumers are conservative (traditional) in their buying behaviour.

vi) Vital for marketers: -Marketers need to have a good knowledge of consumer behaviour. They need to study the various factors that influence consumer behaviour of their target customers. The knowledge of consumer behaviour enables marketers to take appropriate marketing decisions.

vii) Reflects Status: -Consumers buying behaviour is not only influenced by status of a consumer, but it also reflects it. Those consumers who own luxury cars, watches and other items are considered by others as persons of higher status.

viii) Result in spread-effect: -Consumer behaviour has a spread effect. The buying behaviour of one person may influence the buying behaviour of another person. For instance, a customer may always prefer to buy premium brands of clothing, watches and other items etc. this may influence some of his friends, neighbours, colleagues. This is one of the reasons why marketers use celebrities like Sharuk khan, Sachin Tendulkar to endorse their brands.

ix) Improves Standard of Living: -Consumer buying behaviour may lead to higher standard of living. The more a person buys the goods and services, the higher is the standard of living.

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

13.7 SCOPE OF CONSUMER BEHAVIOUR:

The study of consumer behaviour deals with understanding consumption patterns and behaviour. It includes within its ambit the answers to the following:

'What' the consumers buy: goods and services

'Why' they buy it: need and want

'When' do they buy it: time: day, week, month, year, occasions etc.

'Where' they buy it: place

'How often they buy' it: time interval

'How often they use' it: frequency of use

The scope of consumer behaviour includes not only the actual buyer but also the various roles played by him/ different individuals.

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

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

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

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

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

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

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

13.8 APPLICATION OF CONSUMER BEHAVIOUR:

An understanding of consumer behaviour is necessary for long term success and survival of a firm. It is viewed as the edifice of the marketing concept, an important orientation in marketing management.

According to the marketing concept, the marketer should be able to determine needs and wants of the target segment and provide product and service offerings more effectively and efficiently than competitors. It is essentially a customer-centred philosophy, which aims at understanding customer needs and wants, providing the right product and service, and deriving customer satisfaction; "make what you can sell" rather than "sell what you make."

An understanding of the study of consumer behaviour helps formulate appropriate marketing strategies for a firm keeping in view the consumer and his environment. It has a number of applications; the main application bases are as follows:

i) Analyze the environment:

The knowledge of consumer behaviour can be applied to help identify opportunities and fight threats. The opportunities could be in terms of newer customers, newer markets, unfulfilled needs and wants (through a study of consumer individual determinants and other environmental influences). The threats could be fought by developing and implementing appropriate marketing strategies to best fit the environment. The marketing strategies need to be dynamic and constantly evolving keeping in view the uncertainty in the environment; Environmental uncertainty is a function of complexity and dynamism. Complexity is defined in terms of the number, strength and interrelatedness of the various factors in the environment that a firm has to deal with. Dynamism relates to how quickly the changes take place in the environment.

ii) Segmentation, targeting and positioning:

The study of consumer behaviour may be applied to segment the market, select the target market and position the product or service offering. Identifying the target segment, understanding their needs, providing the right product and service offering and communicating about the offering – all of these help a marketer succeed in the long term and ensure his survival and success in a changing environment.

a) Segment the market: The marketer needs to identify distinct customer groups with needs and wants, classify them on basis of descriptive characteristics and behavioural dimensions. The descriptive characteristics may take forms of age, gender, income, occupation, education, family size, family life cycle, gender, lifestyle, personality, religion, generation, geography, nationality, and social class. The behavioural dimensions take forms of benefits, uses, use occasion, usage rates, and loyalty status.

b) Select target market: The marketer then selects one or more markets to enter. The segment(s) that should be targeted should be viable; there should be a fit between the market attractiveness and the company's objectives and resources. The marketer would be able to assess the viability of a segment on the basis of the following criteria, viz., measurability, substantial ability, accessibility, differentiability, and actionability.

c) Position: the product offering in the mind of the customers: The marketers should be able to communicate the distinct and/or unique product characteristics.

iii) Designing the Marketing Strategy:

There exists an interrelation between the Consumer, the Environment and the Marketing strategy.

a) Consumer: The consumer has his needs and wants as well as product preferences; Thus, there exists an interplay of Cognition (knowledge about products and alternatives), Affect (feelings of favourableness and unfavourableness) and Behaviour (action: buy or not to buy).

b) **Environment:** This refers to forces in the environment, which make the environment complex and dynamic.

c) **Marketing strategies:** This implies setting up of goals and then achieving them through the design of an appropriate marketing mix.

The Marketing Strategy should be designed to influence consumers (Cognition, Affect and Behaviour) and be influenced by them. It should be flexible and ever evolving with changes in the customer needs and wants; as well as, changes in the environment in which it operates. The knowledge of consumer behaviour can be applied to develop a "best fit" between consumer needs and wants, the environment in which the firm operates; and, the firms' goals and objectives.

iv) **Designing the Marketing Mix:**

The study of consumer behaviour may be applied to design the 4 Ps.

a) **Product:** The term product includes both tangible products and intangible services. The issues to address consist of name (brand), size, shape, features, labelling, packaging, accessories and supplementary products, terms of sale and services, after sales etc.

b) **Price:** This includes the pricing of the product offering. The major components include, form of payment, terms and conditions of payment, discounts, price sensitivity, differential prices and customer reaction, imagery (price increase and customer reaction, price decrease and customer reaction).

c) **Place and Distribution:** This includes the marketing channel, and comprises decisions regarding choice of channel (direct or indirect), location, accessibility and availability of product offering, wholesaling, retailing, logistics etc.

d) **Promotion:** This includes marketing communication, and the major issues comprise decisions on communication/promotion mix, the message and media strategy (the content, appeal and context).

v) Application in Governmental and Non-profit Organizations and Social Marketing:

The knowledge of consumer behaviour finds relevance even in Governmental and Non-profit Organizations and Social Marketing. Governmental and Non-profit Organizations have the society as its customers and need to understand them so as to be able to serve them better.

Social marketing involves propagation of ideas; attempts at such circulation and spread of ideas for moral and social upliftment can be more successful if there is a proper understanding of the these consumers (i.e., the public and society)

13.9 IMPORTANCE OF CONSUMER BEHAVIOUR

A) Importance of Consumer Behaviour to business managers

The main purpose behind marketing a product is to satisfy demands and wants of the Consumers. Study of consumer behaviour helps to achieve this purpose. As consumers are the most important person for marketer or sales person, therefore it is important for them to consider the likes and dislikes the consumers so that they can provide them with the goods and services accordingly (Solomon, 2009). The more careful analysis helps in more exact prediction about the behaviour of consumers of any product or services. The study of consumer behaviours helps business manager, sales person and marketers in the following way.

- To design the best possible product or service that fully satisfies consumer’s needs and demands.
- To decide where the service or product would be made available for easy access of consumers.
- To decide the price at which the consumers would be ready to buy that product or service.
- To find out the best method of promotion that will prove to be effective to attract customers to buy a product.

- To understand why, when, how, what and other factors that influence buying decision of the consumers.

B) Importance of Consumer Behaviour to Marketers

It is important for marketers to study consumer behaviour. It is important for them to know consumers as individual or groups opt for, purchase, consumer or dispose products and services and how they share their experience to satisfy their wants or needs (Solomon, 2009). This helps marketers to investigate and understand the way in which consumers behave so that they can position their products to specific group of people or targeted individuals.

In regard to the marketer's view point, they assume that the basic purpose of marketing is to sell goods and services to more people so that more profit could be made. This principle of making profits is heavily applied by almost all marketers. Earlier, the marketers were successful in accomplishing their purpose. However, today, as the consumers are more aware about the use of product and other information of the product, it is not easy to sell or attract customer to buy the product (Kumar, 2004). Thus, in order to sell a product or service or to convince consumers to buy product, the marketers have to undergo through proper research to win them over.

The following are some of the points discussed that explains the value to marketers of understanding and applying consumer behaviour concepts and theories.

1. To understand Buying Behaviour of consumers
2. To create and retain customers though online stores
3. To Understand the factors influencing Consumer's buying Behaviour
4. To understand the consumer's decision to dispose a product or services
5. To increase the knowledge of sales person influence consumer to buy product
6. To help marketers to sale of product and create focused marketing strategies

1. To understand Buying Behaviour of consumers

The study of consumer behaviour helps marketers to recognize and forecast the purchase behaviour of the consumers while they are purchasing a product. The study of consumer behaviour helps the marketers not only to understand what consumer's purchase, but helps to understand why they purchase it (Kumar, 2004). Moreover, other questions like how, where and when they purchase it are also answered. The consumption and the reasons behind disposition of that particular product or services help marketers to be fully aware of the product that is marketed. The consumer behaviour studies also help marketers to understand the post purchase behaviour of the consumers. Thus, the marketers become fully aware about every phase of consumption process i.e., pre-purchase behaviour, behaviour during purchase and post purchase behaviour. Many studies in the past shows that each consumer behaves differently for a product i.e., they buy the product for different reasons, pays different prices, used the product differently and have different emotional attachments with the product (Solomon, 2009).

2. To create and retain customers though online stores

Professor Theodore Levitt says that consumer behaviour is of most importance to marketers in business studies as the main aim is to create and retain customers (Kumar, 2004). If the consumers are satisfied with the product, he or she will buy the same product again. Therefore, the product should be marketed by markers in such a way that convince customer to buy the product. Thus, creating customer and the retaining those customers are important. These can be done through understanding and paying close attention towards the consumer's behaviour while making purchase decision or buying a product in market place. Moreover, the information published on the websites largely influence the customer's buying behaviour. Such information on published sources arouse consumer to buy a product or service. Moreover, updating such information will help the consumer to retain to a product or re try the product if the product has dissatisfied them (Solomon, 2009).

