DIRECTORATE OF DISTANCE & ONLINE EDUCATION

UNIVERSITY OF JAMMU
JAMMU

SELF LEARNING MATERIAL
OF
MARKETING MANAGEMENT

For the examination to be held in 2023 onwards

M.Com - II Semester **Unit : I - IV**
Course No. : M.Com C253 **Lesson No. 1-20**

Course Co-ordinator
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MARKETING MANAGEMENT

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DIRECTORATE OF DISTANCE & ONLINE EDUCATION
UNIVERSITY OF JAMMU
M.COM SECOND SEMESTER (NON CBCS)
MARKETING MANAGEMENT
(Core Course)

Course: MCOM-C254	**Max Marks: 100 Marks**
Credit: 4	**External: 80 Marks**
Time: 3.00 Hrs	**Internal: 20 Marks**

(Syllabus for the examination to be held in May 2023, 2024, 2025)

COURSE OBJECTIVES

1. To familiarize the students with the conceptual underpinning and contemporary issues in marketing.
2. To impart knowledge about the dimensions affecting consumer and business behavior.
3. To provide insight to the students about the product development and pricing mechanism.
4. To acquaint the students about the promotion and distribution underpinning.

COURSE OUTCOMES

After the completion of this course the student will be able to:

1. describe the evolution, growth and implementation of basics of marketing.
2. understand the consumer and business differences in taking buying decisions.
3. understand the product and pricing aspects from manufacturing perspectives.
4. understand the promotion and distribution aspects from manufacturing perspectives.
5. to develop, design and suggest marketing strategies for enhanced market share.

UNIT- I : MARKETING & MARKETING ENVIRONMENT

Introduction to marketing- Concept, scope and importance of marketing; Key customer markets; Concepts/Philosophies of marketing- production concept, product concept, selling concept,marketing concept; Holistic marketing concept; Marketing tasks; Marketing mix; Marketing environment; Contemporary topics: Global marketing; Niche marketing; Social marketing; Viral marketing, Green marketing; Event marketing; Network marketing; Direct marketing

UNIT-II : CONSUMERS, MARKETS & MARKET POSITIONING

Analysing markets- Factors influencing consumer behaviour; Buying decision process; Postpurchase behaviour; Analysing Business Markets- Organisational buying, buying situations, systems buying & selling, participants in the business buying process; Purchasing/procurement process, stages in the buying process; Market segmentation- Levels of market segmentation, segmenting consumer markets, segmenting business markets; Targeting and positioning; Analysing competitors; Strategies for market leaders.

UNIT- III: PRODUCT & PRICE - MIX DECISIONS

Product decisions- Product characteristics, classifications, differentiation, packaging & labelling; Product Life Cycle- Marketing strategies for introduction stage and the pioneer advantage, marketing strategies for growth stage, marketing strategies for maturity stage, marketing strategies for decline stage; Pricing strategies- Understanding pricing, setting the price, initiating and responding to price changes, reactions and responding to competitor's price changes.

UNIT- IV: PLACE & PROMOTION MIX DECISIONS

Marketing channels- Channel development, value networks, types of marketing channels, role of marketing channels, identifying major channel alternatives, channel decisions; Growth and types of retailing and wholesaling; Marketing communication- role of marketing communications, communications mix; advertising; sales promotion; public relations and publicity; events and experiences; personal selling.

Suggestive Readings

1. Kotler, P. and Keller, K.J. Marketing Management: A South Asian Perspective. Prentice Hall India, New Delhi.
2. Ramaswamy, V.S. and Namakumari, S. Marketing Management, Planning, Implementation and Control, Macmillan, New Delhi.
3. Britt, S.H. and Boyd, H.W. Marketing Management and Administrative Action (Edited). Tata McGraw Hill, New York.
4. Panda, T.K. Marketing Management: Text and Cases. Excel Books, New Delhi.
5. Kotler, P. and Armstrong, G. Principles of Marketing. Prentice Hall India, New Delhi.
6. Douglas, K. H. et al. Marketing Principles and Best Practices. Thomson South-Western,Ohio.
7. Saxena, R. Marketing Management. Tata McGraw Hill, New Delhi.

Note: Latest edition of the books may be preferred

NOTE FOR PAPER SETTING

The paper consists of two sections. Each section will cover the whole of the syllabus without repeating the question in the entire paper.

Section A: It will consist of eight short answer questions, selecting two from each unit. A candidate has to attempt any six and answer to each question shall be within 200 words. Each question carries four marks and total weightage to this section shall be 24 marks.

Section B: It will consist of six essay type questions with answer to each question within 800 words. One question will be set atleast from each unit and the candidate has to attempt four. Each question will carry 14 marks and total weightage shall be 56 marks

MODEL TEST PAPER
MARKETING MANAGEMENT

Time: 3 hrs **M. Marks 80**

Course: MCOM-C254 **M.Com - II Semester**

SECTION - A

Attempt any 6 questions. Each question carries 4 marks. Answer to each question should be within 200 words.

1. Explain the relevance of event marketing in today's competitive world.
2. Discuss the role of consumerism in context to Indian setting.
3. What are the major sources of data collection?
4. Discuss Michael Porter's five forces model.
5. What do you understand by packaging and labelling?
6. What arc the various pricing strategies?
7. Discuss the role of marketing channels in serving the market.
8. What is meant by direct and interactive marketing?

SECTION - B

Attempt any 4 questions. Each question carries 14 marks. Answer to each question should be within 800 words.

1. Discuss in detail any four philosophies of marketing.
2. What are the steps to be followed in the marketing?
3. Define the tcrms-segmentation, targeting and positioning.

4. Explain product life cycle in detail.
5. Discuss the importance of communications-mix in the context of globalised world.
6. What are the major channel alternatives and types ofintermediaries?

MARKETING MANAGEMENT

CONTENTS

CONTENTS

MARKETING AND MARKETING ENVIRONMENT

Lesson No. 1 **Unit-I**

Semester-II **M.Com-C254**

INTRODUCTION TO MARKETING

STRUCTURE

1.1 INTRODUCTION

Most of the people define marketing as selling or advertising. It is true that these are parts of the marketing, but marketing is much more than advertising and selling. In fact, marketing comprises of a number of activities which are interlinked and the decision in one area affects the decision in other areas.

To illustrate the number of activities that are included in marketing, think about all the bicycles being peddled with varying degree of energy by bicycle riders in India. Most bicycles are intended to do the same thing, get the rider from one place to another. But a bicyclist can choose from a wide assortment of models. They are designed in different sizes, with different frames for men and women and with or without gears. Trekking cycles have large knobby tyres, and the tyres of racing cycles are narrow. Kids want more wheels to make balancing easier; clowns want only one wheel, to make balancing more interesting.

In order to understand the concept of marketing, firstly you must understand what is a market ?

1.2 OBJECTIVES

After reading this unit, you should be able to:

1. **understand** the concept of marketing
2. **analyze** the importance of marketing
3. **understand** scope and nature of markets

1.3 INTRODUCTION OF MARKETING

1.3.1 Marketing definitions

Numerous definitions were offered for marketing by different authors. Some of the definitions are as follows

1. “Marketing is the process that seeks to influence voluntary exchange transactions between a customer and a marketer”.

William G. Zikmund and Michael D.Amico

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

H.L. Hansen

3. “Marketing is the business process by which products are matched with markets and through which transfer of ownership are affected”.

Edward W. Cundiff

4. “Marketing consists of the performance of business activities that direct the flow of goods and services from producers or suppliers to consumers or end-users”.

American Marketing Association

5. “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

6. “Marketing is the performance of activities that seek to accomplish an organizations objectives by anticipating customer or client needs and directing the flow of need satisfying goods and services from producer to customer or client”.

William D. Perreault and E. Jerome McCarthy

1.3.2 Concept of Marketing

The concept of marketing is essentially derived from customer orientation. For a long time, it has been preached by all, including Mahatma Gandhi, that the *Customer is King*. What this implies is that product / services are bought not merely because of their quality, packaging or brand name, but because to satisfy a specific need of a customer. It also implies that organization have to provide services to their customer and that too without any obligation. In other words, marketing means understanding and responding to customer needs, a prerequisite for any organization’s success. And this certainly cannot be ignored by any organization in today’s competitive environment.

However, to be successful, any organization has to be competition-oriented too. It has to continuously determine its competitive advantage and take steps to further augment it. Thus, the marketing concept involves.

(a) customer orientation

(b) competition orientation

(c) ability to respond to environmental changes (changes in consumer needs, competition, government policy, technology, etc) before competition does. Examples are Sony and Microsoft who have consistently invested in futuristic technologies and products.

Marketing Orientation and How can it be Employed in Organizations?

A look at successful marketing organisations in India and aborad leads us to conclude that marketing orientation involves a six-dimensional approach.

a) **Consumer Orientation** - Successful marketing companies continuously monitor customer needs, want and preferences, unfulfilled consumer drive their new product development efforts, for example Asian Paints.

b) **Integrated Approach to Exploiting Market Opportunities** - Successful marketing companies integrate all elements of the marketing mix, not merely advertising and selling, into a sound business plan that could help them to effectively fight competition. Take, for example, the launch of and subsequent range for Maggi noodles all over India. The company (Food Specialities Limited.) understood customer needs and also effectively serviced it by adopting an integrated marketing mix. Lipton also launched (almost at the same time) macaroni and noodles with an intensive promotion campaign, but failed. Besides, marketing orientation involves a very high degree of preoccupation with the quality of the product. Companies like HUL, Proctor and Gamble (P&G), Godrej, Johnson & Johnson, Asian Paints, have one thing in common i.e. their passion for premium quality products. Their marketing mix emphasizes product quality as an important element of their marketing plan.

(c) **Futuristic Approach** - The above companies look at money spent on marketing not as an expenditure but as an investment. In other words, they do not take a short route to success, as there is none. Rather, they look at the market from a three- to five-year perspective and hence, look at maximizing their returns from advertising campaigns or tactical price reductions over these years rather than in just one year. This aspect seems to be ignored by many companies. They are still not prepared to invest in market share development activities and perceive any advertising campaign or price reduction as a marketing expenditure.

(d) **Highly Developed Marketing Systems** - Successful marketing companies have highly developed marketing systems that act as market barometers. All major marketing decisions are based on the basis of market information emerging from these systems. Test marketing is used effectively for making any change in the marketing mix. Some of the more commonly used systems in these organizations relate to complaint management, customer feedback, customer relationship management (CRM) and today, even e-CRM. These systems provide on an ongoing basis, market feedback, which organizations can use for enhancing their overall effectiveness, new product development and marketing strategies.

(e) **Marketing Culture** - Companies on the track of success have an important characteristic, that is, in these organizations everybody from the chief executive to the lowest level, is market oriented. The customer is given key importance and accordingly, his interests override organizational interests.

The entrepreneurial spirit soars high and people are encouraged to try new ideas. These service standards governed Windsor Manor's products and quality of service. To ensure compliance to these standards, Windsor Manor even communicated the penalty it would pay to the customer in the event of standards not being met. This was the first organization in the hospitality industry to set up and communicate service standards to the customer. Soon after, these service standards became the norm in the service industry.

(f) **Speed** - Another important aspect of customer orientation is the speed at which customers' problems are resolved. Increasingly, this fact determines the competitive advantage of organizations. Given today's interactive technologies, including toll-free phones and call centres, companies now realize that their competitive advantage is determined by their speed of response. Institutions like Standard Chartered Bank, HDFC Bank and lCICI Bank see their survival hinging on this particular aspect.

Marketing Orientation vis-a-vis Selling Orientation

The selling approach is more transaction based and aims at maximization of profits in the short term. As opposed to this, the marketing approach emphasizes customer management, customized approach to winning and retaining the customer, and hence, focuses on building profits over a long term. The selling approach, generally, undermines research. It is more intuitive. It works well in markets that are less complex, in the sense that competition is low and customers have very little choice, it works on the mass marketing approach wherein customer needs are aggregated. This is opposed to the marketing approach which is based on the basic premise that each customer is different and hence, needs to be approached differently. Also, given the exorbitant cost of reaching each customer, it is possible to group them on common measurable and definable parameters and hence, create segments. *Thus, the customer is the focal point of the marketing orientation.*

Marketing orientation is different from selling orientation, which tends to dominate many Indian companies. The classic example is that of the Indian automobile industry. Until Maruti was launched in 1984, the two giants-Hindustan Motors, (manufacturers of Ambassador cars) and Premier Automobiles (manufacturers of Premier Padmini brand of cars) hardly cared for the customer. They kept rolling out obsolete cars at exorbitant prices and did very little either to improve the fuel efficiency or even provide better service. Since the Indian consumer had very little choice, he had to take whatever was given to him. But in 1984, when Maruti was launched and the Government of India allowed other foreign collaborations in this sector, both these manufacturers realized that the "golden" era was now over. Despite their new foreign collaborations, their products did not sell. Each of them were saddled with large stocks of unsold cars and running at a loss. The dealers walked out of their agreements as the inventory increased in their showrooms. This made Premier Automobiles offer price discounts on the Premier car and also deliver of the customer at any place where he perceived the maximum price advantage. Yet, the condition remained far from satisfactory. The same is true of fertilizer, steel tube manufacturers and companies making power generators. As is evident, the focus of all these companies, hitherto, had been either on their own products or on technology. Marketing orientation, as spelt out earlier, is different from any or all of them. Marketing orientation (as opposed to selling orientation) focuses on customer needs, values and attitudes, and in order to satisfy them, it uses an integrated marketing plan. The ultimate aim is to maximize profits through increased customer satisfaction. In brief, this difference may be understood from Table 1.1.

Table* 1.1 *Marketing and Selling Orientations

Orientation/ Focus		***Means***	***Ends***
Selling	Product	Aggressive selling and sales promotion with emphasis on prices variations to close the sale. "I must somehow hook the customer"	Maximize profits through sales maximization
Marketing	Customer	Integrated marketing plan encompassing product, price, promotion and distribution backed up by adequate environmental, scanning, consumer research and opportunity analysis with emphasis on service, "*What can we do that will make us, in the customer*'s *eyes, better than and superior to our competitors"*.	Maximize profits thought increased consumer satisfaction and hence, raise market share.

Relationship Marketing

The decade of the 90s saw the "rebirth" of relationship marketing. Once again the issue of trust between customer and marketer was emphasized. Trust, as has been observed, has an asymmetrical quality. It is built slowly over several transactions but disappears in a flash. As can be made out, the relationship marketing approach emphasizes on both the "hard" and the "soft" aspects of marketing processes, which help create reliability. The hard aspects relate to product reliability, use of interactive technologies both at the front and back ends (i.e. integrating customers with organizational functions) retail stores and so on. The soft aspects concern human interactions and, thereby, work on dependability issues among salespersons, service personnel, intermediaries, and so forth. The underpinning strength of relationship marketing is customer loyalty. A successful relationship marketing firm leverages its knowledge of customer needs and values which helps to determine resource allocation across different customer groups. As one can infer from Figure 1.1 given on next page, profitability of customers vary across different groups. A Price Water house Coopers (PWC) study shows an inverse relationship between the size of the customer groups and profits. It showed that 36 percent of customers accounted for 85 percent of profits in a telephone company. This is also true of Mahanagar Telephone Nigam Limited (MTNL) and Bharat Sanchar Nigam Limited (BSNL); or, for that matter, in any other product group.

Today, the need for customers-centric organizations is increasingly being appreciated For that, the organizational pyramid needs to be inverted and the customer placed on top of the pyramid. The logic behind it is that, in any organization, communication flows from top to bottom and generally, the behaviour of an average employee is to look up not only for guidance and help but also for recognition The importance of recognition from the customer is far more valuable than that from the CEO of the company. This process of inverting the pyramid is commonly seen in organizations like Scandinavian Airlines, Jet Airways, Domino's Pizzas and HDFC Bank.

The relationship marketing process emphasizes on continuous interactions between the firm and the customer. These interactions lead to firms acquiring accurate, timely, and relevant information from the customer, which helps in creating a differentiated or customized offer for each customer which, in turn, leads to higher customer loyalty. A relationship marketer understands a customer's lifetime me value (LTV) which gets enhanced over a period of time.

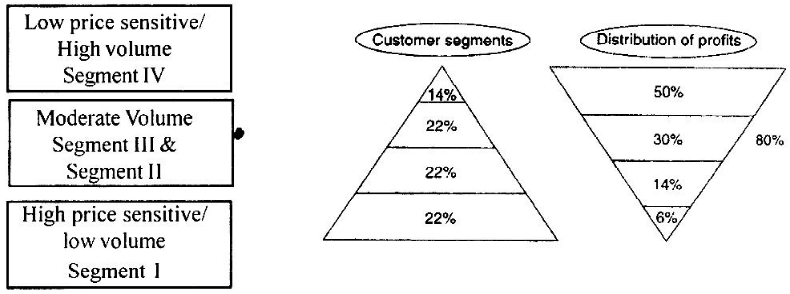

Fig. 1.1 : A Small Percentage of Customers Account for a Large Percentage of Profits

Relationship between Customers and Corporate Profitability

Source: Adapted from Stanley A, Brown, Customer Relationship Management, 2000 John Wiley & Sons, Canada Ltd., Ontario

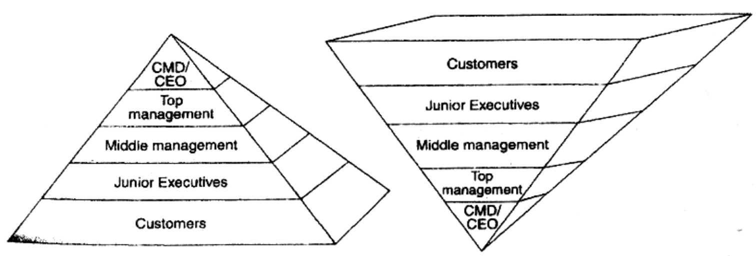

Fig. 1.2 : Inverting Organizational Pyramid for Customer retention

Source: Adapted from Stanley A, Brown, Customer Relationship Management, 2000 John Wiley & Sons, Canada Ltd., Ontario

1.4 CHARACTERISTICS OF MARKETING

1. **Applies to profit and non-profit organisations** : This definition applies to both profit and non-profit organizations. Profit is the objective for most business firms. But other type of organisations may seek more members or donations or acceptance of an idea. Consumer or clients may be individual consumers, business firms, non-profit

organizations, government agencies or even foreign nations. While most customers and clients pay for goods and services they receive, others may receive them free of charge or at a reduced price through private or government support.

2 **More than just persuading customers :** Marketing is not just selling and advertising, as most of the people thinks. In fact, the aim of marketing is to identify customers needs and meet those needs so well that the product almost sell itself. This is true whether the product is a physical good, a service or even an idea. If the whole marketing job has been done well, customers do not need much persuading. They will be ready to buy. And after consuming the product if they are satisfied then they will come back for more.

3 **Begins with customer needs :** Marketing should begin with potential customer need not with production process. Marketing should try to anticipate needs and then it should determine what goods and services are to be developed, including decisions about product design and packaging; prices or fees; credit and collection policies; use of middlemen; transporting and storing facilities; advertising and sales policies and after the sale, installation, customer service, warranty and perhaps even disposal policies.

4 **Does not do it alone :** It means that marketing by interpreting customers needs should provide direction for production activities accounting and financial activities and research and development activities and try to coordinate them. Marketing by itself can never be able to satisfy the needs and wants of the customers. It cannot exist in vacuum. In fact, marketing needs the cooperation of other functional areas to be successful.

5 **Builds a relationship with the customer :** Marketing tries to identify and satisfy customer needs and wants. Its activities does not end with the single sale but rather it tries to develop a relationship with the customer. So that in the future, when the customer has the same need again or some other need that the firm can meet other sales will follow. The long lasting relationship is beneficial to both the firm and the customer.