3. To understand the factors influencing Consumer's buying Behaviour

It is important for marketers to consider the factors that affect the buying behaviour of consumer before entering the market. There are many factors that can influence the purchase decision of consumers such as social influence, cultural influences, psychological factors and personal factors (Super Professeur, 2011). Understanding these factors helps marketers to market the product on right time to the right consumers. For example, if marketer is marketing a product which is Halal. The marketers first consider all the factors that can influence consumers to buy Halal products, where they can target specific areas where Halal food is more sold.

The marketers need to pay attention to cultural influences such as religion, values and norms of the people or societies targeted and lifestyle of the targeted consumers. The marketers can propose different strategies that convince the targeted consumers to buy marketed products or services. Moreover, the marketers should be ascertain the factors that influence and affects purchase decision of consumers (Solomon, 2009). If the marketers failed to understand the factors that might influence consumers, they will fail to convince the consumer to purchase that product or will fail to meet the demands of consumers. Some variables cannot be directly observed (Super Professeur, 2011). In such case, thorough understanding of concepts and theories of consumer behaviour helps marketers to predict the consumer's buying behaviour to a reasonable extent. Thus, understanding consumer's behaviour to buy a product is complex and requires marketers to continuously understand and apply various concepts and theories for successful marketing.

4. To increase the knowledge of sales person influence consumer to buy product

All the products and services marketed revolve around the behaviour of consumers that how they will respond to them. Effective marketing of a product by sales people may help to deliver right product to right people. Consumer behaviour deals with the knowledge of what the consumers need and want to buy and what goods and services are available to satisfy their needs. Thus, consumer behaviour deals with particularly with the behaviour of people i.e., consumers. It is important for sales person to be fully aware of the customer's requirement so that he or she could clearly communicate the benefits of the product to the customers. Moreover, the sales person by understanding consumer's demand and need for a product can sell goods that are most closely related to their requirement. Besides understanding consumer behaviour, the sales person should also have command over their spoken language. This is because any miscommunication could harm brand reputation. Moreover, if the consumers have more knowledge about the product than the sales person, the sales might fail to meet their targets. Thus, analysing consumer's behaviour and knowledge for effective marketing of products by sales people are important. The sales people must be fully aware of the consumer's behaviour in different situations so that they could help them in meeting their demands and satisfaction (Solomon, 2009).

5. To understand the consumer's decision to dispose a product or services

Disposal of product involves throwing away of products by the consumers (Solomon, 2009). This behaviour of consumer is very complex and requires more importance by the marketers. Understanding the consumer's behaviour about how and when consumers dispose a product, the marketers or the companies can position themselves so that this behaviour could be limited (Raghavan, 2010).If the product or services that have failed to deliver required or expected satisfaction by the consumers, the product is disposed by the customers. For this, some marketers track the follow up from the consumers so that they can gauge the reason behind failure of the product. Moreover, in order to retain customers, some marketers or organizations offer customers with services like exchange of product, money back guarantee etc. Although, these tools are helpful to influence post purchase behaviour of consumers to some extent.

The method of disposition varies transversely from product to product. Some of the factors that lead to consumer's behaviour to dispose a product include psychological characteristics, situational factors or the intrinsic factors of product. The psychological characteristics include attitude, mood, emotion, social class, social conscience, perception etc. The situational factors such as urgency, functional use, fashion change etc. and intrinsic factors such as product style, durability, reliability, adaptability, replacement cost, colour, size etc. can lead to consumer's decision to dispose a product (Rao, 2011).

For example, the personal computers sold previously were largely demanded by consumers. However, due to change in size, advancing technology, affordability, convenience; most people have switched to laptops and mobiles with operating systems have disposed personal computers to a greater extent.

6. To help marketers to optimize sale of product and create focused marketing strategies

The theories and concepts of Consumer behaviour help marketers to optimize their sales and to create efficient marketing strategies. Moreover, these theories provides marketers with information on the consumer's behaviour to spend money, likely causes that incline them to spend more money on a product, and these two information help to plan strategies that should be practiced by the marketers for successful marketing of a product (Goessl, 2011). Studying different consumer behaviour theories helps to understand the different choices that consumers make to buy a product. There are some factors that need to be carefully analysed by the marketers which help them to increase their sales and develop effective marketing strategies. These factors are discussed as follows:

a) **Consumer's rational behaviour:** It is foremost important for a marketer to understand the situations where consumers behave rationally. Many consumer behaviour theories suggest that the consumers want to get maximum benefit and satisfaction from the product by spending minimum amount of money. This shows that consumers do not spend all their money to buy a product and keeps a certain amount of money as their savings. However, on the other hand, the consumers having limited money spend all their money on purchase of their basic needs such as shelter, food and clothing. Thus, the marketer must carefully analyse these two situations of consumers before marketing a product or services.

b) **Consumer's taste and preferences:** Understanding consumer taste and preferences helps marketers to revamp their product so that they could meet customer satisfaction. These factors may change from time to time. The change in consumer's behaviour affecting by these factors should be carefully monitored. The marketers need carefully understand the consumer's interest in the products by breaking down the targeted consumers into demographics, like age, occupation and location as they contribute investigating information about consumer preferences.

c) **Price of Products:** Prices of products are a widely discussed factor in consumer behavior theories. The theories suggest that marketers should keep their prices low without affecting the quality to attract consumers. This is because consumers go mostly for products that are of low price but satisfies their demand (Open Learning World, 2011).

d) **Features of Product:** Increased number of features offered by the product tends to increase the price of products. In such case, consumers go for added features in a product at affordable price. Therefore, the markers design their products in such a way that the product gives maximum value or features to consumers at affordable price (Goessl, 2011)

e) **Consumer's knowledge about a product:** The marketer must know to what extent the consumers have knowledge about a product. Mostly, consumers select products with which they are familiar with. For example, if the consumers are aware of the health effects of eating high fat food or fast food, marketing of such a product to health conscious consumer will end up in failure.

13.10 TYPES OF CONSUMERS

The term Consumer , as we know has been constantly evolving in the marketing mind. So who is the consumer of the 21^{st} cemtury?

According to the marketer:

Person + The Act of Purchasing Goods & Services = **Customer**

Person + The Act of Purchasing Goods & Services + The Act of Self Consumption = **Consumer**

The consumer has evolved through the six stages due to the historical developments in marketing and advertising.

A) **The Marginalised Consumer**: In the authoritarian model, consumers consume what manufacturers produce. Manufacturers feel that they know better what the consumers should buy- a typical seller's market, where even the quantity of goods that should be bought by consumers is apportioned.

B) **The Statistical Consumer:** During the late 1950's, the focus in the market slowly shifted from sellers to buyers. The importance of gauging consumer information gathering and needs became the norm. The information however was collated and judged based on the law of averages. This revealed the desires and wants of an average consumer, which was incorrect because no two consumers are the same. The marketer tended to use economic criteria to arrive at the price. Rationality as thought to be the deciding factor was untrue.

C) **The Secretive Consumer:** The secretive consumer had many hidden motives that had to be uncovered and it was the marketer's job to find out his attitudes, behavior and aspirations. Marketers used psychoanalysis, sociology and social anthropology to understand more about 'why' 'what' and 'how' of the consumer. Consumer Behaviour and psychology became the tool used by marketers.

D) The Sophisticated Consumer: Towards the end of the 20^{th} Century, emerged the modern consumer-sophisticated who appreciates the finer aspects of life. He is fond of advertising and responds to commercials in an enthusiastic manner.

E) The Satellite Consumer: With the growing importance of the consumer, brands are being built around them. It is apt to term the consumer as a moon around which the brand- like a satellite- revolves. Marketers focus on the brand strength and brand proposition, building brand equity in such a manner that the consumer feels the gravitational pull of the brand and is drawn towards it.

F) The Multi-headed Consumer: According to the Need-States Theory (Wendy Gordon), there is a greater need to study the choice pattern and influences and other differences when the same consumer makes different occasions.

Just as consumers have evolved, along with their needs, desires and aspirations, so has marketing to satisfy them. The consumer and the brand are not fixed points in fixed space. The fact that they are multiplexically dynamic and the persuader marketers are continually on their toes.

13.11 SUMMARY

Today when the market is flooded with many me-too products, it is highly imperative that marketers make products to suit the uniqueness and diversity of consumer's tastes and preferences. Consumer Behaviour can be said to be the study of how individuals make decisions on how to spend their valuable resources (time, money, effort) on various consumption related items. The study of consumer behaviour helps them in analysing different factors that has influence on the buying decision of the consumers. If the marketers failed to understand these factors, they would not meet their targets. The subject of Consumer Behaviour is viewed as the edifice of the marketing concept, an important orientation in marketing management. The knowledge of Consumer Behaviour helps the marketer understand and predict the consumption patterns and consumption behaviours of people. It helps them gain insights as to why a consumer behaves differently to another consumer; as well as, why a consumer behaves differently in different times and buying situations. The study helps them understand the internal (individual determinants) and external (environmental factors) forces that impel people to act out different consumption patterns and behaviours.

13.12 GLOSSARY

- **Cognition:** It includes the mental processes involved in processing of information, thinking and interpretation of stimuli (people, objects, things, places and events).
- **Consumer**: Any individual who purchases goods and services from the market for his/her end-use
- **Consumer Behaviour:** The interplay of forces that takes place during a consumption process, within a consumers' self and his environment.
- **Marketing Mix:** The set of marketing tools that the firm uses to pursue its marketing objectives in the target market.

13.13 SELF-ASSESSMENT QUESTIONS

1. What do you mean by consumer behavior?

Ans ____

____

____

2. What do you mean by consumer?

Ans ____

____

____

3. What are the different types of consumers?

Ans ____

____

____

4. Discuss the scope of consumer behavior?

Ans ____

13.14 LESSON END EXERCISE

1. Discuss the importance of consumer behavior?

Ans

2. Discuss the application of consumer behavior?

Ans

3. Discuss the difference between organizational buyer and individual buyer.

Ans

4. Discuss the nature of consumer behavior?

Ans

13.15 SUGGESTED READINGS

- Kotler Philip, Armstrong Gary, Principles of Marketing, Sixth edition, Prentice Hall.

- Stanton William J, Walker Bruce, Fundamentals of Marketing, Tenth edition, Mc Graw Hill. J.Taylor Sims, J.Robert Foster, Marketing Channels: Systems and Strategies, Harper and Row, New York.
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C. No. : BM-401	UNIT V
SEMESTER : IV	LESSON : 14

Models of Consumer Behaviour

Structure

14.1 INTRODUCTION

A model is an abstract conception of the real world situation. They are described as the perception or diagramming of a complex or a system. A model is very often referred to as an abstract representation of a process or relationship. Models are used primarily to develop a device or medium to analyze or represent relationships among concepts. **Lazar** has identified the following five uses of marketing models:

1. To provide a frame of reference for solving marketing problems.
2. To play an explanatory role in relationships and reactions.
3. To provide a useful aid in making predictions.
4. To help in the construction of a theory.
5. To stimulate the creation of hypotheses that can be validated and tested.

14.2 OBJECTIVE

After studying this lesson, you should be able to:

- Understand the different models of consumer behavior.
- Factors influencing consumer behavior.

14.3 MODELS OF CONSUMER BEHAVIOUR

Each model discussed in this lesson is a comprehensive model although each approaches the problem of consumer decision making somewhat differently. The Nicosia model is being characterized as a communication model that begins with a firm's communication to the consumer via advertising and culminates with consumer feedback to the firm. The Howard Sheth model is a learning model designed to explain the brand choice of an individual faced with several choice alternatives.

14.4 ECONOMIC OR MARSHALLIAN MODEL

This theory was first advanced by the economists. They gave formal explanation of buyer behavior. According to this theory the consumers are assumed to be rational and conscious about economic calculations. They follow the law of marginal utility. An individual buyer seeks to spend his money on such goods which give maximum satisfaction (utility) according to his interests and at relative cost. The buying behavior is determined by the income – its distribution and level - affects the purchasing power. The economic factors which affect the buyer behavior are:

1. **Disposable Personal Income:**

   The economists attempted to establish relationship between income and spending. Disposable personal income represents potential purchasing power that a buyer has. The change in income has direct relation on buying habits. Personal consumption spending tends to both rise and fall at a slower rate than what disposable personal income does. Disposable of personal income depend on various situations such as:

   a) **Size of family income**

      Size of family and size of family income affect the spending and saving patterns. Usually large families spend more and small families spend less in comparison.

   b) **Income Expectation**

      The income expected to be got in future has direct relation with the buying behavior. The expectation of higher or lower income has a direct effect on spending plans.

   c) **Tendency to Spend and to Save**

      This is related to the habit of buyers to spend or save out of the disposable income. If the buyers give importance to the present needs, they dispose off their income. And buyers spend less if they give importance to future needs.

   d) **Liquidity of Funds**

      The present buying plans are greatly influenced by liquidity of assets readily convertible into cash. For example, readily marketable shares and bonds, bank balances come into this category. However, this convertible assets influence offer freedom to buyer, who actually buys with current income.

e) **Consumer Credit**

Facility of consumer credit system - hire purchase, installment purchase etc., plays an important role in purchase decision. A buyer can command more purchasing power. 'Buy now and pay later' plays its role effectively in the rapid growth of market for car, scooter, washing machine, furniture, television and so on.

The economic model of consumer behavior is uni-dimensional. It is based on certain predictions of buying behavior. They are:

a. Lower the price of the product, higher the sales

b. Lower the size of the substitute product, lower the sale of the product

c. Higher the real income, higher the sales of this product

d. Higher the promotional expenses, higher are the sales

However, 'lower the price of a product, higher the sales' may not hold good as buyer may feel that the product is sub-standard one.

The behavioral researchers believe that this model ignores all the other aspects such as perception, motivation, learning, attitude and personality, and socio-cultural factors. Further, it is also observed that consumer also gets influenced by other marketing variables such as products, effective distribution network and marketing communication. Hence, it is felt that the economic model is inadequate. It assumes that market is homogeneous where markets are assumed to be heterogeneous.

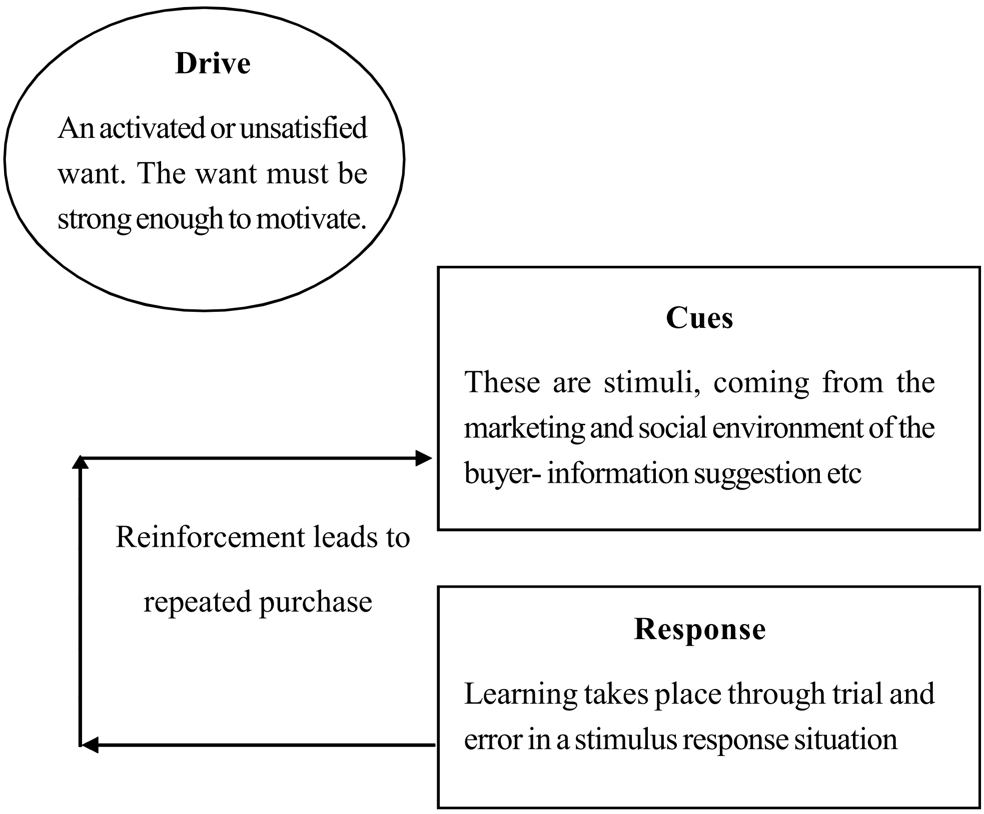
14.5 LEARNING OR PAVLOVIAN MODEL

Psychology has contributed lot to the marketers to understand the buyers. It explains how consumers learn about a product and the way they can recall from the memory, and the development of buying habits. All theories of buyer's behavior have been primarily based on learning, viz., Stimulation-Response or S-R model, this theory of learning is explained as a process of repetition, motivation, conditioning and relationship. Repetition improves learning. For example, when advertisements are repeated, people may be able to understand further about the product. This is aimed at repeated advertisements for drawing the attention and interest of the people. According to stimulus- response theory learning involves the following steps.

a) **Drive:** It is a strong internal stimulus which impels action and when it is directed towards a drive reducing object, it becomes a motive. A drive thus motivates a person for action to satisfy the need. Drives may be primary-thrust, hunger etc., and secondary - desire for money, pride etc.

b) **Cues:** These are weak stimuli. They determine when the buyer will respond.

c) **Response:** Response is the feedback reaction of the buyer. It is an answer given to drive or cue. The individual has to choose some specific response in order to fulfill the drive or the need which was acting as a stimulus. For example, a hunger drive can be satisfied by visiting a shop known through an advertisement and buying the readymade food product. If that experience is satisfactory, this response of satisfaction is strengthened.



Drives, Cues, and Responses

Thus this learning of links which mean stimulus, cue and response results in habits. Along with this, attitudes and beliefs are also learnt. As it becomes a habit, the decision process for the individual becomes routine affair. Thus, learning model has the following prediction:

a. Learning refers to change in behavior brought about by practice or experience. Everything one does or thinks is learnt.

b. Product features such as price, quality, service, brand, package etc., acts as cues or hints influencing consumer behavior.

c. Marketing communications such as advertising, sales promotion etc., also act as guides persuading buyer to purchase the product.

d. Response is decision to purchase.