1.5 SCOPE OF MARKETING

Marketing is typically seen as the task of creating, promoting and delivering goods and services to consumers and businesses. In fact, marketing people arc involved in marketing various types of entities: goods, services, experiences, events, persons, places, properties, organizations, information and ideas. Marketing concepts can be used effectively to market these entities.

1. **Goods:** Goods are defined as something tangible that can be offered to market to satisfy a need or want. Physical goods constitute the bulk of most countries production and marketing effort. In a developing country like India fast moving consumer goods (shampoo, bread, ketchup, cigarettes, newspapers etc.) and consumer durables (television, gas appliances, fans etc.) are produced and consumed in large quantities every year.

2. **Services:** A service can be defined as any performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production mayor may not be tied to a physical product. Services include the work of hotels, airlines, banks, insurance companies, transportation corporations etc. as well as professionals like lawyers, doctors, teachers etc. Many market offerings consist of a variable mix of goods and services. At the pure service end, would be psychiatrist listening to a patient or watching movie in a cinema hall; at another level would be the landline or mobile phone call that is supported by a huge investment in plant and equipment; and at a more tangible level would be a fast food establishment where the consumer consume both a good and a service.

3. **Experiences** : By mixing several services and goods, one can create, stage and market experiences. For example water parks, zoos, museums etc. provide the experiences which are not the part of routine life. There is a market for different experiences such as climbing Mount Everest or Kanchanjunga, travelling in Palace on Wheels, river rafting, a trip to Moon, travelling in Trans Siberian Railways across five time zones etc.

4. **Events:** Marketers promote time based, theme-based or special events such as olympics, company anniversaries, sports events (Samsung Cup, India Pakistan Cricket Series), artistic performances (Lata Mangeshkar live concert, Jagjit Singh live concert), trade shows (International Book Fair at Pragati Maidan, Automobile fair), award

ceremonies (Filmfare awards, Screen awards), beauty contests (Miss World, Miss Universe, Miss India, Miss Chandigarh), model hunts (Gladrags Mega Model). There is a whole profession of event planners who work out the details of an event and stage it. In India event management companies are growing and in case of organising Miss World at Bangalore and World Cricket Cup (Hero Cup) they won the acclaim from all over the world. Our Election Commission Organises biggest event in the world. Elections for upper house in the largest democracy in the world. Other notable example is organising of Ardh Kumbh and Maha Kumbh at Hardwar, Ujjain. Nasik etc. during different years .

5. **Persons:** Celebrity marketing has become a major business. Years ago, someone seeking fame would hire a press agent to plant stories in newspapers and magazines. Today most of cricket players like Sachin Tendulkar, Saurav Ganguly, Rahul Dravid etc. are drawing help from celebrity marketers to get the maximum benefit. Even Star Plus TV channel focussed more on Amitabh Bachhan to promote their programme Kaun Banega Crorepati and this programme turned around fortunes of both Star Plus and Amitabh Bachhan. Even in the 14th Lok Sabha election BJP election strategy revolves around Mr. Atal Bihari Vajpayee, that's power of personality. Mr Shiv Khera is busy in building his business empire and is busy telling others how to achieve this or that through books and lectures.

6. **Places** : Places, cities, states, regions and whole nations compete actively to attract tourists, factories, company headquarters and new residents. India and China are competing actively to attract foreign companies to make their production hub. Cities like Bangalore, Hyderabad and Gurgaon are promoted as centre for development of software. Bangalore is regarded as software capital of India and Hyderabad is emerging as the hub of biotechnology industry. Gurgaon and Noida are competing for call centres to open their offices. Kerala, Himachal Pradesh. Himachal Pradesh and Rajasthan and aggressively promoting themselves to attract local as well as foreign tourists Due to its cost effectiveness and competitive ability of Indian doctors coupled with ancient therapies. India is fast emerging as country that can provide excellent medical treatment at minimum costs. If developed properly, Bihar has strong potential to emerge as ultimate destination for Buddists.

7. **Properties:** Properties are intangible rights of ownership of either real property (real estate) or financial property (share add debt, instruments). Properties are bought and

sold, and this requires marketing effort. Property dealers in India work for property owners or seekers to sell or buy plots, residential or commercial real estate. In India some builders like Ansal group, Sahara group, both build and market their residential and commercial real estates. Brokers and sub-brokers buy and sell securities on behalf of individual and institutional buyers.

8. Organizations: Organizations actively work to build a strong, favourable image in the mind of their publics. We see ads of Reliance Info comm, which is trying to provide communication at lower rates, Dhirubhai Ambani Entrepreneur programme to promote entrepreneurship among the Indians. Companies can gain immensely by associating themselves with the social causes. Universities and colleges are trying to boost their image to compete successfully for attracting the students by mentioning their NAAC grades in the advertisements and information brochures.

9. Information : Information can be produced and marketed as a product. This is essentially what schools, colleges and universities produce and distribute at a price to parents, students and communities. Encyclopedias and most non-fiction books market information. Magazines such as Fitness and Muscle provide information about staying healthy, Business India, Business Today and Business World provide information about business activities that are taking place in various organizations.

Outlook Traveler provides information about various national and international tourist destinations. There are number of magazines which are focused an automobiles, architecture and interior designing, computers, audio system, television programmes etc. which cater to the information needs of the customers. We buy CDs and visit internet sites to obtain information. In fact, production, packaging and distribution of information is one of the society major industry. More and more companies are using professional research agencies to obtained information they need.

10. Ideas: Film makers, marketing executives and advertising continuously look for a creative spark or an idea that can immortalize them and their work. Idea here means the social cause or an issue that can change the life of many. Narmada Bachao Andolan was triggered to bring the plight of displaced people and to get them justice. Endorsement by Amitabh Bachhan to Pulse Polio Immunization drive and pledge by Aishwarya Rai to donate her eyes after her death gave immense boost to these programme. Various government and non-government organizations are trying to promote a cause or issue which can directly and indirectly alter the life of many. For example, traffic police urges to not to mix drinks and drive, central and state government urging not to use polyethylene as carrying bag for groceries.

1.6 NATURE OF MARKETING

1. **Marketing is both consumer oriented and competitor oriented.**

   (a) **Self centred companies** do not give any concern to the consumers and competitors. This type of company can exist in the situation of monopoly. In the competitive economy, these companies cannot remain in the business for long.

   (b) **Competitor oriented companies** mainly focus on competitors' activities, what the competitors are doing and what they are likely to do in the near future are the major areas of concern. The companies can be either reactive or proactive. The reactive company will follow the moves of competitors. For example, if the competitor reduce price of its product or service then the reactive competitor oriented company will also reduce its prices. Whereas the proactive competitor oriented company will try to identify what its major competitor is going to do.

   (c) **Customer oriented companies** believes in satisfying the customers at any cost. These companies obtain inputs from the customers and then develop their product or service as per customers requirements and then earn profit through-customer satisfaction. The biggest problem is that they donot consider what their competitors are doing and in the long run it might prove counter-productive.

   (d) **Market driven companies** are concerned about customers as well as competitors. These companies regularly interact with the customers to know about their satisfaction levels and their future requirements and then try to develop the product or service which is better than their competitors. In the era of cut throat competition, these companies one more likely to be successful than the other companies.

2. Marketing is a dynamic activity because environment where it operates, keeps changing. For example marketing environment, customers requirements, competitor's actions etc. keep changing thereby necessitating the changes in the company's offer. The companies may have to modify product, price, place or promotion due to changes in any of the numerous variables. For example, Indian manufacturers either have to improve the quality or reduce the cost to meet the competition from foreign companies.

3. Long term objective of marketing is profit maximization through customer satisfaction. This is so because a satisfied customer will come back again for the same or different need to the company. Apart from this, the satisfied customer is the company's best advertisement because word of mouth communication by the customer has more credibility than any other form of marketing communication and he will recommend the company's products/services to his friends and relatives.

4. Marketing is an integrated function and all the marketing decisions are linked with each other. One decision will automatically lead to another decision. For example if a company has decided to launch a product for limited number of customers then its price will be high and that product will be available through exclusive distribution system and the promotion strategy will depend on the media preferred by the target market. So, if a company decides the first step then decisions regarding the remaining steps will follow automatically.

5. Marketing is the core functional area of modern day organisations and is the driving force behind every organisation. Marketing provides the vital input for corporate planning which in turn dictates the plans for other functional areas.

6. Marketing is interlinked with other functional areas of the organisation. Marketing people collects the information regarding (customers' requirements and pass it to) the research and development and engineering people who will turn the customer requirements into the product or service features. The finance and accounts people, help in obtaining the money for the development of new product and also helps in arriving at the final price decision. The human resource department provides the necessary manpower for carrying out various activities not only in the marketing area but also in the other functional areas.

1.7 IMPORTANCE OF MARKETING

(A) To the Society

1. It is **instrumental in improving the living standards**. Marketing continuously identifies the needs and wants satisfying products or services which can propel the people to do an extra to earn money which can be exchanged for the desired products or services. The people are likely to spend the additional income over and above the disposable income on the products or services which helps in minimizing the physical efforts. Thus marketing by indirectly increasing the earning ability will help in improving the standard of living of the customers.

2. **Marketing generates gainful employment opportunities both directly and indirectly.** Directly, marketing provides employment to the people in various areas like in advertising agency, in the company sales force, in the distributors' sales force, in public relation firms etc. Indirectly, marketing is responsible for selling the offerings of the organisation. If the organisations' products or services are able to satisfy the customers, then customers will demand organizations products or services again and again, thereby sustaining the production activities. Thus marketing indirectly provides employment in other functional areas like finance, production, research and development, human resource management etc.

3. **Marketing helps in stabilizing economic condition in the** sense that marketing helps ill selling the products or services, which keeps the various organizations functioning and gainful employment is available to the people. With the earnings from the employment, the people will purchase the products and/or services, thus sustaining the demand. This will happen in all the industries, then gainful employment will be available throughout the time period and economy will remain stable, healthy and vibrant.

(B) To the Firms/Companies

1. **Marketing sustains the company by bringing in profits.** Marketing is the only activity that brings revenue to the firm, whereas other activities incur expenditure. If the company's products or services satisfy the customers requirements, then the satisfied customers will keep the company in business by repeat orders and recommending other profitable customers. Thus marketing is the driving force behind a successful company.

2. **Marketing is the source of new ideas.** New product ideas usually come from the research laboratories, employees or from marketplace. It is the marketing people who are in continuous touch with the consumers and marketing intermediaries. Interaction with them helps in identifying strong and weak points of company's' product or services as well as competitor's products or services. This interaction can also help in identifying unmet needs or wants of the consumers and the features consumers are looking into the products or services which can satisfy those unmet needs or wants. Thus marketing can help immensely in identifying new product or service ideas which can help in sustaining the firm's operations. Successful companies are those which identify customers' requirements early and provide the solution earlier than the competitors.

3. **Marketing provides direction for the future course.** The marketing oriented company continuously brings out new product and service ideas which provide the direction for corporate strategic planning for longer time horizon.

(C) **To the Consumers**

1. **Meeting the unmet needs or wants.** Marketing identifies those needs or wants which were not satisfied and helps in developing the product or service which can satisfy those unmet needs or wants of the people. For example a number of drugs were invented to treat various physical problems of the people. Again the low cost formulations were developed to treat the people who are unable to afford the expensive drugs.

2. **Reducing the price of products or services.** Marketing helps in popularising the product or service which attracts the customers as well as competitors towards that product or service categories. Due to increase in demand, the manufacturing capacity increase which brings down per unit fixed costs of the product or service. Furthermore

increase in competition led to decrease in the prices charged by the firm. Thus the growing demand and increasing competition both help in bringing down the price of the product or service. For example price of both mobile phone handset and mobile phone service are showing a

continuous downward trend thereby making the mobile phone service affordable to more and more people.

1.8 CORE CONCEPTS OF MARKETING

Marketing can be further understood by defining several of its core concepts.

1. Needs, Wants and Demands

The marketer must try to understand the target markets needs, wants, and demands. **Needs describe basic human requirements.** People need food, air, water, clothing and shelter to survive. People also have strong needs for recreation, education, and entertainment. **These needs become wants when they are directed to specific object that might satisfy the need.** An Indian *needs* food but *wants* a rice, chhapati's vegetable and dal. A person in Mauritius *needs* food hut *wants* a mango, rice, lentils and beans.

Wants are shaped by one's society

Demands **are wants for specific products backed by an ability to pay.** Many people want a big & beautiful house; only a few are able and willing to buy one. Companies must measure not only how many people want their product but also how many would actually be *willing and able* to buy it.

These distinctions shed light on the frequent criticism that, marketers create needs. Or marketers get people to buy things they donot want. Marketers do not create needs: Needs pre exist marketers. Marketers, along with other societal influences, influence wants. Marketers might promote the idea that a Mercedes would satisfy a person's need for social status. They do not, however, create the need for social status.

2. Product or Offering

People satisfy their needs and wants with products. **A** ***product*** is any offering that can satisfy a need or want. We mentioned earlier the major types of basic offerings: goods, services, experiences, events, persons, places, properties, organizations, information and ideas.

A brand is an offering from a known source. A brand name such as McDonald's carries many associations in the minds of people: hamburgers, fun, children, fast food, Golden Arches. These associations make up the brand image. All companies strive to build brand strength that is, a strong, favourable brand image.

3. Value and Satisfaction

The product or offering will be successful if it delivers value and satisfaction to the target buyer. The buyer chooses between different offerings on the basis of which is perceived to deliver the most value. We define value as a ratio between what the customer *gets* and what he *gives.* The customer gets *benefits* and assumes *costs.*

The benefits include functional benefits and emotional benefits. The costs include monetary costs, time costs, energy costs, and psychic costs. Thus value is given by :

Value =Benefits/Costs

The marketer can increase the value of the customer offering in several ways:

i. Raise benefits

ii. Reduce costs

iii. Raise benefits and reduce costs

iv. Raise benefits by more than the raise in costs

v. Lower benefits by less than the reduction in costs

The customer who is choosing between two value offerings, V 1 and V2, will examine the ratio V 1/V2. She will favour V 1 if the ratio is larger than one; she will favour V2 if ratio is smaller than one; she will be indifferent if the ratio equals one.

4. Exchange and Transactions

Exchange is only one of four ways in which a person can obtain a product. The person can self-produce the product or service, as when a person hunts, fishes, or gathers fruit. The person can use force to get a product, as in a hold up or burglary. The person can beg, as happens when a homeless person asks for food. Or the person can offer a product, a service, or money in exchange for something he or she desires.

Exchange. which is the core concept of marketing, involves obtaining a desired product from someone by offering something in return. For exchange potential to exist five conditions must be satisfied:

i. There are at least two parties.

ii. Each party has something that might be of value to the other party.

iii. Each party is capable of communication and delivery.

iv. Each party is free to accept or reject the exchange offer.

v. Each party believes it is appropriate or desirable to deal with the other party.

Whether exchange actually takes place depends upon whether the two parties can agree on terms that will leave them both better off (or at least not worse off) than before. Exchange is a value-creating process because it normally leaves both parties better off .

Exchange is a process rather than an event. Two parties are engaged in exchange if they are *negoliating trying* to arrive at mutually agreeable terms. When an agreement is reached, we say that a transaction takes place. **A *transaction*** is a trade of values between two or more parties: A gives X to B and receives Y in return. Ramesh sells Arun a television set and Arun pays Rs 4000/- to Ramesh. This is a classic mo*netary transaction.* But transactions do not require money as one of the traded values. A *barter transaction* involves trading goods or services for other goods or service, as when lawyer Vijay writes a will for physician Satish in return for a medical examination.

1.9 MARKETING AND MARKETING MANAGEMENT

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.

For a managerial definition, marketing has often been described as the art of selling products.

But people are surprised when they hear that the most important part of marketing is not selling! Selling is only the tip of the marketing iceberg. 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 service 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.

When Sony designed its Walkman, when Nintendo designed a superior video game, and when Toyota introduced its Lexus automobile, these manufacturers were swamped with orders because they had designed the right, product based on careful marketing homework.

The American Marketing Association (AMA) offers the following definition:

Marketing (management) is the process of planning and executing the conception, pricing. promotion, and distribution of ideas, goods, services to create exchanges that satisfy individual and organizational goals. Coping with exchange processes calls for a considerable amount of work and skill.

Marketing management takes place when at least one party to a potential exchange thinks about the means of achieving desired responses from other parties. We see marketing management as the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering, and communicating superior customer value.

1.9.1 Marketing Management Disciplines

A) Marketing Management Research Disciplines

1) Target Market Research

Understanding your target audience is the first step. An in-depth analysis of your target market allows you to unearth exactly how your product or service fits into the customer's needs.Market research helps you develop efficient marketing plans and sales techniques that easily hook your desired audience.

2) Competitive Analysis

Identifying your competitors in the market is the second most vital step. Upon successful identification, try to find out how they engage the market and what marketing channels they rely on most. A proper analytical study of your competitors allows you to learn from them and helps you figure out their mistakes.

3) Product Market Fit

Are you sure that your product or service solves a need in your niche? Try questioning your product/service to determine whether your customers would find any use for it. While doing this, ensure that you look at your product/service from a customer's eyes and not as a business owner.The product marketing strategy template is a solid framework for marketing managers to understand their own positioning.

4) Business Analysis: SWOT

Efficiently research the needs of your business. Find out whether an overall change in the way your company runs is essential or not. Identify and define business solutions that you think will push up your profits.Using the SWOT (strengths, weaknesses, opportunities, and threats) model can be helpful for analyzing your business. It helps you explore these four vital aspects of your business. After this deep analysis, you will be ready to ascertain whether a change is necessary or not.

B) Strategic Marketing Management Disciplines

1) Methodologies: Mission, Vision, & Values

Marketing managers hold themselves accountable for executing marketing programs that align with the organization's mission, vision, and values statements.This doesn't necessarily mean marketing managers create these frameworks. Rather, these statements serve as a "north star" that guides all marketing efforts to fulfill the organization's goals and objectives.

2) Brand Management: Visual Identity, Brand Voice

A core marketing management discipline is branding. Marketing teams are typically the champions of visual branding identities and brand voice editorial style.

Marketing managers define these frameworks and hold their teams accountable to these expectations.

3) Objectives: Growth

Marketing management must define goals, objectives, and key performance indicators for their teams that align with overarching strategic objectives.These growth frameworks enable marketing teams to focus marketing programs on opportunities that have the highest likelihood of influencing lead and lag indicators that will ultimately result in strategic business growth.

4) Marketing Activities & Program Management

Marketing management defines the tactics, channels, and content that marketers leverage to influence their goals. Based on market research and business strengths, marketing managers are responsible for identifying the greatest opportunities an organization may leverage to result in growth.

C) Resource Management Disciplines

1) Team

Having an experienced and knowledgeable marketing team to work with is essential for your business to prosper. Your team has several aspects to research, from building greater awareness about your brand to promoting your products. It generally includes individuals possessing different skill sets who work together for a shared goal.

2) Tools

Various marketing tools can make your task as a marketing manager much more effortless. Marketing tools may include customer relationship management (CRM), email marketing, social media, website, blog, search engine optimization, analytics, editorial content calendars, and more. You can choose suitable marketing tools to work efficiently based on your marketing strategies.

3) Budget

Defining your marketing budget helps you outline how exactly your business wishes to spend its finances to influence results. It incorporates various factors like the amount spent on paid advertising, sponsored content, and other marketing tools.

D) Marketing Coordination Disciplines

1) Ceremonies: Processes & Meetings

Hosting meetings regularly with your marketing team and even with other relevant departments in your company is vital. It helps you coordinate efficiently with your employees and work together better.

2) Stakeholder Relationships

Forging mutually beneficial relations with other third-party groups or organizations is essential to make your business succeed. It helps your business build networks and unifies common voices about products and services vital for your venture.

E) Marketing Execution Disciplines

1) Expectations

A crucial marketing management function is setting expectations for those contributing to marketing programs. This means outlining who does what with clear responsibilities and task assignments. Determine the time your team needs to spend on each aspect of marketing execution, and have them work accordingly.