14.6 PSYCHOANALYTICAL MODEL

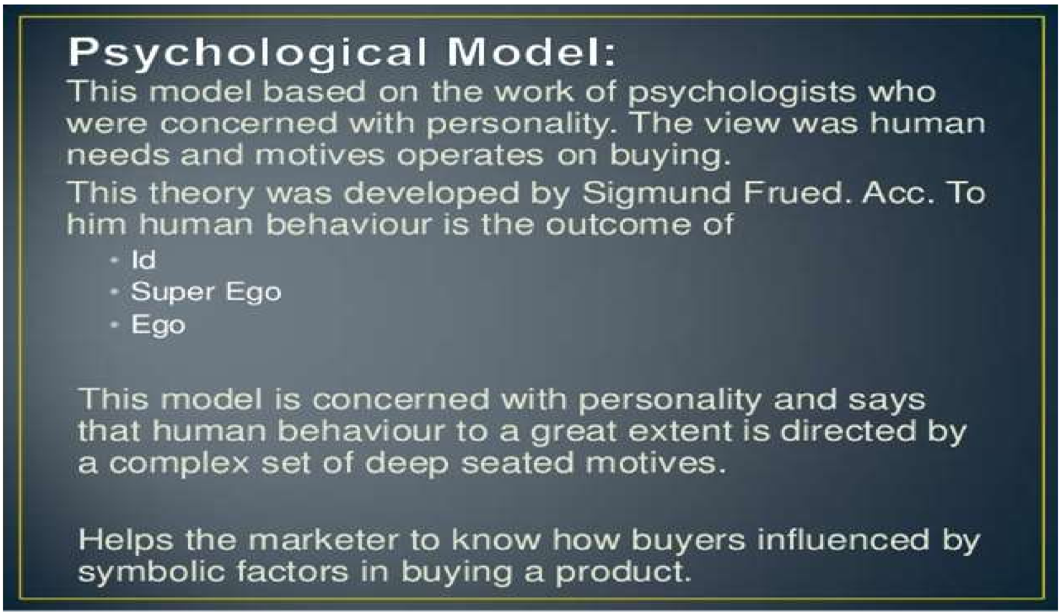
Sigmund Freud developed this theory. According to him human personality has three parts:

1. The **Id**, is the source of all mental energy that drives us to action.

2. The **Super Ego**, the internal representation of what is social is approved conscience.

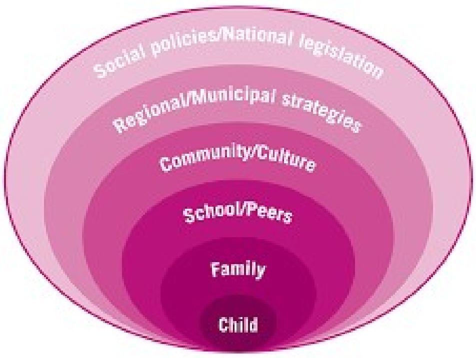
3. The **Ego**, the conscious director of id impulses for finding him satisfaction in socially acceptable manner.

The buyer behavior depends upon the relative strength of the three elements in the personal ability. Motivational research has been involved in investigating motives of consumer behavior so as to develop suitable marketing implications accordingly. This approach has been used to generate idea for developing- design, features, advertising and other promotional techniques.



14.7 SOCIOLOGICAL MODEL

According to this theory the individual decision and behavior are quite often influenced by the family and the society. He gets influenced by it and in turn also influences it in its path of development. He plays many roles as a part of formal and informal associations or organizations i.e., as a family member, employee of a firm, member of professional forum, and as an active member of an informal cultural organization. Hence he is largely influenced by the group in which he is a member. For example, the decision may be made by one, actual buying may be done by another, and the product is used by yet another member of the family. Here, a mother takes a decision to buy a tiny cycle for her child, the cycle is purchased by the father and the user is the child.



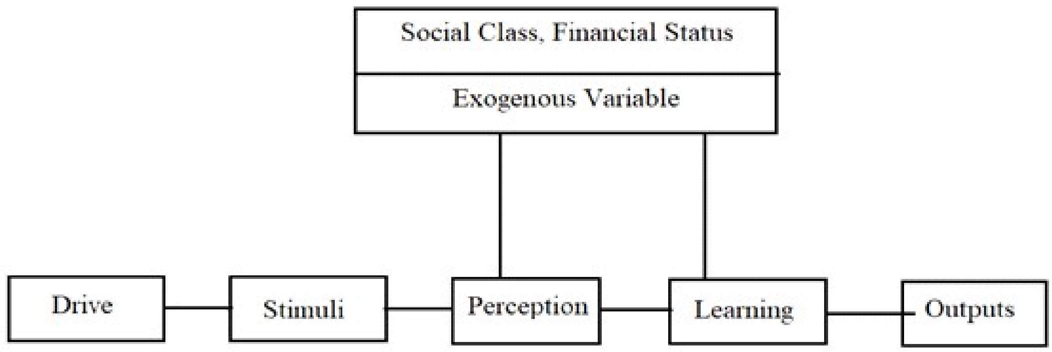
14.8 HOWARD - SHETH MODEL

The Howard - Sheth model shows the processes and variables influencing the buyer behavior before and during the purchase. It emphasizes three key variables- perception, learning and attitude formation. It explains the way consumers compare available products in order to choose the best which fits their needs and desires. Consumers learn by finding out the relevant information about products through two sources of information:

a. Social sources

b. Commercial sources

The gathered information is used for comparison of alternative brands according to various choice criteria. The basic structure of the model is given below



Basic Structure of Buying Behavior

The following predictions can be made about the model

i. Stimuli or perceived learning occurs and results in output

ii. Output occurs on the basis of the perception and learning non- observable variables.

iii. Exogenous or outside variables such as social class, financial status etc., are used to predict perception and learning

This model describes the buying behavior in various stages

Stage 1: Motives are based on needs demanding satisfaction. They lead to goal directed behavior satisfaction. Motives ignite a drive to search and secure information from alternatives. Stimulus- input variables are marketing programme and social environment.

Input or stimuli:

I. Product themselves in the market

II. Commercial information on them, say quality, price, availability and distinctiveness

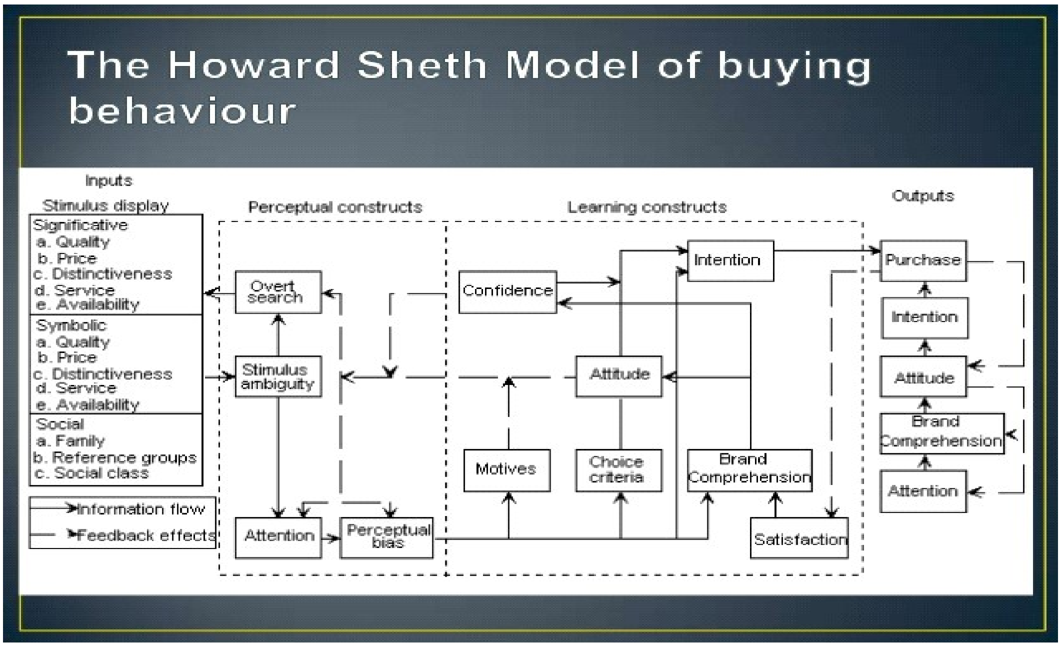
III. Product information obtained from friends, acquaintances and reference groups.

Thus, a number of products or brands are perceived and considered by the consumers mind. In this manner the resulting perception is selected.

Stage 2: While evaluating, many brands are eliminated or left out for further consideration. Now, only few will receive further consideration. Each will have plus / minus points. These choice considerations act as connecting links between motives and selected brands choice consideration which provide a structure to motives and the process of learning and experience. These considerations develop as criteria/rule to decide on the goods that have the prospects of yielding maximum satisfaction. The market must offer a good marketing-mix that is used by the buyer to influence the choice criteria.

Stage3: The choice criteria gives rise to predisposition- the relative preference in favour of particular brand. Sudden hindrances may sometimes stop the process. This may be in form of price, inadequate supply of brand, external variables such as financial status, time pressure etc. If they do not occur, the preference results in a response output such as attention, comprehension, attitude, buying intention and preferably actual purchase.