2) Accountability

When marketing management sets expectations for each contributor, the business can hold team members accountable for completing their work according to specifications.

Marketing Measurement Disciplines

3) KPIs

KPIs, or Key Performance Indicators, help you assess how your marketing strategies perform. From analyzing the financial aspect of your business to sales, there are different KPIs that help you figure out how your company is working to achieve its goals.

4) Iteration

Iteration refers to repeating a given process to analyze the outcomes thereby. Based on the results, you can accordingly modify your strategies to improve the efficiency of your marketing planning.

1.9.2 Case Study

Zomato's new deep discounting strategy

Zomato is a popular Food Service Aggregators in India (FSAs) known for its online delivery and user-friendly interface. Recently, in an attempt to improve business, Zomato introduced some heavy discounts for its client base. The new Zomato Gold was part of this campaign.

Customers who subscribed to Zomato Gold could access free meals, drinks, and discounts in certain restaurants. The company partnered with numerous eateries to execute this plan. However, 15th August 2019, hundreds of restaurants decided to log out of this marketing campaign. This was because the heavy discounts led to a loss of revenue and profits.

Zomato co-founder, Deepinder Goyal tried to appease the partners by launching a new model. This response was soon rejected as the core issue of discounts remained unresolved. The led to an impasse between the two parties, leaving Zomato vulnerable to takeovers.

1.10 SUMMARY

Financial success of any organization depends upon marketing ability of that organization. There should be sufficient demand for products & services so that the company can make profit. Therefore, many companies created Chief Marketing Officer (CMO) position to put marketing on a more equal footing with other executives.

Marketing is tricky & large well known business such as Levi's, Kodak, Xerox etc. had to rethink their business models. Even Microsoft, Wal-Mart, Nike who are market leaders cannot relax.

Thus, we can say that making the right decision is not easy & marketing managers must take major decisions about the features of the product prices & design of the product, where to sell products and expenditure on sales & advertising. Good marketing is no accident but a result of careful planning & execution. Marketing practices are continuously being refined to increase the chances of success. But marketing excellence is rare & difficult to achieve & is a never ending task. Eg. NIRMA The brand icon of the young girl has adorned the package of Nirma washing powder, The jingle has become one of the enduring times in Indian advertising .

A market is a physical place where buyers and sellers gathered to buy and sell goods. Economists describe a market as a collection of buyers and sellers who transact over a particular product or product class (e.g. the housing market or grain market). Modern economics abound in such markets. Manufacturers go to resource market (raw material markets, labor markets, money markets), buy resources and turn them into goods and services, and then sell finished products to intermediaries, who sell them to consumers. Consumers sell their labor and receive money with which they pay for goods and services. The government collects tax revenues to buy goods from resources, manufacturer and intermediary markets and uses these goods and services to provide public services. Each national economy and the global economy consist of complex interacting sets of markets linked through exchange processes.

On the other hand, marketers often use the term market to cover various grouping of customers. They view the sellers as constituting the industry and the buyers as constituting the market. They talk about need markets, product markets, demographic markets and geographic markets or they extend the concept to cover other markets, such as voter marketers, labor markets, and donor markets. Sellers and buyers are connected by four flows. The sellers send goods, services and communication (ads, direct mail) to the market; in return they receive money and information (attitudes, sales data). The inner loop shows an exchange of money for goods and services: the outer loop shows an exchange of information.

1.11 GLOSSARY

Marketing :- 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.

Market :- A market is a physical place, where buyers and sellers gathered to buy and sell goods.

1.12 SELF ASSESSMENT QUESTIONS

Q 1 What are the core concepts of marketing?

Q.2. Discuss the relevance of marketing?

1.13 LESSON END EXERCISE

Q1 Explain the concept of marketing in detail. Also explain the importance of marketing.

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Q2 Compare and contrast between marketing and marketing managment.

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1.14 SUGGESTED READINGS

1. Kotler, Philip, Marketing Management, Prentice Hall, New Delhi.
2. Stanton, Etzel, Walker, Fundamentals of Marketing, Tata-McGraw Hill, New Delhi.
3. Saxena, Rajan, Marketing Management, Tata-McGraw Hill, New Delhi.
4. McCarthy, E.J., Basic Marketing: A managerial approach, Irwin, New York.

Lesson No. 2 **Unit-I**

Semester-II **M.Com-C254**

KEY CUSTOMER MARKETS AND EVOLUTION OF MARKETING

STRUCTURE

2.1 INTRODUCTION

Traditionally, companies owned and controlled most of the resources that entered their businesses like :-

1. labor power material
2. machine
3. information
4. energy

But many today outsource less-critical resources if they can obtain better quality or lower cost. The key, then, is to own and nurture the resources and competencies that make up the essence of the business. Many textile, chemical, and computer/electronic product firms do not manufacture their own products because offshore manufacturers are more competent in this task. Instead, they focus on product design and development and marketing, their core competencies. "Core competencies are the combination of pooled knowledge and technical capacities that allow a business to be competitive in the marketplace. Theoretically, a core competency should allow a company to expand into new end markets as well as provide a significant benefit to customers."

A core competency has three characteristics:

(1) It is a source of competitive advantage and makes a significant contribution to perceived customer benefits.

(2) It has applications in a wide variety of markets.

(3) It is difficult for competitors to imitate.

Competitive advantage also accrues to companies that possess distinctive capabilities or excellence in broader business processes. Wharton's George Day sees **market-driven organizations** as excelling in three distinctive capabilities:

1. market sensing
2. customer linking, and

3. channel bonding

In terms of market sensing, he believes tremendous opportunities and threats often begin as "weak signals" from the "periphery" of a business. He offers a systematic process for developing peripheral vision, and practical tools and strategies for building "vigilant organizations" attuned to changes in the environment, by asking three questions each related to learning from the past, evaluating the present, and envisioning the future. Competitive advantage ultimately derives from how well the company has fitted its core competencies and distinctive capabilities into tightly interlocking "activity systems." Competitors find it hard to imitate Southwest Airlines, Walmart, and IKEA because they are unable to copy their activity systems.

2.2 Objectives

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

1. the concept of markets
2. the various types of customer markets
3. the evolution of concepts of marketing

2.3 Key Customer Markets

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. Marketers are skilled in stimulating demand for a company's products, but this is too limited a view of the tasks they perform. Just as production and logistics professionals are responsible for supply management, marketers are responsible for demand management. Marketing managers seek to influence the level, timing, and composition of demand to meet the organizational objectives. Eight demand phases can be possibly listed out as below:

1. **Negative demand** - Consumers dislike the product and may even pay a price to avoid it.
2. **Nonexistent demand** - Consumer may be unaware or uninterested in the product.

3. **Latent demand** - Consumers may share a strong need that cannot be satisfied by an existing product.
4. **Declining demand** - Consumers begin to buy the product less frequently or not at all.
5. **Irregular demand** - Consumer purchases vary on a seasonal, monthly, weekly, daily, or even hourly basis.
6. **Full demand** - Consumers are adequately buying all products put into the marketplace.
7. **Overfull demand** - More consumers would like to buy the product that can be satisfied.
8. **Unwholesome demand** - Consumers may attracted to products that have undesirable social consequences.

MARKETS

A market is a physical place where buyers and sellers gathered to buy and sell goods. Economists describe a market as a collection of buyers and sellers who transact over a particular product or product class (e.g. the housing market or grain market). Modern economies abound in such markets. Manufacturers go to resource market (raw material markets, labor markets, money markets), buy resources and turn them into goods and services, and then sell finished products to intermediaries, who sell them to consumers. Consumers sell their labor and receive money with which they pay for goods and services. The government collects tax revenues to buy goods from resources, manufacturer and intermediary markets and uses these goods and services to provide public services. Each national economy and the global economy consist of complex interacting set of markets linked through exchange processes.

On the other hand, marketers often use the term market to cover various grouping of customers. They view the sellers as constituting the industry and the buyers as constituting the market. They talk about need markets, product markets, demographic markets and geographic markets or they extend the concept to cover other markets, such as voter marketers, labor markets and donor markets. Sellers and buyers are connected by four flows. The sellers send goods, services and communication (ads, direct mail) to the market; in return they receive money and information (attitudes, sales data). The inner loop shows an exchange of money for goods and services; the outer loop shows an exchange of information. The types of market a company is operating in will determine the type of business strategy you need to have. Strategies for consumer markets are completely different from that of industrial markets. Industrial markets deal in bulk product selling whereas consumer products generally involve breaking the bulk. Costing and marketing is a critical function for both types of markets. Furthermore, with the rise of globalization, companies have themselves gone global and thus their marketing strategies have adapted accordingly. There are several factors which are added to normal business strategies when you are considering going global. And last but not the least, the government, and institutional business which are the real revenue generators because of their huge orders. Let's discuss each of these types of markets one by one.

Markets traditionally, a "market" was a physical place where buyers and sellers gathered to buy and sell goods. Economists describe a market as a collection of buyers and sellers who transact over a particular product or product class (such as the housing market or the grain market). Manufacturers go to resource markets (raw material markets, labor markets, money markets), buy resources and turn them into goods and services, and sell finished products to intermediaries, who sell them to consumers. Consumers sell their labor and receive money with which they pay for goods and services. The government collects tax revenues to buy goods from resource manufacturer and intermediary markets and uses these goods and services to provide public services. Each nation's economy and the global economy, consists of interacting sets of markets linked through exchange processes.

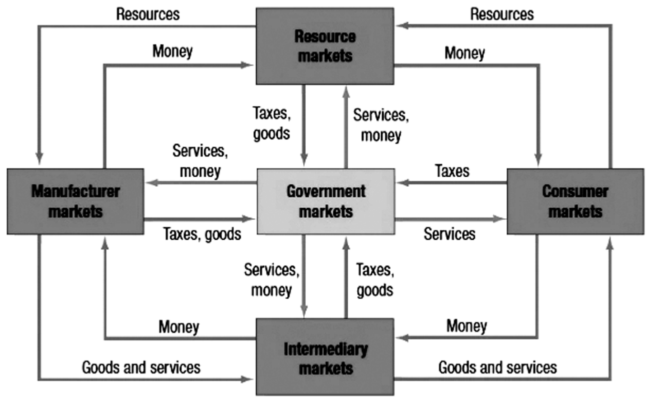

Fig. 2.1

Marketers view sellers as the industry and use the term market to describe customer groups. They talk about need markets (the diet-seeking market), product markets (the shoe market), demographic markets (the "millennium" youth market), geographic markets (the Chinese market), or voter markets, labor markets and donor markets. The following figure shows how sellers and buyers are connected by four flows. Sellers send goods and services and communications such as ads and direct mail to the market; in return they receive money and information such as customer attitudes and sales data.

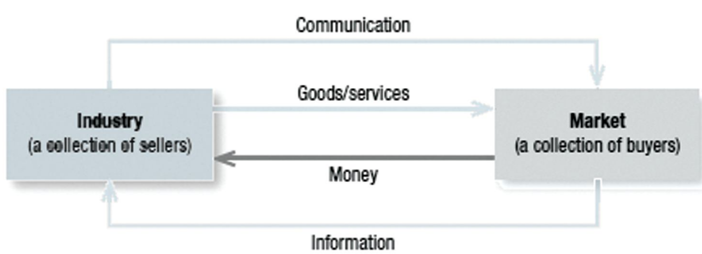

Fig. 2.2 : Seller & Buyer Connection

The inner loop shows an exchange of money for goods and services; the outer loop shows an exchange of information. Key customer markets consider the following key customer markets: consumer, business, global, and nonprofit.

(i) Consumer Markets: Companies selling mass consumer goods and services such as juices, cosmetics, athletic shoes and air travel establish a strong brand image by developing a superior product or service, ensuring its availability and backing it with engaging communications and reliable performance. As the name suggests, the consumer market involves marketing of consumer goods such as television, refrigerator, air conditioners etc. As awareness and knowledge of consumers rises, marketing of consumer goods gets tougher. Today a lot of focus has shifted to consumer goods marketing because a consumer has a lot of choices. The brand loyalty is at its lowest and the worst fear a brand can face now is a high rate of brand defection. Along with the branding part, the costing part too needs to be considered in the consumer market. The cost of operations is too high with various departments and specialties coming together to form a consumer goods companies. There is inventory management, logistics, manufacturing, promotions, strategies and whatnot. The presence of a tangible product increases the importance of proper planning without which a consumer goods company is sure to fail. Consumer durable market is characterized by the presence of high competition, penetration pricing, dynamics of channel management and finally a high expense on manufacturing and distribution

(ii) Business Markets: Companies selling business goods and services often face well-informed professional buyers skilled at evaluating competitive offerings. Advertising and Web sites can play a role, but the sales force, the price, and the seller's reputation may play a greater one. Similar to consumer markets, nowadays even the organizational buyer has numerous options in his kitty. Just at the number of software and hardware services providers in the Market. For software there's IBM, Accenture, Oracle and several other top brands. For hardware there's Microsoft, Dell, and others. The competition is increasing. Furthermore, the organizational buyer will think 4 to 5 times before purchasing a product because of the cost involved. An order for computers for a multinational company's office will probably go in crores. Because of the cost involved, organizational buyers make it a point to be much more knowledgeable than any average customer. Organizational buyers have a group of dedicated people who form the "Purchase Department." These people are responsible for buying at the lowest possible price they can. The other characteristic of business markets is the time taken to close the deal. Business markets involve selling of projects too. Projects take time to be analysed and to fix up a price as they consider the cost of inflation while the project is in progress. Thus, they need proper planning else the cost of the project would take a hit on the profits for the company. Finally, in case of business markets, the sales force, the price and the product have a much upper value than the promotions. This is absolutely opposite to consumer markets where promotions makes a huge difference to the consumer buying process. Some service companies such as Accenture and Intel hardly advertise their products nowadays. They just advertise their presence in the market. The rest is done by the quality of products they have. Same goes for Microsoft. Of the 4 P's of the marketing mix, promotions is the most ignored in case of business markets.

(iii) Global Markets: Companies in the global marketplace navigate cultural, language, legal and political differences while deciding which countries to enter, how to enter each (as exporter, licenser, joint venture partner, contract manufacturer, or solo manufacturer), how to adapt product and service features to each country, how to set prices, and how to communicate in different cultures. The changes in the cost of transportation, government policies and the overall need for expansion have given an impetus to globalization. The strategies of global market companies may differ from each other but the core concept is the same. Most global marketing companies work on one fundamental. "Think Local Act Global". The company which comes at the top of my mind is McDonalds and Coca Cola. Both known for their global presence as well as for the way they customize their message based on the country they are in.

Companies may be global on the basis of both business to business as well as business to consumers. The challenges faced by global companies are much more than those faced by local companies. Firstly, let's look at the options they have for modes of entry. How do they enter a country? Do they partner with some local company? Do they export their product? Or they shift a part of their operations in the country to directly establish their presence? Multiply these questions with the cost of operations involved as well as the amount of information which needs to be accessed. Now you know the difficulties!! Nonetheless, Global expansion is an excellent option for any company provided it has deep pockets to sustain the initial expenditure required to establish yourself in another country.

(iv) Nonprofit and Governmental Markets: Companies selling to nonprofit organizations with limited purchasing power such as churches, universities, charitable organizations, and government agencies need to price carefully. Much government purchasing requires bids; buyers often focus on practical solutions and favor the lowest bid, other things equal. The government market mainly involves Government offices, ordnance factories, army, navy and other government departments. The non-profit organisations on the other hand may involve groups based on different beliefs some of which really have an excellent brand name and are recognised by several companies. Both of these entities have a limited purchasing budget and hence the price of products is important. Accordingly, the purchase process is organized.

Most government and nonprofit organizations involve the issuance of tenders and bids. The one to bid the lowest is known as L1 and the one to bid the highest is known as H1. Naturally, L1 wins the bid. There are several companies which have modified their products specifically for the government markets to come L1 in these tenders and bids. The products may be a bit inferior, nonetheless they do meet the government's requirement, and that is what matters in the end. Each of these markets can be tapped separately by companies. In fact, some consumer durable companies have different departments for corporate sales and government sales. Tapping each of these markets provides an avenue for the company to expand their market share and overall revenue generated by the company.

Types of Customer Markets

Business markets are defined by the buyers within them. In addition to targeting specific types of consumers or segments of a particular marketplace, businesses can tailor their products and services to different types of macro marketplaces. You can sell the same product or service differently in various markets by modifying what you offer, your pricing, promotional strategies and distribution channels.

1. Business to Business (B2B)

B2B as the name suggests is a Business To Business model which facilitates business transactions from one company to the other. Like an engineering equipment manufacturing company which provides equipment to the construction company. When you sell to other businesses, you are participating in the business-to-business market. The B2B marketplace requires a greater emphasis on customer education and proof of benefit than on desirability, status or other emotional sales pitches. Business-to-business selling often consists of garnering larger orders from fewer customers, with more personal interaction, rather than advertising and promotions, necessary. Within the B2B market are subsets of the marketplace focusing on the sale of industrial products, consulting services and financial services.

a) Industrial

The industrial market consists largely of companies transacting business in hard goods such as machinery, materials, chemicals, vehicles and office furniture and supplies. The buyers are often manufacturers; the sellers are known as suppliers. Suppliers must be experts in their product or service and the market overall. They often use a consultative selling approach to partner with customers, helping them solve problems or meet specific business goals.

b) Professional Services

Another subset of B2B is professional services, which consists of providing consulting or delivery of business needs such as marketing, information technology, human resources, benefits planning, management consulting and payroll. Some commercial services, especially those involving information technology systems, include the sale of hard goods such as computers and software. Many solo entrepreneurs offer professional services as consultants, while firms might group a variety of services such as advertising, public relations, promotions and media buying under one roof.

c) Financial Services

One area of the commercial services market deals with selling of financial services. This can include banking, insurance, commercial credit and lending, tax planning, investments and asset management and consulting publicly traded companies. Financial services professionals are often highly trained, certified, licensed or bonded. Financial services providers often must follow specific government rules and regulations.

2. Business-to-Government (B2G)

Business-to-Government (B2G) is a derivative of B2B marketing and often referred to as a market definition of "public sector marketing" which encompasses marketing products and services to various government levels including federal, state and local through integrated marketing communications techniques such as strategic public relations, branding, marcom, advertising, and web-based communications. B2G networks provide a platform for businesses to bid on government opportunities which are presented as solicitations in the form of RFPs in a reverse auction fashion. Public sector organizations (PSOs) post tenders in the form of RFPs, RFIs, RFQs, Sources Sought, etc. and suppliers respond to them. Government agencies typically have pre-negotiated standing contracts vetting the vendors/suppliers and their products and services for set prices. These can be state, local or federal contracts and some may be grandfathered in by other entities (i.e. California's MAS Multiple Award Schedule will recognize the federal government contract holder's prices on a General Services Administration Schedule). There are multiple social platforms dedicated to this vertical market and they have risen in popularity with the onset of the ARRA/Stimulus Program and increased government funds available to commercial entities for both grants and contracts. Working with governments provides a variety of opportunities and challenges. A contract with a municipal, state or federal agency means having a solid client that will honor its obligations and pay you on time. Getting these contracts usually requires filling out lengthy bids, showing proof of your corporate status and agreeing to follow other business practices government agencies require. In some locales, bidders for government contracts must meet requirements that include at least partial ownership of the company by a minority. Even a landscaping or janitorial contract for a local city hall or school can take months to secure.

3. Business to Consumer market (B2C)

B2C is a Business to consumer model, usual one where the online retailers sell directly to the consumers. The retail market comprises of the supermarkets, departmental stores, food chain outlets, specialty stores and franchise stores. This type of Consumer Market is discovering new business opportunities with each passing day because of the rapidly changing lifestyle and spending pattern of the people. Even in the suburban areas and in small towns, departmental stores are coming up from the big retail chain houses as westernized lifestyle and western culture is making their presence felt all over the world. This type of market generates low profit margins but has high growth potential. To utilize this growth potential, companies need to modify their business activities in accordance with the changing lifestyle and changing consumption trends of the customers. If the customers receive enough value for money, only then they will be loyal to the brands and will make repeated purchase.