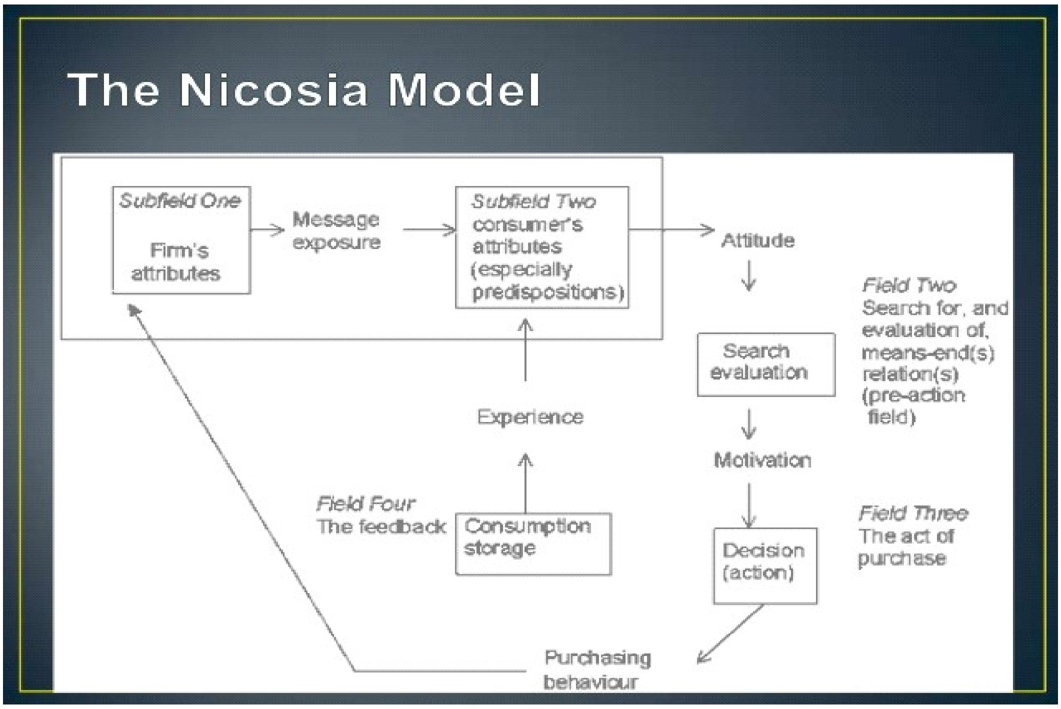
Stage 4: Feedback of purchase experience is sent to the buyer which shows if the actual satisfaction was equal to the expected satisfaction. Satisfaction leads to repurchase, and repeat orders indicate brand loyalty. The marketer is interested in this outcome. Buying behavior is influenced by motives (rational / emotional curiosity) attitudes, perception, social factors and personal factors.



Thus models of buyer behavior are generally based on certain factors internal to the consumer e.g., learning, personality, attitudes and perceptions. The external factors may be in the form of group, cultural and inter-personal influences and effects advertising and communications. The action of individuals is the result of both internal / external factors and interactions to the consumer decision making processes. The modern concepts of the buying behavior state that the behavior is the result of interaction between people centered factors and situation centered factors.

14.9 NICOSIA MODEL

The marketer is expected to be aware of the person centered factors such as buyer motivation, learning, perceptions, attitudes, values and beliefs. Similarly, marketers must be aware of social environment and internal personal interactions influencing the buyer behavior.



The buyer behavior model is taken from the marketing mans point of view. It is also called systems model as the human is analysed as a system, with stimuli as the input to the system and the human behavior as an output of the system. Francesco Nicosia, an expert in consumer motivation and behavior has developed this in 1966. He tried to explain buyer behavior by establishing a link between the organization and its prospective consumer. Here the messages from the company initially influence the predisposition of the consumer towards the product and service. Based on the situation, the consumer will have a certain attitude towards the product. This may result in a search for the product or an evaluation of the product attributes by the consumer. If this step satisfies the consumer, it may result in a positive response, with a decision to buy the product or else the reverse may occur.

The Nicosia model divides the above activity explanation into four basic areas:

Area 1: Field one has two sub areas-the consumer attributes and the firms attributes. The advertising message from the company will reach the consumers attributes. Certain attributes may develop sometimes depending upon the way the message is received by the consumer. The newly developed attribute becomes the input for area 2.

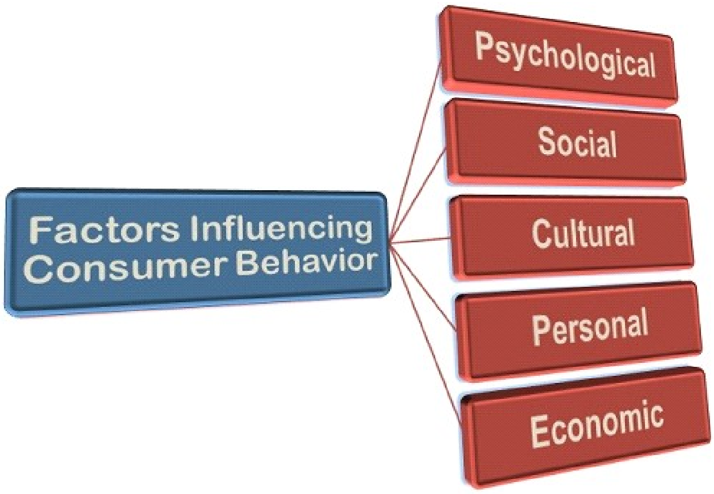
Area 2: This area is related to the search and evaluation undertaken by the consumer of the advertised product and also to verify if other alternatives are variable. If the above step motivates to buy the product / service, it becomes the input for the third area.

Area 3: This area explains as how the consumer actually buys the product.

Area 4: This is related to the uses of the purchase items. This can also be used as an out put to receive feedback on sales results to the firm.

14.10 FACTORS INFLUENCING CONSUMER BEHAVIOUR

The marketers try to understand the actions of the consumers in the marketplace and the underlying motives for such actions. These motives are the factors that influence the consumer behavior. These are:



All factors which determine the buying or consumer behaviour are broadly classified into six.

a) Psychological factors

b) Social factors,

c) Cultural factors,

d) Personal factors,

e) Economic factors and

f) Environmental factors.

a) **Psychological Factors**: The following are the important psychological factors:

i) **Consumer Needs and Motivation**: All buying decisions start with need recognition. People always seek to satisfy their needs. When need is not satisfied it drives people to satisfy that need. Then the need becomes a motive. Thus motive arises from needs and wants. The force that converts needs into motives is called motivation.

ii) **Perception**: It is the process of selecting, organizing and interpreting information in order to give meaning to the world or environment we live in. the way the consumers display selective attention, distortion or retention motivates marketers to design the product, package, promotional themes etc. The marketers should understand the consumer perception and convert perception into a buying response.

iii) **Learning**: Learning is the process of acquiring knowledge. Generally, learning results in four ways- Listening, Reading, Observing and experiencing. The importance of learning theory for marketers is that they can create demand for a product by associating it with strong drives, using motivating cues and providing positive reinforcement.

iv) **Belief and Attitude**: A belief is a descriptive thought that a person holds about something. Such thoughts are based on learning, opinion or faith. For example, A consumer believes that Maruti cars are less costly and fuel efficient. Attitude means a person's feelings towards a particular object or situation.

b) **Social Factors**: The major social factors are as follows:

i) **Reference Groups**: Consumer behaviour is influenced by various groups within society known as reference groups. We have several reference groups with whom an individual associate such as friends, relatives, classmates, club memberships etc. In each groups there is an opinion leader whose style is adopted by others. Marketers often identify such opinion leaders and develop advertisement featuring them as endorsers.

ii) **Role and Status**: A person takes up many roles in different situations in his /her life. He can be son, father, husband, employee etc. Each role has a status. A person's role and status influence his general as well as buying behaviour.

iii) **Family**: Family is one of the important factors influencing buying behaviour.

c) **Cultural Factors**: Culture determines and regulates our general behaviour. The major cultural factors are as follows:

i) **Culture**: Culture simply refers to values and beliefs in which one is born and brought up. It is a set of Ideas, Customs, Values, Art and Belief that are produced or shaped by a society and passed on from generation to generation. Culture influence what we eat and wear, how we relax and where we live etc.

ii) **Sub-Culture**: It is based on religion, language, geographic region, nationality, age etc. It is a segment within a large culture that shares a set of beliefs, values or activities that differ in certain respects from those of the main or overall culture. The food habits are different in different parts of India.

iii) **Social Class**: A social class is a group of people with similar values, interest and behaviour within a society. Consumers buying behaviour is determined by the social class to which they belong rather than by their income alone. The social class is based on income, education, occupation, family history, wealth, lifestyle, area of residence etc.

d) **Personal Factors:** Personal factors are unique to a particular person. These factors include demographic factors and are as follows.

i) **Age**: Need and wants are determined by age. So buying changes with age, Taste for food, clothing and recreation etc. changes with age.

ii) **Stages in the Life Cycle**: People buy different goods during different life cycle stages. Life cycle of an individual refers to the different phases of his or her life.

iii) **Occupation and Economic Status**: Occupation influences product choice, brands beliefs etc. It determines income, buying power and status.

iv) **Life Style:** It indicates how people live, how they spend their time, how and what they choose and where they shop. It is the way people eat, drink, spend leisure time, work and so on.

v) **Personality:** Personality refers to the unique psychological characteristics of an individual. Personality of consumers influences brand preference and choice of products.

vi) **Self-Image:** Self image implies what one thinks of himself/herself .It is the way one sees himself/herself or wishes to see himself/herself or wants to be seen by others. Self-concept is an important factor to marketers in planning advertising campaign.

e) **Economic Factors:** The various economic factors which determine consumer behaviour are as follows:

i) **Personal Income:** Gross income of a person is composed of disposable and discretionary income. When disposable income rises, the expenditure on various items will increase and vice versa.

ii) **Family Income:** It is the aggregate income of all members of a family. The family income remaining after the expenditure on the basic needs of the family is made available for buying goods, durables and luxuries

iii) **Income Expectations:** If a person expects any increase in his income he will buy durables on hire purchase etc, if his future income is likely to decline he will restrict his expenditure to bare necessities.

iv) **Savings:** When a person decides to save more, he will spend less on comfort and luxuries.

v) **Liquidity Position:** If an individual has more liquid assets, he goes in for buying comfort and luxuries. **vi)Consumer Credit:** If Consumer Credit is available on liberal terms, expenditure on comfort and luxuries will increase.

f) **Environmental Factors:** The various environmental factors which determine consumer behaviour are as follows:

   i) **Political Situation:** In state monopolies, consumers have to be satisfied with a limited range of products, but in market oriented economy like that of USA, consumers have wider choice.

   ii) **Legal Forces:** Consumers make purchases within the legal framework. All purchase dealings are carried on within legal limits.

   iii) **Technological Advancements:** Technological advancements bring wide range of changes in products/ services and makes consumers go in for latest products.