Consumer Products Market

(i) Durable Goods

This market comprises of the markets for different consumer products. This includes market for consumer durables, FMCG (Fast Moving Consumer Goods), consumer electronic goods, domestic electrical appliances, cosmetics, jewellery, furniture, air conditioners, bicycles and apparels. In consumer products market aggressive marketing is required because the customers of consumer product market lack in loyalty and tend to shift from one brand to another very quickly. The consumer products market is characterized by high level of competition among the sellers. The companies are continuously engaged in modification of business models and business activities to match up with the changing consumer needs. Moreover, the norms of WTO (World Trade Organization) are resulting in various mergers, alliances, and tie-ups among the companies. The companies are being compelled to go for these alliances to remain competitive and to exist in the market because, losing the competitive edge will ensure complete market exit.

(ii) Food and Beverages Market

This market consists of the sub-markets like markets for dairy products, bakery products, packaged food products, Beverages, Confectionary, Beer, Alcohol, meat and poultry products. This type of consumer market is full of growth opportunities because of changing lifestyle of present era. Consumer Awareness and Brand Loyalty of customers help this market to grow to a different high.

(iii) Transportation Service Market

This type of Consumer Market consists of postal services, courier services and logistic services. Transportation Service Market is generally dominated by a large number of medium and small enterprises and a few number of large enterprises. Companies in this type of market essentially require brand name and strong distribution network and significant amount of capital investment. With emergence of technology based advanced facilities like e-commerce and with the increasing use of internet, new horizons are opening for this type of market. The companies can utilize the advantages of reduced costing, improved customer relationship and accelerated movement of materials and can go for strategic tie ups with international business houses. This way, they can make proper use of the new business opportunities which has been generated by the rising level of Foreign Direct Investment and Economic Growth around the world.

4. Consumer to Consumer (C2C)

Customer to Customer (C2C) is a business model that facilitates an environment, usually online, where customers can trade with each other. Two implementations of C2C markets are auctions and classifieds. C2C marketing has soared in popularity with the arrival of the internet, as companies such as eBay and Craigslist have fostered greater interaction between customers. At its most basic level, C2C represents a market environment where one customer purchases goods from another customer using a third-party business or platform to help facilitate the deal. C2C businesses are a new type of model that has arisen with ecommerce technology and the sharing economy. The C2C marketplace has increased over time as more companies have entered the space to facilitate C2C transactions. Many companies target niche markets to list specific products and attract unique consumers. The C2C market is projected to grow in the future because of its cost-effectiveness. The cost of using third parties is declining and the amount of products for sale by consumers is steadily rising. Retailers see it as a very important business model, given consumers' growing use of social media and other online channels. These channels showcase specific products already owned by consumers and increase demand, which drives increased online traffic to C2C platforms. However, C2C has some issues, such as lack of quality control or payment guarantees. There is also the occasional difficulty in making credit card payments. The rise of PayPal and other payment systems over the years has helped eliminate the latter problem.

C2C is a category of e-commerce which allows consumers to interact with each other. This model of e-commerce facilitates transactions of products or services between consumers. In business to consumer model, a consumer approaches a business to purchase goods or services. In C2C model, the business provides a platform where consumers can sell products or services to each other. The main goal of C2C is to help buyers find sellers. This benefits both the parties. A buyer finds a product or a service which would have otherwise been hard to find and a seller benefits by selling the product or a service. The platforms for such transactions are usually provided by third parties, which act as intermediaries between the sellers and buyers. For instance, online portals such as E-Bay facilitate sellers to post their goods or services online that is available for consumers to purchase. In such transactions, the third party may charge a transaction fee or commission. Products sold on these websites can be new or second hand. The proliferation of internet services across the world and the significant increase in the use of smart phones can be attributed as major factors to facilitate the C2C ecommerce market growth. Users can sign-up on online portals providing C2C services and begin to buy or sell desired products or services. The reduction in the costs of these products and services, due to the absence of middlemen, wholesalers and retailers involved in the transaction has further aided to the growth of global C2C e-commerce market. Moreover, sellers are no longer restricted to local regions and can reach national and international audiences. Furthermore, the need of capital investment on outlet stores is eliminated and the inventory costs are reduced. This enables the sellers to sell their products at higher prices and at the same time buyers can purchase them at comparatively cheaper prices. Also, the convenience associated with this model with regards to ample choices available to buyers is an advantage for the subscribers of such portals. The advent and increasing popularity of online payment systems is expected to fuel the growth of C2C e-commerce globally. However, internet frauds and identity threats, absence of payment guarantees are the hurdles in adoption of these services. C2C websites have no control over the quality of goods being sold on them as they only act as intermediaries. The possibility of illegal or pirated products sold through such websites is a threat to the C2C market. On the basis of source of revenue, the C2C e-commerce market can be broadly segmented into classifieds and auctions. Classifieds can be further segmented into products and services. In terms of geography, C2C e-commerce market is segmented into North America, Europe, Asia Pacific, Middle East and Africa (MEA) and Latin America. North America is one of the leading regions in the global market because of high penetration of Internet and a large number of Smartphone users. Asia Pacific is expected to witness rapid growth in the coming years due to the rise in Internet and Smartphone users, mainly in China and India. The key players in the C2C e-commerce market include eBay Inc, Amazon.com, Craigslist, Inc, Taobao.com, OLX, Quikr India Private Limited , uBid.com, Auctions.com and Airbnb. Inc.

5. Consumer to Business C2B:-

Consumer-to-Business (C2B) is a business model in which consumers (individuals) create value and businesses consume that value. For example, when a consumer writes reviews or when a consumer gives a useful idea for new product development then that consumer is creating value for the business if the business adopts the input. Excepted concepts are crowd sourcing and co-creation. C2B model, also called a reverse auction or demand collection model enables buyers to name or demand their own price, which is often binding, for a specific good or service. The website collects the demand bids then offers the bids to participating sellers. Another form of C2B is the electronic commerce business model in which consumers can offer products and services to companies, and the companies pay the consumers. This business model is a complete reversal of the traditional business model in which companies offer goods and services to consumers (Business-to-Consumer ; B2C). We can see the C2B model at work in blogs or internet forums in which the author offers a link back to an online business thereby facilitating the purchase of a product (like a book on Amazon.com), for which the author might receive affiliate revenues from a successful sale. Elance was the first C2B model e-commerce site. C2B is a kind of economic relationship that is qualified as an inverted business type. The advent of the C2B scheme is due to:

1. The internet connecting large groups of people to a bidirectional network; the large traditional media outlets are one-directional relationships whereas the internet is bidirectional.
2. Decreasing costs of technology; individuals now have access to technologies that were once only available to large companies (digital printing and acquisition technology, high performance computers, and powerful software).
3. Consumer to business, something as simple as selling used goods to a company which will improvise it and sell it at a better price.

C2B business models include reverse auctions, in which customers name the price for a product or service they wish to buy. Another form of C2B occurs when a consumer provides a business with a fee-based opportunity to market the business's products on the consumer's blog. For example, food companies may ask food bloggers to include a new product in a recipe, and review it for readers of their blogs. YouTube reviews may be incentivized by free products or direct payment. This could also include paid advertisement space on the consumer website. Google Ad words/Ad sense has enabled this kind of relationship by simplifying the process in which bloggers can be paid for ads. Services such as Amazon affiliates allow website owners to earn money by linking to a product for sale on Amazon.

2.4 EVOLUTION OF MARKETING CONCEPT

A correct understanding of marketing concept is fundamental to the study of modern marketing and marketing management. In any walk of life, thinking precedes doing; the way of thinking that determines the very course of action. A 'concept' is a philosophy, an attitude, a course of thinking, an idea or a notion relating to any aspect of divine and human creations. The philosophy of an organisation in the dynamic realm of marketing is referred to as a 'marketing concept.' A concept is an orientation or a philosophy;

Thus, marketing concept is the way of life in which all the resources of an organisation are mobilized to create, stimulate, and satisfy the consumer at a profit. It represents a distinct philosophy of business and considers marketing more than a physical process. Wherever this concept prevails, that marketing organisation is future oriented, customer oriented, value oriented, profit oriented and applies modern management practices to all sales, distribution and other marketing functions. It is a managerial philosophy and organizational structure that centers on the desires of the consumers. It calls on the company, in essence, to make only "what it can sell". It therefore, reserves the right of reversing the logic of the past that the task of marketing is to sell what the firm makes.

This marketing philosophy has undergone a thorough and gradual change since the great Industrial Revolution that took place during the latter half of the 18th and first half of the 19th centuries. This gradual change can be traced under four periods and captions namely; Production orientation period, sales-orientation period, customer-orientation period, and social orientation period.

Following is the brief explanation of each philosophy and corresponding period:

2.4.1 Evolution of Marketing in India

Marketing has changed over the centuries, decades and years. The production centered system systematically changed into relationship era of today and over the period; the specializations have emerged such as sales versus marketing and advertising versus retailing. The overall evolution of marketing has given rise to the concept of business development. Marketing has taken the modern shape after going through various stages since last the end of 19th century. The production oriented practice of marketing prior to the twentieth century was conservative and hidebound by rules-of-thumb and lack of information. Science & technology developments and specially the development of information technology have now changed the way people live, the way people do business and the way people sell and purchase. Following is a short summary of the various stages of evolution of marketing :

1) Production Orientation Era

The prevailing attitude and approach of the production orientation era was "consumers favor products that are available and highly affordable". The mantra for marketing success was to "improve production and distribution". The rule was "availability and affordability is what the customer wants". The era was marked by narrow product-lines; pricing system based on the costs of production and distribution; limited research; primary aim of the packaging was to protect the product with minimum promotion. Advertising meant, "Promoting products with a lesser quality".

2) Product Orientation Era

The attitude changed slowly and approach shifted from production to product and from the quantity to quality. The prevailing attitude of this period was that consumers favor products that offer the most quality, performance and innovative features and the mantra for marketers was 'A good product will sell itself', so does not need promotion.

3) Sales Orientation Era

The increased competition and variety of choices / options available to customers changed the marketing approach and now the attitude was "Consumers will buy products only if the company promotes/ sells these products". This era indicates rise of advertising and the mantra for marketers was "Creative advertising and selling will overcome consumers' resistance and convince them to buy".

4) Marketing Orientation Era

The shift from production to product and from product to customers later manifested in the Marketing Era which focused on the "needs and wants of the customers" and the mantra of marketers was 'The consumer is king! Find a need and fill it'. The approach is shifted to delivering satisfaction better than competitors are.

5) Relationship Marketing Orientation Era

This is the modern approach of marketing. Today's marketer focuses on needs/ wants of target markets and aims at delivering superior value. The mantra of a successful marketer is 'Long-term relationships with customers and other partners lead to success"

The following sentences summarize the above evolution of marketing.

1. Production era: 'Cut costs. Profits will take care of themselves'.
2. Product era: 'A good product will sell itself'.
3. Sales era: 'Selling is laying the bait for the customer'.
4. Marketing era: 'The customer is King!'.
5. Relationship marketing era: 'Relationship with customers determine our firm's future'.

2.4.2 Production Orientation Philosophy

Till 1930s, there prevailed a strong feeling that whenever a firm has a good product, it results in automatic consumer response and that needed little or no promotional efforts. This production-oriented marketing concept was built on "Good wine needs no push." That is, if the product is really good and the price is reasonable, there is no need for special marketing efforts.

The assumptions of this concept are:

(i) Anything that can be produced can be sold,

(ii) The most important task of management is to keep the cost of production down.

(iii) A firm should produce only certain basic products.

Under this concept, production is the starting point. The product acceptability occurs after the product is produced.

2.4.3 Sales Orientation Philosophy

The failures of the production orientation philosophy of 1930s paved the way for change in the outlook that was possible during 1940s. This reshaped philosophy was sales-orientation that holds good to a certain extent even today. It states that mere making available the best product is not enough; it is futile unless the firm resorts to aggressive salesmanship. Effective sales promotion, advertising and public relations are of top importance. High pressure salesmanship and heavy doses of advertising are a must to move the products of the firm.

The essence of sales orientation philosophy is "Goods are not bought but sold." The maker of product must say that his product is best and he fails if he keeps mum. The assumptions of this philosophy are:

(i) Producing the best possible product.

(ii) Finding the buyer for the product,

(iii) The management's main task is to convince the buyers through high pressure tactics, if necessary.

The philosophy has been prevailing since 1940. It is more prevalent in selling all kinds of insurance policies, consumer non-durables and consumer durable products, particularly the status-symbols.

2.4.4 Customer Orientation Philosophy

This philosophy was brought into play during 1950s and points out that the fundamental task of business undertaking is to study and understand the needs, wants, desires and values of potential consumers and produce the goods in the light of these findings so that consumer specifications are met totally. Here, the starting point is the customer rather than the product. The enterprise is to commence with the consumer and end with the requisite product. It emphasizes the role of marketing research well before the product is made available in the market place.

The assumptions are:

1. The firm should produce only that product as desired by the consumer.
2. The management is to integrate all its activities in order to develop programmes to satisfy the consumer wants.
3. The management is to be guided by 'long-range profit goals' rather than 'quick sales.'

This means a radical change in the philosophy. It meant two basic changes namely:

(i) Move from production to market-orientation,

(ii) Gradual shift from age old "Caveat emptor" to "Caveat vendor".

Since 1950, this philosophy is in vogue and will continue so long as consumer is the **King of the Market.**

2.4.5. Social Orientation Philosophy

There has been a further refinement in the marketing concept particularly during 1970s and 1980s. Accordingly, the new concept goes beyond understanding the consumer needs and matching the products accordingly. This philosophy cares for not only consumer satisfaction but for consumer welfare or social welfare. Such social welfare speaks of pollution-free environment and quality of human life.

Thus, a firm manufacturing a pack of cigarettes for consumer must not only produce the best cigarettes but pollution-free cigarettes; an automobile not only fuel efficient but less pollutant one. In other words, the firm is to discharge its social responsibilities. Thus, social welfare becomes the added dimension.

The assumptions of social-orientation philosophy are:

(i) The firm is to produce only those products as are wanted by the consumers,

(ii) The firm is to be guided by long-term profit goals rather than quick sales.

(iii) The firm should discharge its social responsibilities,

(iv) The management is to integrate the firm's resources and activities to develop programme to meet these individual consumer and social needs.

This social oriented philosophy is the latest and is considered as an integrated concept. This philosophy, as it covers earlier long-standing concepts, is bound to rule the marketing world for pretty long time. However, we are to wait and see as to what changes are likely in the coming years and decades that will shape the new marketing concept.

2.5 SUMMARY

Each time you buy a product or service, you are participating in the consumer market. Whether you're picking up groceries for the week or paying to get your car washed, you're part of this larger system.

A consumer market is the very system that allows us to purchase products, goods, and services. These items can be used for personal use or shared with others. In a consumer market, you make your own decisions about how you will spend money and use the products you purchase. The more people who go out and actively purchase products, the more active the consumer market.

The marketing concept and philosophy is one of the simplest ideas in marketing and at the same time, it is also one of the most important marketing philosophies. At its very core are the customer and his or her satisfaction. The marketing concept and philosophy states that the organization should strive to satisfy its customers' wants and needs while meeting the organization's goals. In simple terms, "the customer is king". The implication of the marketing concept is very important for management. It is not something that the marketing department administers, nor is it the sole domain of the marketing department. Rather, it is adopted by the entire organization. From top management to the lowest levels and across all the departments of the organization, it is a philosophy or way of doing business. The customers' needs, wants and satisfaction should always be foremost in every manager and employees' mind. Wal-Mart's motto of "satisfaction guaranteed" is an example of the marketing concept. Whether the Wal-Mart employee is an accountant or a cashier, the customer is always first.

2.6 GLOSSARY

1. **Consumer Markets:** Companies selling mass consumer goods and services such as juices, cosmetics, athletic shoes, and air travel spend a great deal of time establishing a strong brand image by developing a superior product and packaging, ensuring its availability, and backing it with engaging communications and reliable service.

2. **Business Markets:** Companies selling business goods and services often face well-informed professional buyers skilled at evaluating competitive offerings. Business buyers buy goods to make or resell a product to others at a profit. Business marketers must demonstrate how their products will help achieve higher revenue or lower costs. Advertising can play a role, but the sales force, the price, and the company's reputation may play a greater one. Another Version of Business Market: Marketplaces where organizations purchase raw materials, natural resources and components of other products for their resale or for use in manufacturing another product. Business markets are generally made up of businesses which buy products and raw materials for their own operation.

3. **Global Markets:** Companies in the global marketplace must decide which countries to enter; how to enter each (as an exporter, licenser, joint venture partner, contract manufacturer, or solo manufacturer); how to adapt product and service features to each country; how to price products in different countries; and how to design communications for different cultures. They face different requirements for buying and disposing of property; cultural, language, legal and political differences; and currency fluctuations. Yet, the payoff can be huge.

4. **Nonprofit and Governmental Markets:** Companies selling to nonprofit organizations with limited purchasing power such as churches, universities, charitable organizations, and government agencies need to price carefully. Lower selling prices affect the features and quality the seller can build into the offering. Much government purchasing calls for bids, and buyers often focus on practical solutions and favor the lowest bid in the absence of extenuating factors

2.7 SELF ASSESSMENT QUESTIONS

1) What are government markets meant for?

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2) Why are business markets important in our economy?

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2.8 LESSON END EXERCISE

1) Discuss the evolution of marketing concepts and also highlight their significance

2) Distinguish between B2B, B2C and C2C markets using appropriate examples.

2.9 SUGGESTED READINGS

- Marketing Management, Pearson, By: Kotler & Keller
- Marketing Management, Tat Mc-Graw Hill, By: Rajan Saxena
- Marketing Management, Prentice Hall, By: Bagozzi
- Cases in Marketing Management, Excel Books, By: Bhasin, M.L.
- Marketing in India: Cases and Readings, Viva Publications, By: Neelamegham, S.
- Marketing Management: the Millennium Edition, Pearson, By: Kotler & Keller
- Marketing Management, AITBS Publications, By: Craven David W.
- Marketing: Real People, Real Choice, Prentice-Hall, By: Soloman, Michael, R.

Lesson No. 3 **Unit-I**

Semester-II **M.Com-C254**

CONCEPTS / PHILOSOPHIES OF MARKETING

STRUCTURE

3.1 INTRODUCTION

The marketing concept relies upon marketing research to define market segments, their size and their needs. The marketing department makes the appropriate decisions to satisfy those needs. The marketing concept and philosophy is one of the simplest ideas in marketing and at the same time, it is also one of the most important marketing philosophies. At its very core are the customer and his or her satisfaction. The marketing concept and philosophy states that the organization should strive to satisfy its customers' wants and needs while meeting the organization's goals. In simple terms, "the customer is king".

3.2 OBJECTIVES

After reading this unit, you should be able to:

1. understand the philosophies of marketing

3.3 CONCEPTS/ PHILOSOPHIES OF MARKETING

The implication of the marketing concept is very important for managemcnt. lt is not something that the marketing department administers, or is it the sole domain of the marketing department. Rather, it is adopted by the entire organization. From top management to the lowest levels and across all departments of the organization. Marketing concept is a philosophy or way of doing business. The customers' needs, wants and satisfaction should always be foremost in every manager and employees' mind. Wal-Mart's motto of "satisfaction guaranteed" is an example of the marketing concept. Whether the Wal-Mart employee is an accountant or a cashier, the customer is always first.

As simple as the philosophy sounds, the concept is not very old in the evolution of marketing thought. However, it is at the end of a succession of business philosophies that cover centuries. To gain a better understanding of the thought leading to the marketing concept, the history and evolution of the marketing concept and philosophy are examined first. Next, the marketing concept and philosophy and some mis-conceptions about it are discussed.

3.3.1 The Five Marketing Philosophies

The marketing concept and philosophy is one of the simplest ideas in marketing and at the same time, it is also one of the most important marketing philosophies. At its very core are the customer and his or her satisfaction. The marketing concept and philosophy states that the organization should strive to satisfy its customers' wants and needs while meeting the organization's goals. In simple terms, "the customer is king".

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Evolution of the Marketing Concept And Philosophy

The marketing concept and philosophy evolved as the last of three major philosophies of marketing. These three philosophies are product, selling and marketing philosophies. Even though each philosophy has a particular time when it was dominant, a philosophy did not die with the end of its era of dominance. In fact, all three philosophies are being used today.

1) Product philosophy

The product philosophy was the dominant marketing philosophy prior to the Industrial Revolution and continued to the 1920s. The product philosophy holds that the organization knows its product better than anyone or any organization. The company knows what will work in designing and producing the product and what will not work. For example, the company may decide to emphasize the low cost or high quality of their products. This confidence in their ability is not a radical concept, but the confidence leads to the consumer being overlooked. Since the organization has the great knowledge and skill in making the product, the organization also assumes it knows what is best for the consumer.

This philosophy of only relying on the organization's skill and desires for the product did not lead to poor sales. In much of the product philosophy era, organizations were able to sell all of the products that they made. The success of the product philosophy era is due mostly to the time and level of technology in which it was dominant. The product era spanned both the pre-industrial revolution era and much of the time after the industrial revolution.

The period before the industrial revolution was the time when most goods were made by hand. The production was very slow and few goods could be produced. However, there was also a demand for those goods, and the slow production could not fill the demand in many cases. The importance for management of this shortage was that very little marketing was needed.

An example illustrates the effects of the shortages. Today, the gunsmith shop in Williamsburg, Virginia, still operates using the product philosophy. The gunsmiths produce single-shot rifles using the technology available during the 1700s. They are only able to produce about four or five rifles every year, and they charge from $15,000 to $20,000 for each rifle. However, the high price does not deter the demand for the guns; their uniqueness commands a waiting list of three to four years. Today's

Williamsburg Gunsmith Shop situation was typical for organizations operating before the Industrial Revolution. Most goods were in such short supply that companies could sell all that they made. Consequently, organizations did not need to consult with consumers about designing and producing their products.

When mass production techniques created the industrial revolution, the volume of output was greatly increased. Yet the increased production of goods did not immediately eliminate the shortages from the pre-industrial era. The new mass production techniques provided economies of scale allowing for lower costs of production and corresponding lower prices for goods. Lower prices greatly expanded the market for the goods, and the new production techniques were struggling to keep up with the demand. This situation meant that the product philosophy would work just as well in the new industrial environment. Consumers still did not need to be consulted for the organization to sell its products.

One of the many stories about Henry Ford illustrates the classic example of the product philosophy in use after the Industrial Revolution. Henry Ford pioneered mass production techniques in the automobile industry. With the techniques, he offered cars at affordable prices to the general public. Before this time, cars were hand made, and only the very wealthy could afford them. The public enthusiastically purchased all the Model T Fords that the company could produce. The evidence that the product philosophy was alive and well in Ford Motor Company came in Henry Ford's famous reaction to consumer requests for more colour options. He was said to have responded that "you can have any colour car you want as long as it is black." Realizing that different colours would increase the cost of production and price of the Model T's, Henry Ford, using the product philosophy, decided that lower prices were best for the public.

2) Selling philosophy

The selling era has the shortest period of dominance of the three philosophies. It began to be dominant around 1930 and stayed in widespread use until about 1950.

The selling philosophy holds that an organization can sell any product it produces with the use of marketing techniques, such as advertising and personal selling. Organizations could create marketing departments that would be concerned with selling the goods, and the rest of the organization could be left to concentrate on producing the goods.

The reason for the emergence of the selling philosophy was the ever-rising number of goods available after the Industrial Revolution. Organizations became progressively more efficient in production, which increased the volume of goods. With the increased supply, competition also entered production function. These two events eventually led to the end of product shortages and the creation of surpluses. It was because of the surpluses that organizations turned to the use of advertising and personal selling to reduce their inventories and sell their goods. The selling philosophy also enabled part of the organization to keep focusing on the product via the product philosophy. In addition, the selling philosophy held that a sales or marketing department could sell whatever the company produced.

The Ford Motor Company is also a good example of the selling philosophy and why this philosophy does not work in many instances. Ford produced and sold the Model T for many years. During its production, the automobile market attracted more competition. Not only did the competition begin to offer cars in other colors, the styling of the competition was viewed as modern and the Model T became considered as old-fashioned. Henry Ford's sons were aware of the changes in the automobile market and tried to convince their father to adapt. However, Henry Ford was sure that his standardized low-price automobile was what the public needed. Consequently, Ford turned to marketing techniques to sell the Model T. It continued to sell, but its market share began to drop. Eventually, even Henry Ford had to recognize consumer desires and introduce a new model.

The selling philosophy assumes that a well-trained and motivated sales force can sell any product. However, more companies began to realize that it is easier to sell a product that the customer wants, than to sell a product the customer does not want. When many companies began to realize this fact, the selling era gave way to the marketing era of the marketing concept and philosophy.

3) Marketing philosophy

The marketing era started to dominate around 1950, and it continues to the present. The marketing concept recognizes that the company's knowledge and skill in designing products may not always be meeting the needs of customers. It also recognizes that even a good sales department cannot sell every product that does not meet consumers' needs. When customers have many choices, they will choose the one that best meets their needs.

I) Market concept and philosophy

The marketing concept and philosophy states that the organization should strive to satisfy its customers' wants and needs while meeting the organization's goals. The best way to meet the organization's goals is also by meeting customer needs and wants. The emphases of marketing concept is is to understand the customers before designing and producing a product for them. With the customer's wants and needs incorporated into the design and manufacture of the product, sales and profit goals are far more likely to be met.

With the customer satisfaction, the key to the organization, the need to understand the customer becomes more critical. Marketing research techniques have been developed just for that purpose. Smaller organizations may keep close to their customers by simply talking with them. Larger corporations have established methods in place to keep in touch with their customers, be it consumer panels, focus groups, or third-party research studies. Whatever the method, the desire is to know the customers so the organization can better serve them and not lose sight of their needs and wants.

The idea of keeping close to the organization's customers seems simple. In reality, it is very easy to forget the customer needs and wants. Sometimes the management is so involved with the product that their own desires and wants begin to take dominance, even though they have adopted the marketing concept.

Yet it is easy for managers to forget the marketing concept and philosophy. For example, many years ago, before there was a Subway on every corner, a college student opened a small submarine sandwich shop near his university campus. The sub shop was an immediate success. By using the marketing concept, the young entrepreneuer had recognized an unmet need in the student population and opened a business that met that need.

Unfortunately, the story does not end at this point. The sub shop was so successful that it began to outgrow its original location after about three years. The shop moved to a larger location with more parking spaces, also near the university. At the new sub shop, waiters in tuxedos met the students and seated them at tables with tablecloths. Besides the traditional subs, the shop now served full meals and had a bar. Within a few months the sub shop was out of business. The owner of the shop had become so involved with his business vision that he forgot the customers' needs and wants. They did not want an upscale restaurant-there were other restaurants in the area that met that need, they just wanted a quick sub sandwich. By losing sight of the customers' wants and needs, the owner of the sub shop lost his successful business.

II) Meeting customer needs while meeting organizational goals

Sometimes in the zeal to satisfy a customer wants and needs, the marketing concept is construed to mean that the customer is always right. However, the marketing concept also states that it is important to meet organizational goals as well as satisfy customer wants and needs. Satisfying customer needs and organizational goals may involve conflicts that sometimes cannot be resolved. The organization that adopts the marketing concept will do everything in its power to meet the needs of its customers, but it must also make a profit. Sometimes the wants of the customers may include a low price or features that are not attainable for the organization if it is to make a profit. Consequently, the organization must hope for a compromise between what the consumer wants and what is practical for the business to provide.

3.3.1.1 Criticism of the Marketing Concept

Interpreted literally, the marketing concept only advocates discovering consumers' wants and needs and satisfying them. Critics assert that consumers may not be aware of all of their wants and needs. In the 1950s, were consumers aware of a need to cook their food by sending microwaves through their food? In the 1960s, were consumers aware of a need to have personal computers in their homes? Critics argue that the marketing concept's concentration on consumers' wants and needs stifle innovation. Organizations will no longer concentrate on research and development in hopes that one product in ten might meet with consumer acceptance, and will less likely come up with innovative products such as microwaves and personal computers.

Supporters of the marketing concept have contended that it does not stifle innovation and that it does recognize that consumers cannot conceive of every product that they may want or need. However, need is defined in a very broad sense. In the microwave and personal computer examples, the need was not for the specific product, but there was a need to cook food faster and a need for writing and calculating. The microwave and personal computer satisfied those needs though the consumer never imagined these products. The marketing concept does not stifle creativity and innovation. It seeks to encourage creativity to satisfy customer needs.

The marketing concept is a relative newcomer as a philosophy of doing business. However, its evolution started before the Industrial Revolution. As time progressed, customer and business needs also evolved. The product and selling philosophies eventually evolved into the marketing concept and philosophy. Today, the marketing concept and philosophy stands as a formula for doing business and many believe it is a prescription for success. It aims to satisfy customers by guiding the organization to meet the customers' needs and wants while meeting the organization's goals.

The five Marketing Philosophies help in determining the management of marketing. Companies approach and conduct business in different ways in order to achieve their organizational goals. lhe five competing concepts by which companies are guided in their marketing efforts are:

3.3.2 Production concept, which is based on the fact that consumers favor products that are available and affordable. Concentration on production efficiency and effective distribution networks outweigh the customer actual needs and wants. This is used primarily when demand exceeds supply and the focus is on finding production methods that can bring the price down to attract more customers.

3.3.3 Product concept, which is based on ways to improve the quality, performance and features to attract buyers. This philosophy tends to spend too much time adding features to their products, rather than thinking about what people actually need and want.

3.3.4 Selling concept, which places the focus on sales rather than what people actually need or want. Most of the time the product is misrepresented which results in high customer dissatisfaction.

3.3.5 Marketing concept, which focuses on what people need and want more than the needs of the seller. This concept is about the importance of satisfying the customer needs to achieve company success. Products are developed around those needs and wants.

3.3.6 Societal marketing concept, which not only uses the same philosophy as the marketing concept, but also focuses around the products benefit to the betterment of society as a whole. Greater emphasis is put on environmental impacts, population growth, resource shortages, and social services.

The marketing concept and philosophy evolved as the last of three major philosophies of marketing. These three philosophies are the product, selling and marketing philosophies. Even though each philosophy has a particular time when it was dominant, a philosophy did not die with the end of its era of dominance. In fact, all three philosophies are being used today.

3.3.2 Production Concept

The idea of production concept is - "Consumers will favor products that are available and highly affordable". This concept is one of the oldest Marketing management orientations that guide sellers.

Companies adopting this orientation run a major risk of focusing too narrowly on their own operations and losing sight of the real objective.

Most times, the production concept can lead to marketing myopia. Management focuses on improving production and distribution efficiency.

Although in some situations, the production concept is still a useful philosophy.

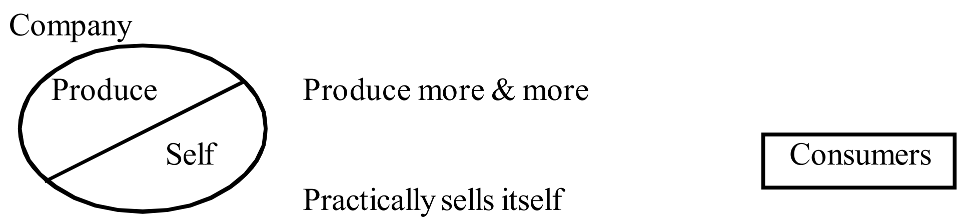


Fig. 3.1 : Production Concept

1. Product Concept

The product concept holds that the consumers will favor products that offer the most in quality, performance and innovative features.

Here under this concept :

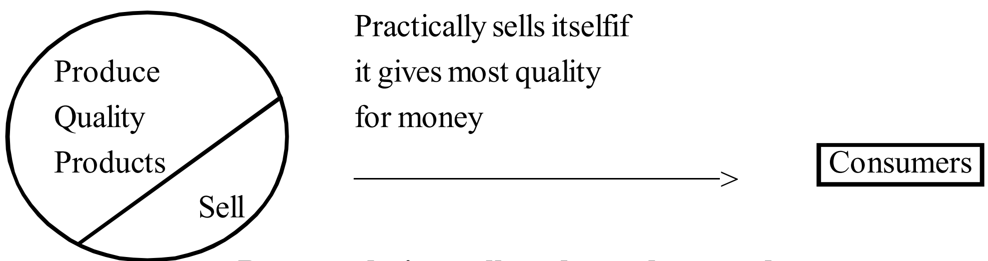
- Markeing strategies are focused on makmg continuous product improvements.
- Product quality and improvement arc important parts or marketing strategies sometimes the only part.

Targeting: only on the company's products could also lead to marketing myopia.

For example: Suppose a company makes the best quality Floppy disk. But a customer does really need a floppy disk?

She or he needs something that can be used to store the data. It can be achieved by a USB Flash drive, SD Memory cards, portable hard disks and etc.

So that company should not look to make the best floppy disk. They should focus to meet the customer's data storage needs.



Buyers admire well made products and can appraise product quality and performance.

Fig 3.2 : *The Product Concept*

2. Selling Concept

The selling concept holds the idea that "consumers will not buy enough of the firm's products unless it undertakes a large-scale selling and promotion effort".

Here the management focuses on creating sales transactions rather than on building long- term, profitable customer relationship.

In other words:

The aim is to sell what the company makes rather than making what the market wants. Such aggressive selling program carries very high risks.

In selling concept the marketer assumes that customers will be coaxed into buying the product will like it. If they don't like it, they will possibly forget their disappointment and buy it again later. This is usually very poor and costly assumption.

Typically the selling concepts is practiced with sought goods. Unsought goods are that buyers do not normally think of buying, such as insurance or blood donations.

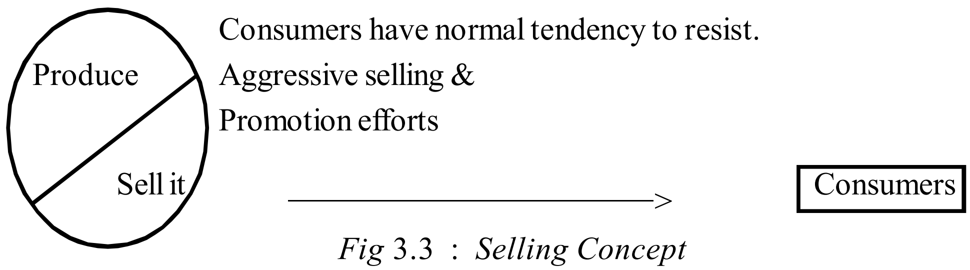


Fig 3.3 : *Selling Concept*

Making sale becomes primary function and consumer satisfaction secondary

3. Marketing Concept

The marketing concept holds "achieving organizational goals depends on knowing the needs and wants or target markets and delivering the desired satisfactions better than competitors do".

- Here marketing management takes a "customer first" approach.
- Under the marketing concept, customer focus and value arc the routes to achieve sales and profits.
- The marketing concept is a customer-centered "sense and responds" philosophy .
- The job is not to find the right customers for your product but to find the right products for your customers.
- The marketing concept and the selling concepts are two extreme concepts and totally different from each other.

Difference between Selling Concept and Marketing Concept

No.	*The Selling Concept*	*The Marketing Concept*
1.	undertakes a large-scale selling and promotion effort	undertakes activities such as market research.
2.	The Selling Concept is suitable with unsought goods those that buyers do not normally think of buying,	The Marketing Concept is suitable for almost any type of product and market.

	such as insurance or blood donations.	
3.	Focus of the selling concept starts at the production level.	Focus of the marketing concept starts at understanding the market.
4.	Any company following selling concept undertakes a high-risk	Compaines that are following the marketing concept requires to bare less risk and uncertainty.
5.	The selling concept assumes "customers who are coaxed into buying the product will like it. Or if they don't like it, they will possibly forget their disappointment and buy it again later."	Instead of marking an assumption, The marketing concept finds out what really the consumer requires and acts accordingly to them.
6.	The selling concept makes poor poor assumptions.	Marketing concept works on facts gathered by its "market and customer first" approach.

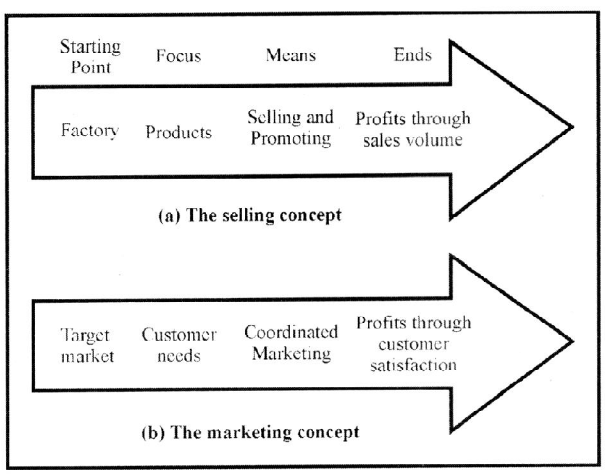


Fig: 3.4 : The Selling and Marketing Concepts

4. Societal Marketing Concept

Societal marketing concept questions whether the pure marketing concept overlooks possible conflicts between consumer short-run wants and consumer long-run welfare.

The societal marketing concept hold "marketing strategy should deliver value to customers in a way that maintains or improves both the consumer's and society's well- being".

It calls for sustainable marketing, socially and environmentally responsible marketing that meets the present needs of consumers and businesses while also preserving or enhancing the ability or future generations to meet their needs .

The societal marketing concept puts the human welfare on top before profit and satisfying the wants.

The global warming panic button is pushed and a revelation is required in the way we use our resources. So companies are slowly either fully or partially trying to implement the societal marketing concept.

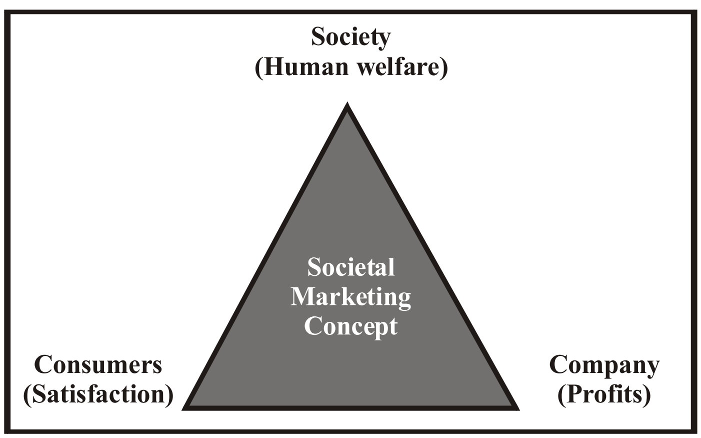


Fig. 3.5 : Societal Marketing Concept

The Difference between Marketing and Marketing Concepts.

Sometimes people blur the lines between marketing and marketing concepts. Marketing is promoting the products and services of a company for a particular target market. As a whole, marketing brings attention the offerings of a company. These may be goods for sale or services on offer. Typical examples of marketing on the ground are billboards on the road, television commercials, and magazine advertisements. However, not all companies have the same approach towards marketing their goods and services. Actually, there are a couple of strategies on making marketing successful for any company. The approaches talked about are these marketing concepts. These approaches of a company peg what kind of marketing tools they can and will use in a business. Marketing concepts are formed through a clear objective that incorporates cost efficiency, effectiveness, and social responsibilities in a target market.