14.11 SUMMARY

The heterogeneity among people across the world makes understanding consumer buying behavior an intricate and challenging task. Product motives and patronage motives play a crucial role in consumer purchases. Like individuals organizations also make many buying decisions. The major factors that distinguish it from consumer decision are Market structure and Demand, Buyer characteristics, and Decision process and buying patterns.The degree of involvement has a lot of impact on search of information, Information processing, and Transmission of information. The various models of consumer involvement help marketers to study purchase behavior across product segments.Consumers usually go through five stages in arriving at a purchase decision. In the first stage, the customer identifies an unsatisfied need. In the second stage consumer collect information about the product and brands. In a third stage, the consumer evaluates all the alternatives with the help of available information. Later in stage four, the customer makes a purchase decision. And finally in the fifth stage, consumer experiences post-purchase satisfaction or dissatisfaction. Organizational buyer has different decision making criteria. Decision making rules – Compensatory and Non compensatory – simplify the complex nature of decision making to consumers.

Understanding consumer behavior is the basis of the formulation of marketing strategies. Consumer behavior studies help in designing effective marketing strategies like, Marketing-mix Strategy, Market Segmentation Strategy, Product Positioning Strategy, and Marketing

Research. As consumer behavior is very complex to understand, consumer models aid marketer to put their effort to understand in right direction. The models –Economic, Learning, Psychoanalytic, Sociological, Howard-Sheth and Nicosia enables marketers to understand and predict consumer behavior in the market place.

14.12 GLOSSARY

- **Culture:** It refers to values and beliefs in which one is born and brought up.
- **Ego**: It is the conscious director of id impulses for finding him satisfaction in socially acceptable manner
- **Id**: It is the source of all mental energy that drives us to action.
- **Model:** It is an abstract conception of the real world situation.
- **Motivation:** The force that converts needs into motives is called motivation.
- **Perception**: It is the process of selecting, organizing and interpreting information in order to give meaning to the world or environment we live in.
- **Personality:** It refers to the unique psychological characteristics of an individual.
- **Super Ego**: It is the internal representation of what is social is approved conscience.

14.13 SELF ASSESSMENT QUESTIONS

1. Discuss the Howard Sheth Model.

Ans ____

____

____

2. Discuss in brief Nicosia Model of consumer behaviour.

Ans ____

____

____

3. What are the factors influencing consumer behaviour?

Ans

4. Discuss the Pavlovian model.

Ans

14.14 LESSON END EXERCISE

1. What do you mean by model?

Ans

2. What do you mean by drives, cues, and response?

Ans

3. Discuss the psychoanalytical model of consumer behaviour.

Ans

4. What do you mean by Id, super ego and ego?

Ans

14.15 SUGGESTED READINGS

- Kotler Philip, Armstrong Gary, Principles of Marketing, Sixth edition, Prentice Hall.
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C. No. : BM-401	**UNIT V**
SEMESTER : IV	**LESSON : 15**

Consumer Decision Making Consumerism

Structure

15.1 INTRODUCTION

Everyday we are involved in taking decisions related to the various aspects of our lives. Usually such decisions are taken automatically without the involvement of any particular decision making process. For instance say a housewife goes to purchase a mid priced range of tea like Taj Mahal, Tata Tea, Red Label, and so on. The process by which a person is required to make a choice from various alternative options is referred to as decision making. The marketing environment has been evolving, become competitive and more of a buyer' sides market, with each marketer trying to adopt unique strategies which can result in positive decision making from the consumer's side. While the customer gains from having to decide and select from a wide array of choices, the marketer will benefit from a substantial increase in sales when the consumer decides to purchase their brands.

15.2 OBJECTIVE

After reading this lesson, you should be able to

- Understand the meaning of consumer decision making.
- Understand the Indian consumer environment.
- Understand the concept of consumerism.
- Understand the Consumer Protection Act,1986.

15.3 CONSUMER DECISION MAKING PROCESS

The most important environment in which firms operate is their customer environment because the basic belief of marketing oriented company – that the customer is the centre around which the business revolves. Therefore, marketing people need to understand the processes that their customers go through when making decision. The consumer decision making process involves series of related and sequential stages of activities. The process begins with the discovery and recognition of an unsatisfied need or want. It becomes a drive. Consumer begins search for information. This search gives rise to various alternatives and finally the purchase decision is made. Then buyer evaluates the post purchase behavior to know the level of satisfaction. The process is explained below with the help of diagram.

a. Need Recognition

When a person has an unsatisfied need, the buying process begins to satisfy the needs. The need may be activated by internal or external factors. The intensity of the want will indicate the speed with which a person will move to fulfill the want. On the basis of need and its urgency, the order of priority is decided. Marketers should provide required information of selling points.

b. Information Search

Identified needs can be satisfied only when desired product is known and also easily available. Different products are available in the market, but consumer must know which product or brand gives him maximum satisfaction. And the person has to search out for relevant information of the product, brand or location. Consumers can use many sources e.g., neighbors, friends and family. Marketers also provide relevant information through advertisements, retailers, dealers, packaging and sales promotion, and window displaying. Mass media like news papers, radio, and television provide information. Nowadays internet has become an important and reliable source of information. Marketers are expected to provide latest, reliable and adequate information.

c. Evaluation of Alternatives

This is a critical stage in the process of buying. Following are important elements in the process of alternatives evaluation

i. A product is viewed as a bundle of attributes. These attributes or features are used for evaluating products or brands. For example, in washing machine consumer considers price, capacity, technology, quality, model and size.

ii. Factors like company, brand image, country, and distribution network and after-sales service also become critical in evaluation.

iii. Marketers should understand the importance of these factors with regards to the consumers while manufacturing and marketing their products.

d. Purchase Decision

Outcome of the evaluation develops likes and dislikes about alternative products or brands in consumers. This attitude towards the brand influences a decision as to buy or not to buy. Thus the prospective buyer heads towards final selection. In addition to all the above factors, situational factors like finance options, dealer terms, falling prices etc., are also considered.

e. Post- Purchase Behavior

Post-purchase behavior of consumer is more important as far as marketer is concerned. Consumer gets brand preference only when that brand lives up to his expectation. This brand preference naturally repeats sales of marketer. A satisfied buyer is a silent advertisement. But, if the used brand does not yield desired satisfaction, negative feeling will occur and that will lead to the formation of negative attitude towards brand. This phenomenon is called cognitive dissonance. Marketers try to use this phenomenon to attract users of other brands to their brands. Different promotional-mix elements can help marketers to retain his customers as well as to attract new customers.

15.4 CONSUMER DECISION RULES

These are generally referred to as information processing strategies. These are procedures that help consumers to evaluate various options and reduce the risk of making complex decisions by providing the guidelines. Decision rules have been broadly classified into two categories:

i. Compensatory Decision Rules: Consumers evaluate brand or model in terms of each attribute and computes a weighted score for each brand. The computed score reflects the brand's relative merit as a potential purchase choice. The assumption is that consumer will select the brand that scores highest among alternative brands. The unique feature of this rule is that it balances the positive evaluation of a brand on one attribute to balance out a negative evaluation on some other attribute. For example, positive attribute like high fuel efficiency is balanced with the negative evaluation of high maintenance cost.

ii. Non-compensatory Decision Rules: In contrast to the above rule non-compensatory rules do not allow consumers to balance positive evaluation of a brand on one attribute against negative evaluation on some other attribute. There are three types of non-compensatory rules.

a) Conjunctive Decision Rule: In conjunctive decision rule the consumer establishes a different, minimally acceptable level as a cut off point for each attribute. In this the option is eliminated for further consideration if a specific brand or model falls below the cutoff point on any attribute.

b) Disjunctive Rule: It is the 'mirror image' of conjunctive rule. Here the consumer establishes a separate minimally acceptable cut off level for each attribute. In this case if an option meets or exceeds the cut off established for any one attribute, it is accepted.

c) Lexicographic Decision Rule: In this rule the consumer initially ranks the attributes in terms of perceived relevance or importance. Later he compares different alternatives in terms of the single attribute that is considered most important. On this top ranked alternative, regardless of the score on any other attribute, if one option scores sufficiently high it is selected and the process ends.

15.5 LEVELS OF CONSUMER DECISION MAKING

The consumer decision making process is complex with varying degree. All purchase decisions do not require extensive effort. On continuum of effort ranging from very high to very low, it can be distinguished into three specific levels of consumer decision making:

a) Extensive Problem Solving (EPS): When consumers buy a new or unfamiliar product it usually involves the need to obtain substantial information and a long time to choose. They must form the concept of a new product category and determine the criteria to be used in choosing the product or brand.

b) Limited Problem Solving (LPS): Sometimes consumers are familiar with both product category and various brands in that category, but they have not fully established brand preferences. They search for additional information which helps them to discriminate among various brands.

c) Routine Problem Solving (RPS): When consumers have already purchased a product or brand, they require little or no information to choose the product. Consumers involve in habitual and automatic purchases.

15.6 INDIAN CONSUMER ENVIRONMENT

The multinationals in India often wonder why their marketing plans come unstuck. The answer usually given is: **"India is different".** As the country is very vast geographically, the consumers of India are scattered over vast territory. As the country is marketed by great diversity in climate, religion, language, literacy level, lifestyle and economic status etc.

DEMOGRAPHIC PROFILE

India has more than 1100 million consumers. Life expectancy is 65 years compared to 30 years in 1947. Improved health standard, lower infant mortality, fall in birth rate and growth of medical facilities have contributed to increased level of life expectancy.

GEOGRAPHIC PROFILE

Out of 1000 million consumers in the country, the consumers residing in urban areas are 26% ad the consumers residing in rural areas are 74%.

SOCIAL & CULTURAL PROFILE

The social & cultural profile of Indian consumer highlights the following features:

i) Religious Diversity: 1000 million people belong to 7 different religion groups as Hindus, Muslims, Christians, Sikhs, Jains, Zoroastrians. Each religion has its own hierarchic structures.

ii) Linguistic Diversity: In India there are 22 major languages and hundreds of dialects. To the marketing man who has to approach the entire national market of India, the linguistic diversity is a big challenge.

iii) Diversity in dress, good habits etc: Every state or religious community has its own traditional style of dress. As regard to food, rice in a main food in south while wheat is in north. Certain south Indian dishes are popular in north India also. There are certain communities, which are strictly vegetarian while few are non-vegetarian. Some use mustard oil as cooking medium, some coconut oil and some groundnut.

15.6.1 PROBLEMS FACED BY THE INDIAN CONSUMER

There are several problems faced by the Indian consumers, thus making it necessary to have an effective and more involvement from the Government and consumer movements to safeguard the consumers rights. The factors responsible for the sad plight of Indian consumers are given hereunder:

a) Very often, India faces a severe imbalance in the demand and supply of essential commodities. This has produced evils in the form of hoarding and black-marketing profiteering, corruption, nepotism, red tapism, irresponsibility and arrogance while dealing with the consumers.

b) With low literacy level and incorrect ad unsatisfactory information generated, many of the Indian consumers are not consciously aware of their rights. This further encourages businessmen to develop indifferent attitudes and behaviour towards their consumers.

c) In the absence of proper information and unfamiliarity with some of the new product features, consumers, at times, become easy victims and accept substandard, inferior or even defective products.

d) Consumerism is still in its infancy stage and hence, not well-organised and developed as in the developed countries.

e) The existing laws which have been framed to protect and safeguard the interests of the consumers at large, are not being effectively implemented and enforced to achieve the said objectives.

15.7 CONSUMERISM

Personal happiness with purchasing material possessions and consumption is often associated with criticisms of consumption starting with Karl Marx and Thorstein Veblen, but can actually be traced back to the first human civilizations. In economics, consumerism can also refer to economic policies that place an emphasis on consumption, and, in an abstract sense, the belief that the free choice of consumers should dictate the economic structure of a society.

According to **PETER F. DRUCKER, "**Consumerism is the shame of the total marketing concept."

According to **PHILIP KOTLER, "**Consumerism is a social movement seeking to augment the rights and powers of the buyers in relation to sellers."

The consumers should accept consumerism as a means of asserting and enjoying their rights. Consumerism should succeed in making the business and the government more responsive to the rights of the consumers. Consumerism is a social force to:

a) Make the business more honest, efficient, responsive and responsible, and

b) Pressurize the government to adopt the necessary measures to protect the consumer interests by guaranteeing their legitimate rights.

15.7.1 HISTORY

Although consumerism is commonly associated with capitalism and the Western world, it is multi-cultural and non-geographical, as seen today in Tokyo, Singapore, Hong Kong, Shanghai, Taipei, Tel Aviv and Dubai, for example. Consumerism, as in people purchasing goods or consuming materials in excess of their basic needs, is as old as the first civilizations (Ancient Egypt, Babylon and Ancient Rome, for example). Since consumerism began, various individuals and groups have consciously sought an alternative lifestyle through simple living.

While consumerism is not a new phenomenon, it has only become widespread over the 20th century and particularly in recent decades, under the influence of neoliberal capitalism and globalization. Popular media used "Consumerist" as a short-form for "Consumer Activist". Webster's dictionary added "the promotion of the consumer's interests" alongside "the theory that an increasing consumption of goods is economically desirable" under "Consumerism".

15.7.2 REASONS BEHIND RISE OF CONSUMERISM

Consumerism as a social force can help to:

i) Make the business community more honest, efficient, responsive and responsible. The manufacturers and sellers will be compelled to adopt fair trade practices, when consumers learn to exercise their rights and are not taken for granted.

ii) Consumerism can also be viewed as an opportunity for businessmen to serve the consumers in a better and more efficient manner. It will prove to be a weapon for marketers to effectively implement the societal concept of marketing.

iii) In case of imperfections in the demand and supply situation in the market, concerned marketers can help the consumers to get rid of the traders who resort to practices such as hoarding, black-marketing etc.

iv) Consumerism will also ensure that the Government takes the necessary measures to protect consumer interests by guaranteeing their legitimate rights.

15.7.3 CONSUMERISM IN INDIA

In India, as a developing economy, it is felt that the plight of the consumers is not different from that of the counterparts in the rest of the world. In spite of the fact that not all the Indian consumers are well educated and hence, unable to comprehend and understand the complex methods of marketing, they are also exploited and very often become victims of false claims for products, mislead by deceptive advertisements, misled by packaging, poor after sales service and so on. Because of the above felt abuses, there is observed and seen a growing consumer awareness leading to the growth of consumerism and an increasing demand for consumer protection in India.

Consumerism can be said to be a still in its infancy stage. But the consumer movement is slowly gaining momentum. The rapid rise in the consumer earnings, fall in the savings rate resulting in generating increasing amounts of disposable income to be spent on consumer products and services. With the advent of the information age bringing with it real time images of the global life style; and thus making high spender and budget shoppers spend lavishly on products and services.

Under the above circumstances, “Survival of the fittest” was the motto. This resulted in marketers using wrong means to increase their market share rather than facing the situation of being wiped out from the market place. The following situational factors also aided the marketers:

i) The vastness of a country like India, along with an imbalance in the distribution of income and wealth and backwardness of the people came in the way of organizing consumer awareness and movements.

ii) The high rate of illiteracy and ignorance among the majority of population.

iii) Onslaught from the unscrupulous businessmen due to the traditional outlook of the people to suffer in silence, lack of education and information.

iv) Unable to understand the technical complexity of the goods and thus, accepting the information given by the manufacturers or sales persons on face value.

v) Indian consumers getting carried away by the clever advertising and promotional tactics used by the marketers.

15.7.4 CONSUMER PROTECTION ACT, 1986

With changing times the economic and business environment of India also went through a change. In the 1980s and 1990s, we opened our economy and truly became a global trading partner with the world. This exposed customers to new products but also new problems. And we finally introduced the Consumer Protection Act to safeguard consumers. Let us take a look. The Consumer Protection Act has been implemented in 1986 to protect the rights of a consumer. It protects the consumer from exploitation that business practice to make profits which in turn harm the well being of the consumer and society.

This right help to educate the consumer on the right and responsibilities of being a consumer and how to seek help or justice when faced exploitation as a consumer. It teaches the consumer to make right choices and know what is right and what is wrong.

Who is a consumer according to the Consumer Protection Act, 1986? A consumer is one that buys good for consumption and not for the resale or commercial purpose. The consumer also hires service for consideration.

15.7.5 RIGHTS OF CONSUMERS

The consumers' rights include the right not to buy a product that is offered for sale, to expect the product to be safe, to expect the product to be what it is claimed to be, to be adequately informed about the more important aspects of the product, to be protected against questionable production and marketing practices, and to influence products and marketing practices in directions that will enhance the "quality of life". He has a right to receive proper and efficient service and satisfaction. The Central Consumer Protection Council promotes and protects the rights of the consumers. These are:

i) Right to safety

Means right to be protected against the marketing of goods and services, which are hazardous to life and property. The purchased goods and services availed of should not only meet their immediate needs, but also fulfill long term interests. Before purchasing, consumers should insist on the quality of the products as well as on the guarantee of the products and services. They should preferably purchase quality marked products such as ISI, AGMARK, etc

ii) Right to choose

Means right to be assured, wherever possible of access to variety of goods and services at competitive price. In case of monopolies, it means right to be assured of satisfactory quality and service at a fair price. It also includes right to basic goods and services. This is because unrestricted right of the minority to choose can mean a denial for the majority of its fair share. This right can be better exercised in a competitive market where a variety of goods are available at competitive prices

iii) Right to be informed

Means right to be informed about the quality, quantity, potency, purity, standard and price of goods so as to protect the consumer against unfair trade practices. Consumer should insist on getting all the information about the product or service before making a choice or a decision. This will enable him to act wisely and responsibly and also enable him to desist from falling prey to high pressure selling techniques.