The Difference between Marketing Concept versus Market Concept.

As previously described, the marketing concept is a business philosophy that keeps in mind that long run profitability is best accomplished through concentrating company activities towards satisfying the needs of a specific target market. The market concept, on the other hand, creates suitable market intelligence as connected to present and future consumer needs, as well as the relative capabilities of the competition to satisfy those needs. This concept is the incorporation and distribution of market intelligence throughout departments and coordinated creation and implementation of a company's response to opportunities in the market.

According to kotler "Holistic Marketing concept is based on development, designing, and implementation of marketing program, process, and activities that recognize their breadth and inter-dependencies."

3.4 SUMMARY

The marketing concept is a relative newcomer as a philosophy of doing business. However. its evolution started before the Industrial Revolution. As time progressed, customer and business needs also evolved. The product and selling philosophies eventually evolved into the marketing concept and philosophy. Today, the marketing concept and philosophy stands as a formula for doing business and many believe it is a prescription for success. It aims to satisfy customers by guiding the organization to meet the customers' needs and wants while meeting the organization's goals.

3.5 GLOSSARY

1. **Production concept:** Production concept states that consumers favor products that are available andaffordable
2. **Product concept:-** Product concept is based on ways to improve the quality, performance, and features to attract buyers.
3. **Selling concept:-** Selling concept places the focus on sales rather than what people actually need or want.
4. **Marketing concept:-** Marketing concept focuses on what people need and want more than the needs of the seller.

3.6 SELF ASSESSMENT QUESTIONS

Q 1 What are the different philosophies of marketing?

____

____

____

Q2 Which concepts of Marketing do you think is the best for FMCG sector?

____

____

____

3.7 LESSON END EXERCISE

Fill in the blanks

1) ________________ concept not only uses the same philosophy as the marketing concept, but also focuses around the products benefit to the betterment of society as a whole.

3.8 SUGGESTED READINGS

- Kotler, P., Keller, K., Koshy, A. and Jha, M. 13th Edition (2009), *Marketing Management ; A South Asian Perspective*. Pearson Education, Inc.
- Roa, K. 2nd Edition (2011), *Service Marketing*, New Delhi : Dorling Kindersley (India) Pvt. Ltd.

Lesson No. 4	Unit-I
Semester-II	M.Com-C254

HOLISTIC MARKETING CONCEPTS, MARKETING TASKS, MARKETING MIX AND MARKETING ENVIRONMENT

STRUCTURE

4.1 INTRODUCTION

Over the period of time consumer has become more aware and demanding. To address the never ending demands of consumer it's very important to ensure that marketing concept at its core has the capacity to serve the needs of consumers. Moreover, the pursuit of satisfying the needs of customer shall also include a well thought over marketing task and marketing mix. Marketer should give due consideration to the analyzing their respective environments. The marketing concept is the belief that companies must assess the needs of their consumers first and foremost. Based on those needs, companies can make decisions in order to satisfy their consumers' needs, better than their competition. Companies that hold this philosophy believe that their consumers are the driving forces of their business. Nowadays, most companies have incorporated the marketing concept. So if you were a new company, how would you know what a customer would need and want?

First of all, let us define needs and wants. Needs are basic requirements for an individual to survive. Some examples are water, food, shelter, etc. Obviously, the needs of consumers are wide-ranging. Wants are the desire for something that an individual cannot live without. Some examples are a bigger home, a brand new car, an iPad, and the like. Even though consumers' needs are broad, wants can be very particular.

Consumers decide to buy based on both their needs and wants. Case in point, if they were hungry, they would need food. If you base it simply on that, then any kind of food will do. Yet, the consumer would have particular food in mind. Even though they can get a burger from Burger King, what they might truly want is a half-pound grilled burger from a bar in their local neighborhood. It is at this point that marketers would come in. Marketers acknowledge the needs of consumers and use the consumers' desire for what they want to steer them towards specific products and services.

The marketing concept underscores:

1. identifying the market or targeting consumers;
2. understanding the needs and wants of the consumers in the target market;
3. creating products or services based on the consumers' needs and wants;

4. satisfying the needs of consumers better than competitors; and
5. accomplishing all of these while earning a profit.

4.2 OBJECTIVES

After going through this lesson you will be able :

1. to explain the concept of Holistic Marketing
2. to explain the concept of Marketing Task
3. to study the concept of Marketing Mix
4. to understand the relevance of Marketing Environment

4.3 HOLISTIC MARKETING CONCEPT

4.3.1 Holistic Marketing Strategies

When a firm is focused mostly on brand strengthening, a holistic marketing approach is best taken.The most frequent methods the organizations work together include:

Website Intelligence: The creation of an interactive public information center is another big marketing concept for firms that are able to make the brand and its services popular with visitors.

Blogs: This marketing tool is extremely promising if effectively run and linked with the other marketing operations of the firm. A blog may keep consumers connected to the brand with the same area of interest.

Social Media: Because different social network platforms might be more open to the public, corporations try to acquire a lot of attention through this medium.

Email Marketing: An ancient yet powerful way to connect and transform individuals into consumers is via email. The firm may send users greetings, offers, and brand information.

Trade Shows and Conferences: B2B sales businesses find trade fairs extremely efficient to show themselves and their products or services to sellers. The conference is a superior technique for exchanging information or expertise amongst representatives, experts, and the public.

Paid Media: The ads or recommendations that the searchers or public are funded. The firm pays to place the brand over an e-commerce platform or offline media for advertising space.

Integrated Analytics: The performance of the several marketing activities of the firm must be monitored and compared. Therefore the businesses are provided with several analytical tools to combine all these marketing operations.

Online Events: This is an effective strategy for the leading generation. The most economical and attractive technique of marketing the brand is via webinars. It focuses on the transmission of beneficial information or ideas to the public to incline them indirectly towards the brand.

4.3.2 Structure of Holistic Marketing

This marketing approach is structured in three phases: analysis and identification, development, and delivery.

1. Analysis and Identification

This phase involves analyzing new options, values, and the intended audience. The company learns about the requirements, desires, and wishes of its customers.

2. Creation

During this phase, the company develops the strategy it will use. With all the information acquired from the preceding phase, the marketing managers take a look at their firm from their point of view. By thinking about how the client believes, they learn how to attract, meet their desires and requirements, and give outstanding customer service.

3. Delivery

This phase involves customer interactions, internal management of resources, and the management of business partners. The main objective is to provide value to the clients, therefore helping to develop customer loyalty.

4.3.3 Significance of Holistic Marketing

This is a method to promote the online success of your brand regardless of whether you name it holistic or multi-channel. It no longer works so well to attempt and hopefully stick to one platform.

With public opinion growing more special about their material, the channels that fit their lives, hobbies, and groups of friends are much more likely to be chosen. This might range from skimming across Instagram and Facebook news feeds to seeking products on Google or reading up on your favourite blog.

We can suppose you opt to try your hand with one strategy, instead of covering all these situations and just proceed to your degree of effort. Maybe it seems like an all-encompassing SEO plan aiming at all of your products and services.

You can only monitor and modify your SEO campaign for several months, shifting the focus away from any other technique. As a consequence, you may soar results pages, but conversions are not what they should be, and your target group looks to be more active in taking decisions across social media.

In one basket it is dangerous to place your eggs. In doing so, you intentionally decide not to recognize the reality that your prospects exist in a variety of media types.All these channels are used for holistic marketing and they combine to produce a whole plan. All bases have been covered, investigated, and monitored. All of these outlets are tabs. They have allocated duties for each of these outlets if you have an internet marketing team. This is where an agency may make all the differences for companies that do not necessarily have in-house capabilities.

The concept of holistic marketing encompasses following

1. **Relationships and Networks:** Transaction marketing is a part of a larger idea called relationship marketing. Relationship marketing has the aim of building mutually satisfying long term relations with key parties-customers, suppliers,

distributors-in order to earn and retain their business. Marketer accomplishes this by delivering high-quality products and services at affair prices to the other parties over time. Relationship marketing builds strong social, economical, and technical ties among parties. The ultimate outcome of relationship marketing is a building of unique company asset called a marketing network.

2. **Integrated Marketing:** When all the company's department works together to serve the customer's interest, the result is integrated marketing. Unfortunately not all the workers of company are trained and motivated to work for the customer. An engineer once complained that the salesperson are always protecting the customer and are not considering company's interest. This example highlights the issue of coordination problem in serving the interest of customer.

3. **Societal Perspective:** There has been concern across the globe whether the marketing concept is an appropriate philosophy in an age of environmental deterioration, resource shortages, explosive population growth, world hunger and poverty, and neglected social service. For example, the fast food industry offers tasty but unhealthy food. The hamburgers have high fat content and the restaurant promotes fries and pies, products high in starch and fat. The products are wrapped in convenient packaging, which leads to much waste. In satisfying consumer needs, these restaurants in one or the other way are hurting the health of consumer and causing environmental problems. The societal marketing calls upon marketers to build social and ethical considerations into their marketing practices. They must balance and juggle the often conflicting criteria of company's profits, consumer want satisfaction and public interest. Yet numbers of companies like Body Shop, Ben & jerry and Patagonia have achieved notable sales and profit gains by adopting and practicing the societal marketing concept.

Case Study

Patagonia- Patagonia world class climber Yvon chouinard founded Patagonia in 1966 by selling rock climbing hardware from the trunk of his car. By the time company changes its focus to selling soft goods and apparel in mid 1970s, Patagonia was committed to two main goals: Providing the high quality gear for outdoor enthusiasts and implementing the solutions to the environment crisis. The gave an earth tax of one percent of sales or ten percent of pre tax profits whichever is greatest to the activist who take radical and strategic steps to protect habitat, wilderness and biodiversity. However, as Patagonia expanded many aspects of its operations contributed to the environmental pollution the company worked so hard to counter. After an internal study in the early 1990s, the company sought to use materials and fabrics that would minimize its impact on environment, such as Synchilla fleece made from recycled plastic bottles and the 100 percent organic cotton used in every cotton product. The corporate culture avidly support activism, as evidenced by a company program through which employees receive pay to work up to two months in an environmental organization. Patagonia sent 70 of its 900 employees abroad on such trips in 1999.

Patagonia is practicing a form of the societal marketing concept called cause-related marketing. Pringle and Thompson define this as activity by which a company with an image, product or service to market builds a relationship or partnership with a cause or a number of causes for mutual benefits.

Nowadays, companies view cause related marketing as an opportunity to enhance their reputation, increase customer loyalty, build sales and raise brand awareness. They believe that customers will increasingly look for signs of good corporate citizenship that go beyond supplying rational and emotional benefits. We can say with some amount of confidence that marketplace is not what it used to be earlier. It is changing radically as a result of major societal forces such as technological advances, deregulation and the globalization. The major forces which have created new behaviors and challenges consist of customer's increasing expectation in terms of quality, service and customization. Further, brand manufacturers facing intense competition from domestic and foreign brands, resulting in rising promotion cost and shrinking profit margin has a severe impact on marketplace.

Example of Holistic Marketing Concept

An organization will have different departments like sales & marketing, accounting & finance, R&D and product development and finally HR and operations. Thus, if you want to implement a holistic marketing concept in your organization, you need to ensure that R&D and product development take the feedback from marketing and sales to launch the product which is most likely to attract customers. On the other hand they need to work closely with accounting and finance to find out the exact budget for the project. Sales and marketing need to communicate to the HR the right kind of people that they need, and finally, admin and operations need to devise a plan to retain these people. Thus, in the above manner, you get the right product at a right price with the right profits. Along with this you get the right people who will market your product in the right manner.

If you do all these things, you are sure to get the right customer to your doorstep. This is the complete essence of holistic marketing concept. By doing the right things together as an organization, your product and brand stands a far better chance in being successful than compared to these elements working individually without any holistic vision.

Today, customer mindset is changing. Wealth is becoming lesser and debt is high. Thus, customer purchases are being made after lot of thinking. Customers search offline as well as online for the right product and have good knowledge of the product before they purchase. It is likely that the customer has already made a purchase decision even before he enters the showroom. Thus holistic marketing concept is needed at this hour to ensure that the customer chooses your product over everyone else.

A key driver of holistic marketing is marketing communication. The job of marketing communication is to send the right message to the target group. By approaching various customer contact points, a uniform message can be sent to the customer. This consistency is likely to raise confidence in the customer for your company thereby raising the brand image. Samsung is an example of holistic marketing where the products are developed keeping the customer in mind, the showrooms are branded in the proper manner, the customer service is polite, and the service is fast. Thus, Samsung is an excellent example of holistic marketing.

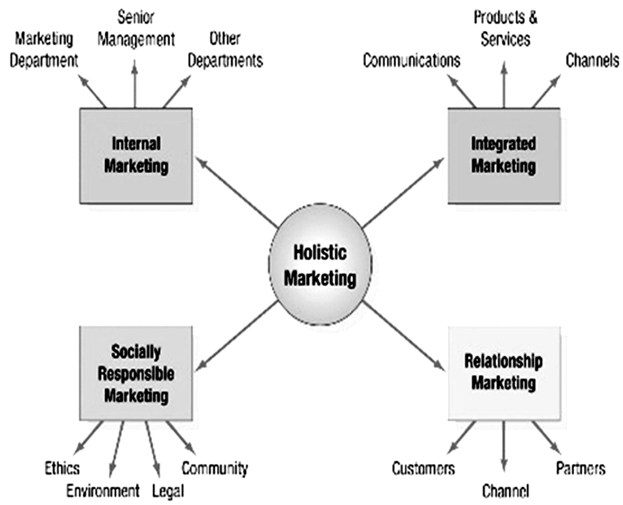


Fig. 4.1 : Holistic Marketing

Holistic Marketing Framework

This process is a framework to create, renew and maintain customer value through interaction between pertinent marketing players such as customers, company and collaborators and value based activities such as **value exploration, value creation and value delivery.**

1. **Value exploration:** Value exploration means how organizations can identify new value opportunities. This requires an understanding of customer's cognitive space, existing and latent needs and dimensions such as need for participation, stability, freedom and change.

2. **Value creation:** In holistic marketing, company must develop value-creation skills to exploit a value opportunity. Marketers must make efforts to recognize the new customer benefits from the customer's perspective, use key competencies from its business field and choose and manage business collaborators from its combined networks. Marketers must recognize the power of customer thinking. Marketers must

also monitor who the customer admires, who they interact with and who influences them.

Business change is needed to exploit core competencies. It engages three steps:

1. Defining the business concept
2. Determining the business scope
3. Positioning the company's brand identity

4. Value Delivery: Delivery value denotes extensive investment in infrastructure and capabilities. The company must become capable at customer relationship management, internal resources management, and business partnership management. Customer relationship management enables the company to determine who its customers are, how they behave, and what they need or want. It also facilitates the company to respond properly, logically, and promptly to different customer opportunities. To respond effectively, the company requires internal resources management to incorporate major business processes like order processing, general ledger, payroll, and production within a single family. At last, business partnership management enables the company to manage complex relationships with all its business contacts.

Holistic marketing framework.

Working of holistic marketing: Process of holistic marketing is as follows:

First, company or individual want a business profile which includes such things as what current image of company is within industry and position in customers' minds.

After that, organization needs to understand the customers to gain success.

Next, management team must have clarity in internal processes and how they impact both customers and prospects.

Once team has understood the business and their customers, they need a plan that will guide towards the vision and help to accomplish both short-and long-term goals.

To summarize, holistic marketing is a straightforward process of explaining communication of any company. It means a business needs to consider everything from the behalf of company to the homepage of their web site as well as the type of message that needs to be sent across to the clients. Holistic marketing is amalgamation of selling with honesty, using mind, intuition, and experience to support business. Holistic marketing requires the company to stop and think about how existing and potential customers view its brand, identity, staff, presentation, stationery, products, packaging, and support? Successful companies make sure that the overall image is faultless, to strengthen the brand and attract purchasers.

4.4 MARKETING TASKS

Considering the changes that take place in markets, customers and organizations large numbers of marketers prefer the implementation of holistic marketing. The task of marketing given below, therefore, relate to the requirements of holistic marketing approach :

4.4.1 Formulation of Marketing Strategies

Strategies to be formulated should aim at: short, medium and long term new product development and introductions, customer segments, positioning, offering differentiation, product mixes, volumes of sales, market shares, prices, margins, revenue and profit earnings.

4.4.2 Marketing Planning and Implementation

1. Within the framework of marketing strategies, the organization plan its marketing activities which are basically outcome of market mix tools of McCarthy's four P's of marketing.
2. These four P's are price, place, promotion and product.
3. Having worked out the detailed plans of such activities (i.e. Decisions related to four P's of marketing) , the proper implementation of them is very important.

4. Marketing department will need to be organized according to the plan and its implementation requirements.

4.4.3 Strengthening Customer Relationships

1. It has emerged as an important marketing management task.
2. It is about knowing your customer, understanding their requirements, providing then the best value, getting closer to them and developing long term relationships with them.

4.4.4 Building Strong Brands

1. Brand is a name, term, design, logo/symbol or any other feature that distinguish products and services from those of competitors.
2. It creates certain images in the mind of the customer.
3. With the favorable and strong image of the product, the customers are motivated to buy that particular product.
4. Marketing task is to create such favorable and strong image associated with the brand.

4.4.5 Communicating Value to Customers

1. It is the value of the product and services that customers want and ultimately feel satisfied with.
2. Therefore, marketing management should communicate as to what kind of value proposition they are offering to the customers via their product and services.
3. For this purpose organization must devise an integrated marketing communication program.
4. The marketing communication process will be mass as well as personal communication by using judicious mix of advertising in various types of media, product promotion, events, exhibitions, fliers, direct mailers, internet/emails and interactive marketing

4.4.6 Delivering Value for Money (VFM) to Customers

1. This marketing task aims at deciding and implementing the ways and means of delivering the value of their products and services to the customer.
2. It includes channels management.
3. The agencies through which the value will be delivered will include organizations own internal logistics resources and external distributors, wholesalers, dealers, retailers etc.
4. Market task wil be to maximize value delivery to the customer using all of these resources.

4.5 MARKETING MIX

Marketing Mix is a particular combination of the product, its price, the methods to promote it and the ways to make the product available to the customer. Based upon its understanding of customers, a company develops its marketing mix of product, place, price and promotion. The elements of the marketing mix are intricately and sensitively related to each other. The marketing mix is good or bad as a whole. All the elements have to reinforce each other to enhance the experience of the customer. When a change is proposed to be made in one of the elements, it has to be checked if the changed element still fits with and reinforces other elements, or has it started contradicting other elements, making the marketing mix less effective in serving customer. Managers must manage the marketing mix in away that surely has the potential to address the customer needs better than competition.

Emergence and Growth: The growth of four P's can be trace to the late 1940s. The first known mention of a mix has been attributed to a professor of marketing at Harvard University, Prof. James Culliton. In 1948, Culliton published an article entitled, *"The Management of Marketing Cost"*. Although the idea of marketers as mixers of ingredients caught on, marketers could not reach any consensus about the elements of mix until the 1960s. The first mention of four P's in its modern form was first proposed by E. Jerome McCarthy in 1960, who presented them within a managerial approach that covered analysis, consumer behavior, market research, market segmentation and planning. Philip Kotler popularized this approach and helped spreading the four P's model. McCarthy 4 Ps has been widely adopted by both marketing academics and practioners.

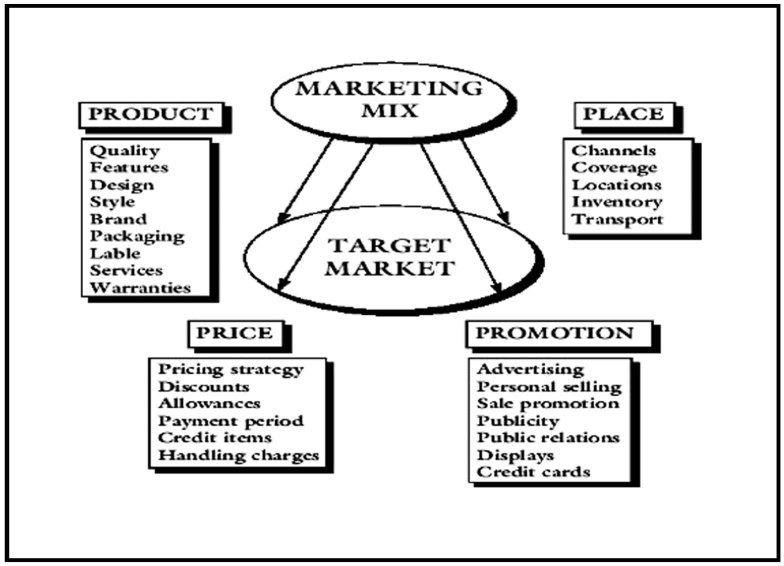


Fig. 4.2 : 4 P's of Marketing Mix

4.5.1 Product

A Product refers to an item that satisfies the consumer's needs or wants. Typical marketing decision regarding product involves deciding what goods or services should be offered to customers. The product provides the primary value to the customer. The customer got interested in the company primarily because of the product or service it was producing or proposed to produce. All other elements should be reinforcing the value proposition of the product.

An important element of product strategy is new product development. As technologies and tastes change, Products become out-of-date and inferior to competition. So, the companies must be capable of replacing them with new designs and features that customer value. The most challenging task is to include the latest available technologies and solutions to the latest needs of the customer in a company's product. The decisions regarding product can be related to brand names, warranties, packaging and services which should accompany product offering.

4.5.2 Price

Price refers to the amount the customer pays for a product. It can also be referred to the sacrifice which consumers are ready to make to acquire a product. Moreover it is the only component in marketing mix which has implications for revenue. Marketer needs to be very clear and careful about pricing objectives, methods to arrive at a price and the factors which influence setting of price. The company must also take into consideration the necessity to give discounts and allowances in some transactions. These requirements can impact the level of list price chosen.

In comparison to other elements of the marketing mix, price can be changed easily. But any mistake in pricing decision, can certainly change the customer perspective about the value of marketing mix. In the absence of any objective knowledge about the quality of product, the customer generally builds a strong association between price and quality. In such a scenario if the price is reduced all of sudden, customers may start considering it as an inferior quality product, but there are equal chances of customer considering the price too high for the value that they are getting from the product.

4.5.3 Promotion

Promotion refers to marketing communication which may comprise elements such as advertising, public relations, direct marketing, sales promotion, exhibition and sponsorship. The promotion decision pertains to selection of the most appropriate mix of aforementioned tools of promotion. By these means the target audience is made aware of the existence of the product and the benefits that it confers to customers.

The type of promotional tool used has to gel with other elements of marketing mix. An expensive product with limited number of customers should be promoted through personal contacts between buyers and sales persons. Advertising in the mass media would be wasteful as the numbers of customers are far too small and it would be ineffective as the customer will not make a decision to buy an expensive product based on little information provided in an advertisement. Promotion shapes the expectations of customers about the product, when used in a right manner it can certainly raise expectation of customer and drive sales. However, company should avoid making false promises in the name of promotion.

4.5.4 Place

Place involves decisions concerning distribution channels to be used, the location of outlets, methods of transportation and inventory levels to be held. Product should be available in right quantity, at right time and place. Distribution channels consist of independent intermediaries such as retailers, wholesalers and distributors through which goods pass on their way to customers. These intermediaries provide cost-effective access to the marketplace. It will be extremely expensive and cumbersome if the manufacture had to set up the entire infrastructure needed to manage the transfer of goods to the customer. Three distinct functions are performed by distribution channels. They transfer products from the manufacturer to the customers, they pass information from manufacturer to customers and they retrieve payments from the customers to the manufacturer. The three functions are important but it is not essential that all three functions need to be performed by any one channel. There can be three separate channels which can perform each function individually, depending on the efficiency and effectiveness of each channel in carrying out the functions.

4.5.5 Extension of Marketing Mix P's

Marketing Mix oversimplifies the realities of market. In services, 4Ps do not take into account people who provide the service, processes and physical evidence. In services people are often the service itself. The process or the service is delivered to the customer is a key part of the service. The physical evidence, like the checklist in the car service or a surgeon's uniform, give signals to customers about the quality and reliability of the service.

Marketing is a continually evolving discipline and as such can be one that companies find themselves left very much behind the competition if they stand still for too long. One example of this evolution has been the fundamental changes to the basic Marketing mix. Where once there were 4 Ps to explain the mix, nowadays it is more commonly accepted that a more developed 7 Ps adds a much needed additional layer of depth to the Marketing Mix with some theorists going even going further.

Before we get carried away though what is the Marketing Mix and what is the original 4 Ps principle?

Simply put the Marketing Mix is a tool used by businesses and Marketers to help determine a product or brands offering. The 4 Ps have been associated with the Marketing Mix since their creation by *E. Jerome McCarthy* in 1960 .

The Marketing Mix 4 Ps:

1. **Product** - The Product should fit the task consumers want it for, it should work and it should be what the consumers are expecting to get.
2. **Place** - The product should be available from where your target consumer finds it easiest to shop. This may be High Street, Mail Order or the more current option via e-commerce or an online shop.
3. **Price** - The Product should always be seen as representing good value for money. This does not necessarily mean it should be the cheapest available; one of the main tenets of the marketing concept is that customers are usually happy to pay a little more for something that works really well for them.
4. **Promotion** - Advertising, PR, Sales Promotion, Personal Selling and, in more recent times, Social Media are all key communication tools for an organization. These tools should be used to put across the organization's message to the correct audiences in the manner they would most like to hear, whether it be informative or appealing to their emotions.

In the late 70's it was widely acknowledged by Marketers that the Marketing Mix should be updated. This led to the creation of the Extended Marketing Mix in 1981 by Booms & Bitner which added 3 new elements to the 4 Ps Principle. This now allowed the extended Marketing Mix to include products that are services and not just physical things.

Fig. : 7 P's of Marketing Mix

The extended 7 Ps:

1. **People** - All companies are reliant on the people who run them from front line sales staff to the Managing Director. Having the right people is essential because they are as much a part of your business offering as the products/ services you are offering.

2. **Processes**- The delivery of your service is usually done with the customer present so how the service is delivered is once again part of what the consumer is paying for.

3. **Physical Evidence** - Almost all services include some physical elements even if the bulk of what the consumer is paying for is intangible. For example a hair salon would provide their client with a completed hairdo and an insurance company would give their customers some form of printed material. Even if the material is not physically printed (in the case of PDFs) they are still receiving a "physical product" by this definition.

Though in place since the 1980's the 7 Ps are still widely taught due to their fundamental logic being sound in the marketing environment and marketers abilities to adapt the Marketing Mix to include changes in communications such as social media, updates in the places which you can sell a product/service or customers expectations in a constantly changing commercial environment.

8th P:

In some spheres of thinking, there are 8 Ps in the Marketing Mix. The final P is Productivity and Quality. This came from the old services marketing mix and is folded in to the extended marketing mix by some marketers so what does it mean?

The 8th P of the Marketing Mix:

1. **Productivity & Quality** - This P asks “is what you’re offering your customer a good deal?” This is less about you as a business improving your own productivity for cost management, and more about how your company passes this onto its customers.

Even after 31 years (or 54 in the case of the original P’s) the Marketing Mix is still very much applicable to a marketer’s day to day work. A good marketer will learn to adapt the theory to fit with not only modern times but their individual business model.

Fig 4.3 : 8 P’s of Marketing Mix

Source : https://heidicohen.com/four-ps-of-marketing-mix

4.6 MARKETING ENVIRONMENT

A market oriented company looks outside its premises to take advantage of the emerging opportunities and to monitor and minimize the potential threats faced by it in its business. The environment consist of various forces that affect the company's ability to deliver products and services to its customers. The micro environment of the company comprise of various forces in its immediate environment that effect its ability to operate effectively in its chosen markets. This includes company's suppliers, distributors, customers and competitors. The macro environment consists of broader forces that not only affect the company and the industry, but also other actors in the micro environment. These shape the characteristics of the opportunities and threats facing a company. These factors are largely uncontrollable by the company. Marketing Environment is the combination of external and internal factors and forces which affect the company's ability to establish a relationship and serve its customers.

The marketing environment of a business consists of an internal and an external environment. The internal environment is company-specific and includes owners, workers, machines, materials etc. The external environment is further divided into two components: Micro & Macro. The micro or the task environment is also specific to the business but external. It consists of factors engaged in producing, distributing, and promoting the offering. The macro or the broad environment includes larger societal forces which affect society as a whole. The broad environment is made up of six components: demographic, economic, physical, technological, political-legal and social-cultural environment.

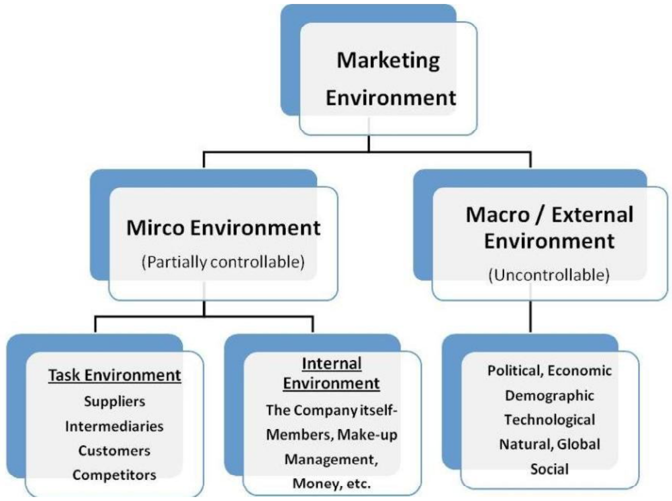


Fig. 4.4 : Components of Marketing Environment

4.6.1 Economic Forces: The economic environment can have a major impact on businesses by affecting patterns of demand and supply. Companies need to keep a track of relevant economic indicators and monitor them over time.

1. **Income:** Income of the customer is the most important factor in the economic environment. This indicates their ability to spend on the products sold by the marketer. The marketer not only needs to estimate the income of customer, but also he has to decipher the products on which the customer would be willing to spend his money.

2. **Inflation:** It is an important economic indicator of an economy. Inflation refers to increase in price without a corresponding rise in wages, resulting in lower purchasing power of consumer. An economy should try to achieve low rate of inflation.

3. **Recession:** The period of economic activity when income, production and employment tend to fall is referred to as recession. Demand of product and services are reduced. Specific activities cause recession. The slow down in high tech sector, rising fuel prices, excessive consumer credit and terror attacks resulted in recession in America in 2001.

4. **Interest Rate :** If the interest rate of an economy is high, businesses will borrow capital at higher rate and they will set up new businesses only when they are convinced that they can earn at a rate they are paying on the capital. Therefore if the interest rates are high, new businesses will not come. Even in existing businesses operating cost would go up as their working capital requirement will attract higher interest rates.

4.6.2 Technological Factors

New technologies can be used very effectively to counter inflation and recession. New machines can reduce production costs. The increasing computing and processing capabilities of personal computers is increasing the efficiency and effectiveness of businesses. Advances in information technologies has made it possible to plan truly global supply chains, in which manufacturing and warehousing is disbursed through out the world depending upon where these activities can be performed at best. Companies will be able to make better products at lesser cost and will be able to make better products at lesser cost and will be able to distribute them economically when supply chains become global.

4.6.3 Social-Cultural Factors

Customers live in societies. A large part of being a individual is dependent on the society he resides in. Social factors include attitudes, values and lifestyles of people. Social factors influence the products people buy, the prices they are willing to pay for the product, the effectiveness of specific promotions and how, where and when people expect to purchase products. But societies are hardly ever static. They change gradually and some changes will be imperceptible if not watched closely. Social change is the most difficult variable for marketing managers to forecast, influence and integrate into marketing plans. But it is important that marketers take into account social changes happening in societies in which their customer live when they are framing their marketing strategies. Societies can change in manners which can make companies current products and services totally redundant.

1. **Value-** A value is a strongly held and enduring belief. The majority of people living in a society uphold the values of the society. A person's values are key determinants of what is important and not important to him, how he reacts in a particular situation and how he behaves in social situations.

2. **Multiple Lifestyles-** Life style is a mode of living, i.e. it is the way people decide to live their lives. Today people lead multiple lifestyles. They are choosing products and services that meet diverse needs and interest rather than conforming to traditional stereotypes.

3. **Changing Structures of Families-** Multiple lifestyles have evolved because people can choose from a growing number of product and services and most have the money to exercise more options. The growth of dual-income families has resulted in increased purchasing power. More women are working outside homes and this number is only going to increase. The phenomenon of working women has greater impact on marketing strategies and initiatives of companies than any other social change.

4.6.4 Demographic Factors

Demography is the study of people in terms of their age, gender, race, ethnicity and location. Demographics are significant because people constitute markets. Demographics characteristics strongly impacts buyer behavior. Fast growth of population accompanied with rising income means expanding markets. The longer life span means a growing market for products and services targeted to the elderly.

4.6.5 Political-Legal Environment

Political-Legal environment provides the legal framework within which the marketing department has to function. The political-legal environment of the country is influenced by political structures & organizations, political stability, government's intervention in the business, constitutional provisions affecting businesses, government attitude towards business, foreign policy etc. The viability of the businesses depend upon their ability to understand the laws of the land and to abide by them, while not becoming less innovative in their marketing endeavors due to fear of their infringing some laws. Stability of government is a very important factor in a company's decision to locate its businesses in a country or a state. Businesses prefer tom operate in countries where there is a political stability and where the rule of law prevails.

4.7 SUMMARY

In order to succeed in its marketing endeavour it is indeed very important for the companies to embrace a holistic approach of marketing. This certainly impacts the reputation of company in long run. In addition to this, for attaining a strong position in market it is very important to design marketing mix according to the demands of dynamic marketing environment.

4.8 GLOSSARY

Holistic Marketing: - Holistic marketing is a marketing concept under which focus is to have a multi-stakeholder approach while designing marketing strategies.

Marketing Task: - Various activities and initiatives undertaken to attain the goal of customer satisfaction.

Task Environment: - The immediate actors involved in producing, distributing and promoting the offering forms the task environment. The main actors are the company, suppliers, distributors, dealers and the target customer.

4.9 SELF ASSESSMENT QUESTIONS

Q1 Write a short note on following:-

a) Holistic Marketing

b) Relationship marketing

c) Product mix

d) Price

4.10 LESSON END EXERCISE

Fill in the blanks

1) Four Ps of marketing were given by____________________

2) Marketing mix extension consists of______________________

3) Promotion can be in the form of____________________________

4.11 SUGGESTED READINGS

- Marketing Management, Pearson, By: Kotler & Keller
- Marketing Management, Tat Mc-Graw Hill, By: Rajan Saxena
- Marketing Management, Prentice Hall, By: Bagozzi
- Cases in Marketing Management, Excel Books, By: Bhasin, M.L.
- Marketing in India: Cases and Readings, Viva Publications, By: Neelamegham, S.
- Marketing Management: the Millennium Edition, Pearson, By: Kotler & Keller
- Marketing Management, AITBS Publications, By: Craven David W.
- Marketing: Real People, Real Choice, Prentice-Hall, By: Soloman, Michael, R.

MARKETING AND MARKETING ENVIRONMENT

Lesson No. 5 **Unit-I**

Semester-II **M.Com-C254**

CONTEMPORARY AREAS OF MARKETING

STRUCTURE

5.1 INTRODUCTION

With growing synchronization of IT and revolutionalising of marketing tactics what do you think are the most lucrative marketing domains for the future marketers and marketing researchers? Marketing has most definitely evolved over the past 5 decades, with new ideas and theories developing yearly from a variety of different academic scholars and strategists alike. For this reason, identifying which tools are best suited for your marketing message are crucial. This chapter seeks to explain which traditional marketing theories exist and which contemporary marketing theories you should consider in the future.

On the basis of strategic thinking and marketing management, a good analysis of the present cycle and the changes that take place are important. In today's marketing environment, significant changes and developments are intense. A holistic approach can be achieved by integrating these changes and developments to complement each other. There were many studies in literature about current situation of marketing and changes. These studies include summarizing findings that cover certain periods or express the situation at the end of a particular period. For example, Kumar (2015) studied the evolution of marketing as a discipline and discussed both historical periods of marketing and future of marketing.

In light of these changes, we must remain cognizant about the dynamics in the marketing environment that is, look out for the questions that need to be answered and the issues that need to be solved to empower ourselves with the knowledge we seek.

In another study, Kumar (2018) mentioned about "transformative" process that marketing world could live in next two decades. According to study, there is a rapidly moving change in business and marketing environment and businesses act in regard to this "fast" phenomena. The description included in that study is;

Transformative marketing is the confluence of a firm's marketing activites, concepts, metrics, strategies, and programs that are in response to marketplace changes and future trends to leapfrog customers with superior value offerings over competition in exchange for profits for the firm and benefits to all stakeholders. There are two ideas in that definition that reflect the general situation. First one is in response to section; there is a reciprocal situation between marketing environment externally and businesses internally. There are factors have actions about technology, marketplace and etc. so they cause reactions in business strategies. Second idea includes "competition" reflecting the differentalization and competitive part of today's marketing.

As the side of marketing studies summarizing changes, there are many different studies that summarize the changes when the changes and developments in the world are evaluated in terms of marketing researches. Yadav and Pavlou (2014) examined marketing concept by computer-mediated context. They addressed four interaction types related to computer-mediated environment. **These are consumer-firm interactions, firm-consumer interactions, consumer-consumer interactions and firm-firm interactions.**

From these facts, it is necessary to examine contemporary marketing issues, in a reciprocal and interaction based framework.

5.2 OBJECTIVES

After reading this chapter, you should be able to:

1. Compare and contrast the traditional marketing and contemporary marketing
2. Comprehend Global Marketing
3. Grasp the essentials of Niche Marketing
4. Having insights of Social Marketing
5. Be updated about Viral marketing
6. Grasp the essentials of Green Marketing
7. Be updated about Event marketing
8. Understand the basics of Network marketing
9. Comprehend the importance of Direct Marketing

5.3 TRADITIONAL MARKETING AND CONTEMPORARY MARKETING

Traditional marketing is an umbrella term that covers the wide array of advertising channels we see daily. These may include print media, billboard, and TV advertising, flyer and poster campaigns and radio broadcast advertising. These traditional marketing messages are not necessarily outdated, however, research has shown those companies that have abandoned simply using these channels, and adopted contemporary marketing channels proposed in this article, have remained prosperous, and in fact seen an increase in leads, sales and traffic to web content.

- **Ansoff's Matrix Theory**

Traditional marketing theories include Ansoff's Matrix, a theory that proposes products/ services fall into one of four categories depending on the market and the product released. New Product- New Market is considered as diversification. This theory recommends that businesses should try to diversify their product portfolio so as to spread risk amongst their product range. An example of this would be when Apple created the first iPhone released in 1907. This product was new and introduced into a new market. Apple soon reaped the benefits of introducing this hugely popular phone. Their product range grew from accommodating for designers on the Apple Mac, to mobile devices, tablet devices, watches and beyond.

- **The Marketing Mix**

Another marketing theory that's considered to be traditional is the marketing mix. Made up of the 7 P's, these include product, place, promotion, price, packaging and positioning. All these components when combined, create a solid marketing proposal. However this theory as well as Ansoff's can be drastically improved with the use of contemporary marketing strategies. Traditional Marketing seeks to pull customers to a product, whatever the cost. It is, for this reason, considered to be fairly outdated as it does not consider the customer they are selling to, more the market that the company operates within. There are however, channels that have developed from traditional marketing, including digital, that aim for the same goal, however, use more subtle and approachable mediums so as to capture their target audience. This may include Pay-Per-Click campaigns, social media posts, search engine optimization and email marketing.