iv) Right to consumer education

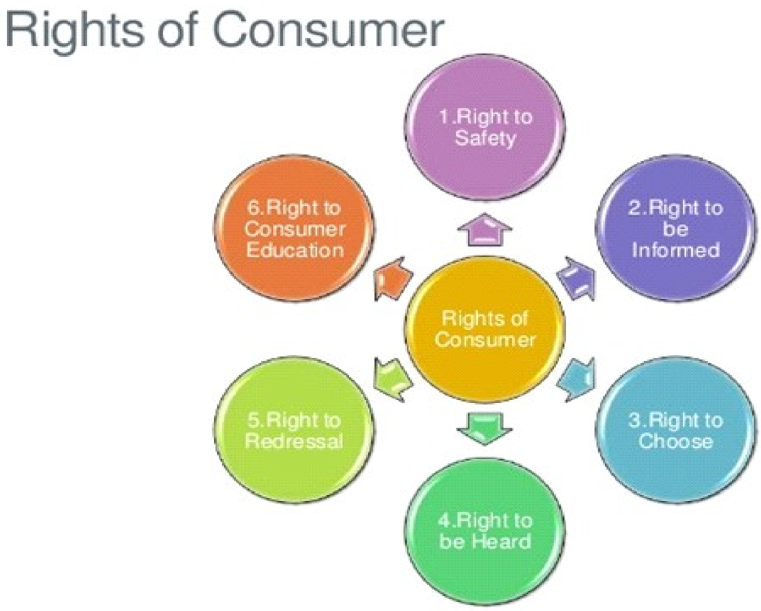
Means the right to acquire the knowledge and skill to be an informed consumer throughout life. Ignorance of consumers, particularly of rural consumers, is mainly responsible for their exploitation. They should know their rights and must exercise them. Only then real consumer protection can be achieved with success.

v) Right to be heard

Means that consumer's interests will receive due consideration at appropriate forums. It also includes right to be represented in various forums formed to consider the consumer's welfare. The Consumers should form non-political and non-commercial consumer organizations which can be given representation in various committees formed by the Government and other bodies in matters relating to consumers.

vi) Right to Seek redressal

Means right to seek redressal against unfair trade practices or unscrupulous exploitation of consumers. It also includes right to fair settlement of the genuine grievances of the consumer. Consumers must make complaint for their genuine grievances. Many a times their complaint may be of small value but its impact on the society as a whole may be very large. They can also take the help of consumer organisations in seeking redressal of their grievances.



As the markets are globalizing, the direct link between the manufacturer and the final user getting distant, post purchase grievances have to be heard through a strong redressal system. For this, **Consumer disputes redressal agencies (popularly known as Consumer Forums or Consumer Courts)** are set up under the Act at District, State and National level to provide simple and inexpensive quick redressal against consumer complaints. The District forum deals with complaints where the compensation sought is less than 23 lakhs. This limit is commonly known as the 'pecuniary jurisdiction' of the Consumer Redressal Forum. The State Forum deals with the complaints where the value of the goods and services and compensation claimed does not exceed rupees one crore and the National Forum entertains the complaints where the value of the goods or services and compensation claimed exceeds rupees one crore.

The Consumer Forum can order the company to take the following actions once it hears the complaint and decides that the company is at fault:

- Correct deficiencies in the product to what they claim.
- Repair defect free of charges
- Replace product with similar or superior product

- Issue a full refund of the price
- Pay compensation for damages / costs / inconveniences
- Withdraw the sale of the product altogether
- Discontinue or not repeat any unfair trade practice or the restrictive trade practice
- Issue corrective advertisement for any earlier misrepresentation

Practices to be followed by Business under Consumer Protection Act

- If any defect found the seller should remove the mentioned defects from the whole batch or the goods affected. For example, there have been cases where car manufacturing unit found a defect in parts of the vehicle usually they remove the defect from every unit or they call of the unit.
- They should replace the defective product with a nondefective product and that product should be of similar configuration or should be the same as the product purchased.

Redressal: Three Tier System Under Consumer Act

- ***District Forum:*** These fora are set by the district of the state concerned in each district wherein it consists of President and two members of which one should be a woman and is appointed by the State Government. In this, the complaining party should not make a complaint more than 20 Lacs and once the complaint is filed the goods are sent for testing and if they found defective the accused party should compensate and if the party is dissatisfied can make an appeal with state commission within 30 days.

- ***State Commission:*** This is set up by each state It consists of President and two members. Complains should be at least 20 lacs and exceed not more than 1 crore. The goods are sent for testing and if found defective are asked for replacement or compensation. If not satisfied can make an appeal within 30 days in front of the National Commission.

- ***National Commission:*** Consist of President and 4 members. The complaint must exceed an amount of 1 crore. The goods are sent for testing and if found defective are asked for replacement or compensation

15.7.6 CONSUMER RESPOSIILITIES

Ask Yourself!

- Have you faced any problems as a consumer?
- Have you ever complained when you have had such a problem?
- Do you know that you could seek the assistance of a consumer group to protect your interests?

Be Critically Aware

- The responsibility to be more alert and to question more – about prices, about quantity and quality of goods bought and services used.

Be Involved

- The responsibility to be assertive – to ensure that you get a fair deal as a consumer. Remember, if you are passive, you are likely to be exploited.

Be Organized

- The responsibility to join hands and raise voices as consumers; to fight in a collective and to develop the strength and influence to promote and protect consumer interest.

Practice Sustainable Consumption

- The responsibility to be aware of the impact of your consumption on other citizens, especially the disadvantaged or powerless groups; and to consume based on needs – not wants.

Be Responsible to the Environment

- The responsibility to be aware and to understand the environmental consequences of our consumption. We should recognize our individual and social responsibility to conserve natural resources and protect the earth for future generations.

Consumer Rights Vs Responsibilities

Sl.No	Rights	Responsibility
1	Right to be heard	1. Ensure that the company has provided you the contact details of the consumer grievance handling system and are easily accessible. 2. Avoid purchase of products/services from a company which do not providedetails of the consumer grievance officers to handle consumer grievances
2	Right to Redress	1. Ignoring the loss suffered on purchase of defective goods and services and not filing complaint encourages the corrupt business man to supply low standards or defective goods and services. Therefor file a complaint even for a small loss. File only a genuine complaint. 2. Consumer must file a complaint if not satisfied with the quality of product/services. 3. Claim the penalties/compensation as provided under rules and regulations to ensure that the quality delivery system improves. 4. Study carefully all terms and conditions related to return/ replacement of defective goods, refund and warranty policies.
3	Right to Safety	1. While purchasing the goods or services, Consumer must look for standardquality mark such as ISI, Hallmark, Agmark, ISO, FSSAI , etc.

		2. Do not buy any spurious/ fake/duplicate/ hazardous products
4	Right to Consumer Education/ Right to be Informed	1. Do not get carried away by advertisements only or believe on the words of the seller. Consumer must look market reviews/feedback. Similarly inform offers if product and services of companies are of substandard.
		2. Consumer must insist on getting complete information on the quality, quantity, utility, price etc. of the product or services.
		3. Ask for complete contact details of the consumer grievance mechanism of the company the consumer wish to buy from
5	Right to Choose	1. Access the information available on various alternatives available for the product and services under purchase consideration.
		2. Compare specifications, competition and fair prices of the goods and services before finalizing on the purchase3. Study various feedbacks/reviews of the products/services

15.8 SUMMARY

Let's just remember one thing. India has been a poor country for a long, long while now. Folks below the poverty line have numbered a strong platoon of people. And despite it all, the population has grown, survived and continues to thrive in its sheer numbers. People have found a way to survive. The fittest have survived on high value brands, the less fit have thrived on brands of a lesser caliber in the country. Those even lower in the hierarchy have survived on the fringe of the commodity in every category of want and need. Consumption needs have always found answers. Consumption solutions for all! There is therefore a pyramid of consumption that lies all over the slopes of Maslow's hierarchy of needs. But then, everybody, rich or poor, has fallen within the confines of this pyramid. And just as long as they do, there is indeed potential for a robust market for commodities, quasibrands, brands, super-brands and of course at the ultimate level of the self-actualizing folk, no brands at all! Every one of these segments has a value though. And in value rests the potential for the marketer. The one big true-blue competitive advantage for India of the present and India of the future is indeed its large population base articulating every basic need in consumption of products, services and utilities.

Time to change the paradigm of India's population then! Every marketer of whatever origin, be it from within India or outside, will queue up in the consumer markets of the country, trying to woo the wallet of the willing. As traditional source markets reach a plateau in their consumption, nascent markets like the one in India will hold a great deal of allure to the marketing man in his western straitjacket. The competitive advantage of India will rest in both its own shores and in the foreign lands of its source markets. As the WTO regime opens up markets that do not discriminate and markets that don't raise the usual high tariff walls that have been the distinct characteristic of the past that has gone by, the Indian product and the Indian brand has a challenge to seize and exploit to its advantage.

15.9 GLOSSARY

- **Conjunctive Decision:** The consumer establishes a different, minimally acceptable level as a cut off point for each attribute.
- **Consumer Decision Making:** The analysis of how people choose between two or more alternative acquisitions and of the processes that take place before and after the choice.
- **Consumerism:** It is a collective endeavour of the consumers to protect their interests.
- **Lexicographic Decision:** The consumer initially ranks the attributes in terms of perceived relevance or importance.

15.10 SELF ASSESSMENT QUESTIONS

1. Discuss Consumer Protection Act, 1986.

Ans ____

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2. Explain the consumer decision making process.

Ans ______________________________

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3. What are the levels of consumer decision making?

Ans ______________________________

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4. Explain the Rights of Consumers.

Ans ______________________________

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15.11 LESSON END EXERCISE

1. Define Consumerism.

Ans ______________________________

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2. What is the redressal system under Consumer Protection Act, 1986 ?

Ans ______________________________

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3. What are the Consumer Decision Rules?

Ans ______________________________

4. Discuss Indian Consumer Environment.

Ans

15.12 SUGGESTED READINGS

- Kotler Philip, Armstrong Gary, Principles of Marketing, Sixth edition, Prentice Hall.
- Stanton William J, Walker Bruce, Fundamentals of Marketing, Tenth edition, Mc Graw Hill. J.Taylor Sims, J.Robert Foster, Marketing Channels: Systems and Strategies, Harper and Row, New York.
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