5.3.1 Contemporary Marketing

Contemporary Marketing refers to theories that stress the importance of customer orientation versus the traditional market orientation. They are strategies that when implemented, offer greater support for their client base with a product ranges that varies depending on what the target market desires. Rather than what the company wants them to have. Products including the vast array of kitchen appliances with built in failure components attracting their customer base back to them for further purchases are an example of product orientation. Traditional marketing theories are said to favor this ideology. Though somewhat devious, it is most definitely effective. Attracting customers to their product range has become more difficult because consumers have become more literate in technology and, therefore, can research items before purchase. This allows them to make a conscious and informed decision to avoid companies with this ethos.

- **Co-Creation**

Contemporary marketing theories include Co-Creation. This theory suggests creating a bridge between customer and business through gamification. A practical example would be attracting customers through social media content relevant to their needs or writing article blog posts that have useful information. Research conducted by Harvard Business School and the London School for Business found that businesses that utilised the contemporary marketing strategy, incorporating both co-creative and shared value ideas, over the long run prospered far more than those companies who hadn't chosen this avenue.

- **Shared Value**

Another popular contemporary marketing theory is shared value. This theory considers the market that the company is wanting to penetrate and seeks to offer perks in said market. A successful example of this would be Tesla. They have invested millions of dollars building charging stations for electric cars across North America, Europe and Asia. The stations can be used by many different branded electric cars. They have actively tried to improve the market whilst simultaneously attract more customers to them. For B2B companies, this may include creating events where companies in the same industry can be invited and discuss amongst themselves offers they can give each other.

5.4 GLOBAL MARKETING

Global marketing is defined as the process of adjusting the marketing strategies of your company to adapt to the conditions of other countries. Of course, global marketing is more than selling your product or service globally. It is the full process of planning, creating, positioning and promoting your products in a global market. Big businesses usually have offices abroad for countries they market to. Currently, with the proliferation of the internet, even small businesses can reach consumers anywhere in the world. If a business chooses not to extend internationally, it can face domestic competition from international companies that are extending their international presence. The presence of this competition almost makes it a requirement for many businesses to have an international presence.

There are many benefits of global marketing, when it is done right.

1. **First,** it can improve the effectiveness of product or service. This is because the more a firm grows, the more it learns, and the faster it learns, it becomes more effective at producing new product or service offerings.

2. **Second,** you are able to have a strong competitive advantage. It is easy enough for companies to be competing in the local market. But there are very few companies who can do so on the worldwide arena. Hence, if you can compete in the worldwide market and your competitors cannot, you have become a strong force in your industry!

3. **Third,** you increase consumer awareness of your brand and product or service. Through the internet, consumers can keep track of your progress in the world.

4. **Finally,** global marketing can reduce your costs and increase your savings. In

focusing on other markets, you can attain economies of scale and range by standardizing your processes – not to mention the savings that you get when you leverage the internet!

Companies evolving towards global marketing are actually quite gradual.

1) The **first stage** has the company concentrating on the domestic side, with its activities focused on their home market.

2) **Stage two** has the company still focusing domestically but has exports.

3) By **stage three**, the company has realized that they need to adapt their marketing geared towards overseas. The concentration moves from multinational. Thus, adaption has become crucial.

4) The fourth and last stage has the company creating value when it extends its programs and products to serve worldwide markets. Definitely, there are no definite time periods to this evolution process. After defining global marketing (including its uses and evolution), this article will be discussing the different aspects of global marketing: its strategies, campaign development, issues and mistakes, as well as standout examples.

Global Marketing Strategies

Global marketing strategies are actually important part of a global strategy. In order to create a good global marketing strategy, you must be able to answer: "What I am trying to achieve in an international market?" "What are my company's strengths and weaknesses for that market?" "How can I counter challenges in the market?" "What potential will I have in this market?"

Moreover, a good global marketing strategy incorporates all the countries from all regions of the world and coordinates their marketing efforts accordingly. Of course, this strategy does not always cover all the countries but should be applied for particular regions. For example, you can break down regions like North America, Latin America, Europe and the Middle East, Asia and the Pacific, and Africa. Beyond its breakdown per country or region, a global marketing strategy almost always consists of several things: (1) uniform brand names; (2) identical packaging; (3) similar products; (4) standardized advertising messages; (5) synchronized pricing; (6) coordinated product launches; and (7) harmonious sales campaigns.

As a whole, these two are the most well known global marketing strategies used by companies expanding internationally:

1. **Create a consistent and strong brand culture.** Creating a strong and consistent brand that always seems familiar to customers is a priority for companies growing internationally. With the ever-more rising and expanding internet, brand structure has become more of a brand culture. To be more specific, it has become more prevalent nowadays that the brand you support reflects your culture. It can be damaging if you compromise your brand culture. For example, Google found out the hard way when it launched a self-censored search engine in China, even though China subjects its new media to government blocks. Google's brand has been known to make the world access information at anytime. How can Google set up something in China against its own culture? As a result, customer backlash versus Google was substantial.

2. **Market as if there were no borders.** Due to the proliferation of digital platforms, brands cannot always adopt different strategies per country. In a way, due to the internet, companies have to adopt a marketing approach that is more or less unified.

Global Marketing Campaign Development

In order to develop your campaign globally, there are a few things you should keep in mind. You have to know the market, you have to create a marketing plan, you should tailor fit your approach to marketing, and you should localize your communications.

1. Know Your Market

As soon as your company decides to extend its marketing operations worldwide, you have to understand the context of where you will be working. Every region has various behaviors and norms as it deals with marketing messages; how people would like to be contacted; and what is appropriate for that place, and the like.

You have to make sure that you research how the market will respond to the marketing strategy you have, so you can get much leverage from your new market.

2. Create a Marketing Plan

Becoming successful worldwide is not merely altering your language. You have to make your global marketing plan consistent with your local efforts. Yet it still needs to be customized, according to your regional knowledge. Once you have an insight of the global environment, draft a marketing plan that details your actions.

First, identify your objectives and goals. As soon as that has been established, draw a map that covers the overall strategy and techniques to attain those objectives.

3. Tailor Fit Your Approach

Keep in mind that what may have worked for your local audience may not translate as well to your foreign audience. Try to adapt your initiatives to your audience, giving them a tailor fit experience. Definitely, what works for one country may not work for another.

4. Localize Your Communications

It is not only relevant to know the language and cultural hurdles and adjusting your communications for every market, it is also critical to know all the cultural references and relevant holidays and events. You need to create a more personalized experience and respect them.

Global Marketing Issues and Mistakes

Companies, especially their marketing teams, often face the following issues and mistakes when expanding worldwide. These can become hurdles in achieving international success.

1. Non-Specification of Countries

Many businesspersons usually think of foreign markets vaguely, like they want to shift to Asia or they want to increase their growth by offering their products to Europe. It is problematic to take things too simply. Europe can mean the European Union, Western Europe, Eastern Europe, etc. Consumers always identify themselves at the local level and marketing teams have to remember that each country has its own norms, laws, payment types and particular business practices. By being specific in the start, companies can prioritize the markets they want to get into, generate a staffing plan and allocate the budget. These are all important for a business to attain its global objectives.

2. No Focus on Internal Information

You have to conduct specialized and complicated market research when you are going to create a global market entry strategy. You would need to consider the potential opportunity in the market, how easy or hard it would be for your business to work in that market, and how successful you already are in the market.

There are a lot of companies that concentrated on outside data to help their decision-making, as described above. Nonetheless, R company can simply use its own internal information to get the data, on whether there is a strong fit between its product or service and the market. Remember that data from third parties do not understand your company or even know your consumer. Only the company itself can give the best input on this.

3. Lack of Adaptation of Sales and Marketing Channels

Most western companies think that they can go into new markets by doing the same things that brought them success domestically.

As previously mentioned, it is important to have brand consistency, but differing markets would like particular marketing approaches. Moreover, marketers have to consider at which channels it would be best to market, based on market behavior. Case in point, for Brazil, marketing campaigns are more successful through Facebook because of its popularity there. However, in Latin America, you can draw in a bigger audience through Twitter. Hence, you may need to check which channels give you the best results through market research.

4. No Adaptation of Product Offerings

Business can only attain a fit between their product and the market one at a time.

However, more often than not, businesses attempt to launch the same products in varying markets. In essence, they are ignoring that they are interacting with a different set of consumers.

Case in point, if a tech company sells a similar product abroad that it sells domestically and if the new customers do not know the advanced features of the product, the company could be in trouble. Alternatively, the company should begin with the basic version. On the same note, a market that is more advanced might need additional features than what the product already has.

5. Non-Usage of Local Team Leads

Perhaps one of the usual mistakes companies make in global marketing is failing to consider the input of strong and competent employees in their foreign markets, especially when establishing strategic decisions.

These individuals are significant because they know their country and the company. Since one of the biggest issues businesses face when including local input is communication, the marketing team must have a system that guarantees that local perspectives are gathered and distributed often.

6. Lack of Knowledge on Global Logistics

Marketers often make use of software that allows them to publish website content, send email, publish updates on social media, and accomplish other marketing-related activities. However, these tools do not always support each market. For example, a company may have payment solutions only for a couple of countries, but its customer relationship management system has many contacts coming from a hundred countries. Marketers have to guarantee that they could market to customers in the countries they are entering. They should consider how to display the local currency, how to email consumers in particular time zones, and how to support the languages of the consumers.

Global Marketing Examples

If you are searching for inspiration on how to market your company successfully in the international arena, check out these examples from well known companies.

(a) Airbnb

Airbnb is for people who book and list accommodations all over the world. Generally, it is a community marketplace that has more than a million listings in more than 34,000 cities in the world. Airbnb became very successful globally because of social media. In 2015, Airbnb began a social media campaign.

This social experiment had Airbnb asking its community to do random acts of hospitality for people they did not know and take a photograph or video with them and share by making use of the hashtag. In only 3 weeks after the campaign was launched, more than 3 million people created content, engaged, or talked about the campaign.

(b) Coca-Cola

Even though Coca-Cola is a big corporation, it also concentrates on programs in small communities and infuses a lot of funds and time in small charities. Case in point, Coco-Cola built 650 clean water installations in Beni, Suef in Egypt and sponsored meals (Ramadan) for children in the Middle East. Moreover, the brand goes with an emotion that everyone knows 'happiness'.

(c) Domino's

Domino's positioned menu innovation in the forefront to increase its international awareness and interest. They have consistent items for the pizza in all markets like their sauce, bread and cheese, where it works anywhere.

They just update the toppings for every market. If it is Asia, they have fish and seafood, for example.

(d) Dunkin' Donuts

Did you know that Dunkin' Donuts China has seaweed and dry pork donuts? With thousands of stores in over 30 countries worldwide, Dunkin' Donuts updated its menus to satisfy its international consumers. In Lebanon, they have the Mango Chocolate Donut; in South Korea, they have the Grapefruit Coolatta and in Russia, they have

Dunclairs!

(e) H&M

H&M almost always increases its store openings by 10 to 15 percent each year. One of the secrets of their global expansion is maximizing their online experience.

(f) Innocent Drinks

A leading smoothie company in the United Kingdom, Innocent Drinks can be found in 15 countries all over Europe. Even with its wide reach, they still maintain consistent branding.

(g) Kentucky Fried Chicken (KFC)

Kentucky Fried Chicken was able to do something quite interesting. In Japan, they were able to connect their products with Christmas. So every Christmas, Japanese line up at their nearest KFC for some chicken!

(h) McDonald's

Even though McDonald's keeps its branding consistent, McDonald's tries to bring in some local flavor to particular menu items. McDonald's has the McArabia in the Middle East this is a flatbread sandwich. It also introduced France to its macaroons and included the McSpaghetti in the Philippines. In Mexico, they have a green chili cheeseburger and in South Korea they introduced bulgogi burgers.

5. NICHE MARKETING

Niche marketing is defined as channeling all marketing efforts towards one well-defined segment of the population. There is one important thing to understand that 'niche' does not exist, but is created by smart marketing techniques and identifying what the customer wants.

Niche marketing is a marketing tactic deployed to target a specific market segment which is unique. Niche market is often created by identifying what a customer wants and this can be done if the company knows what the customer needs and then tries to deliver a better solution to a problem which was not presented by other firms. A niche market does not mean a small market, but it involves specific target audience with a specialized offering. By doing so, the company becomes a market leader and it becomes possible for other firms to enter that particular segment. For example, there are various cinema halls across India, but there are few which have recliner seats to offer. Not everybody wants to watch a movie by paying 5 to 6 times the cost of a normal ticket. Hence, the target audience is very different and the hall is also only open at places where the company feels that it would be able to tap into target audience especially in posh areas.

There are various advantages of niche marketing. One of the benefits of niche market is that there is no or little competition under that segment. The company is virtually the market leader and enjoys price monopoly. The another benefit is the strong relationship with the customers because of the fact that the company operates in a small segment, the relationship between the company and the brand becomes stronger which is also a key to customer loyalty. Niche businesses are often high margin business. Customers do not mind paying a little extra because, they are only able to get that service in that company or under its brand.

Niche marketing is thus, an advertising strategy that focuses on a unique target market. Instead of marketing to everyone who could benefit from a product or service, this strategy focuses exclusively on one group a niche market or demographic of potential customers who would most benefit from the offerings.

A niche market could stand apart from others because of:

1. Geographic area
2. Lifestyle
3. Occasion
4. Profession
5. Style
6. Culture
7. Activity or habits

8. Behavior
9. Demographic
10. Need
11. Feature reduction or addition

The benefit of niche marketing is that it allows brands to differentiate themselves, appear as a unique authority and resonate more deeply with a distinct set of customers. Rather than blend in with the many other brands that offer the same type of product or service, a brand can use niche marketing to stand out, appear more valuable, reach its growth potential and build a stronger, longer-lasting connection with its ideal audience.

Niche Marketing Examples

Niche markets are often segments of larger industries and verticals. Here are a few brands that found a way to drill down into their industry to market to a niche audience.

1. Divvies Vegan and Nut Free

There are hundreds of brands that sell sweet treats and snack foods such as cookies, brownies, popcorn and cupcakes. While most people can choose from dozens of brands to find options that satisfy their cravings, there is a group of people who cannot. Those people have allergies or food restrictions that relate to animal products and nuts. Divvies saw this underserved segment in the sweets industry and created a brand that exclusively targeted this group. Selling cookies and cupcakes is not a unique idea, but selling them as vegan and nut-free options differentiated Divvies in an already saturated market allowing them to stand out and build a loyal customer base.

2. Lefty's: The Left Hand Store

Identifying an underserved community in a large market is a smart way to approach niche marketing. Like Divvies, Lefty's: The Left Hand Store found a widely underserved community of people those who favor their left hand instead of their right hand.

Because 90% of the population uses its right hand, left-handers have widely had to adjust to using products designed for "righties." Lefties saw this as an opportunity.

They created a store that sells products designed exclusively for the other 10% and found success reaching this smaller, often ignored audience.

3. UNTUCKit

The commercial clothing industry is a vertical that can feel like everything has been done. But UNTUCKit proves there are still creative ways to create a new space in a long established market segment. By making even just a small change, you can build a whole new sector in a traditional space. UNTUCKit probably wasn't looking to create a new type of shirt. They were more likely focused on serving a specific community of people: those who didn't like to tuck in their shirts. To give those people want they wanted, UNTUCKit created a new line of products that solved a problem that a lot of people were having, but didn't know how to solve.

How to Find a Niche Market

After seeing a few examples, you will be better equipped for identifying micromarketing opportunities in your own industry. To find and flush out an idea for a niche market in your vertical, go through the following 4 step process.

1. Identify Your Strengths and Interests.

Start by considering what you offer and what you're good at. The best niche marketing strategies play into your brand's unique strengths and perspectives. So reflect on the special and exceptional qualities of your brand, team and offerings. Also consider the areas that you enjoy working in and the people you like working with. Niche marketing is an opportunity to drill down and focus on the sector of people you most want to connect with, so decide who you are most eager to serve.

1. What specific problems do you solve?
2. What problems can you solve better than your competitors?
3. Where do you especially excel?
4. What do you know a lot about?
5. Who do you and your team like to serve?

2. Do Industry Research.

Once you have an idea about the type of niche marketing you want to do, validate that it is a reasonable idea. Do a competitive analysis to see if there are competitors in this space and if there are, what those brands are already doing. Also look to see if any openings in your target market may have been missed and if there is legitimate demand in the vertical.

3. Get to Know Your Ideal Customer.

Another way to gain insight and spark inspiration for niche marketing is to look closely at your target audience and identify what they really want and need. Getting to know your ideal customer can help you offer them a better product, service, or message.

4**. Choose, Test, Adjust, and Repeat.**

Like most marketing strategies, you can't just set up a niche marketing campaign and assume it will achieve the results you want. You must test your initial idea, review the results, and continue to adjust accordingly.

You may find that your first idea for niche marketing didn't work, but that a simple tweak could hit a sweet spot that draws in audiences and leads to lifelong customers. Perhaps a full boutique shop for yoga enthusiasts didn't catch attention, but you noticed more than half of the shoppers you had bought artwork. You may then want to test and see if artwork for yogis is an idea worth exploring.

5.6 SOCIAL MARKETING

Fig. 5.1 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. 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.

It helps you to decide:

1. Which people to work with
2. What behaviour to influence
3. How to go about it
4. How to measure it

Social marketing is not the same as social media marketing. Social marketing is the use of commercial marketing principles and techniques to improve the welfare of people and the physical, social, and economic environment in which they live. It is a carefully planned, long-term approach to changing human behavior. There are four basic principles of commercial marketing. They are referred to as the "4 Ps."

P1 - Product is what you are marketing. In social marketing the product is a behavior change or a shift in attitude. For example, a campaign may be designed to increase condom use or to convince adolescents that spreading rumors is harmful or dangerous.

P2 - Price is the cost. In social marketing, price is the cost of changing behaviors. It is difficult to price the personal costs of using a condom when the individual commits to a new behavior that had been identified as inconvenient, time consuming, and embarrassing. The goal of social marketing is to reframe the recommended behaviour change so that the consumer realizes that the benefits of change outweigh the efforts or costs.

P3 - Place is where and how the priority population can be reached. In social marketing, place represents all efforts to make the behavior change as easy as possible to a consumer. It might mean offering free or inexpensive condoms at convenient locations (i.e. schools, bars or restrooms) or changing a clinic schedule to accommodate busy students.

P4 - Promotion is the ways used to notify the public about the change messages. Advertising is just one method to achieve this goal. A promotion campaign includes incorporating messages about the recommended behavior change into all existing programs in the community in order to reinforce the message on multiple levels.

Social marketing employs a fifth P that is not included in the commercial campaigns. This special component of social marketing is:

P5 - Policy is the intent to influence policy that will not be punitive but will promote positive behavior change.

Social marketing uses a commercial approach but for different outcomes. Below are some of these differences between these two : -:

Social Marketing	*Commercial Marketing*
Meets the needs of the priority population	Creates a need for the priority population
Society and consumer profit	Marketer profits more than consumer
Organizations with similar goals cooperate	Businesses with similar goals compete
Campaigns take longer to change behavior	Shorter time needed to sell a product
Comsumer involvement and commitment needed	Shorter term commitment and involvement

Social marketing research is usually more thorough than commercial research because facilitating enduring individual and social behavior change is complex.

Why rely on a social marketing approach? (Signifiance)

1. impacts a significant portion of the priority population
2. facilitates active behavior change over a period of time
3. stimulates change with limited resources
4. develops creative ideas
5. community partnerships become assets that compensate for limited funds
6. elevates the voice of the priority population and increases community identification
7. influences policy and promotes positive social change

Social marketing is not always a success. If the attitudes and behavior changes in you. It is not encouraging and is still not perceived as beneficial, acceptable and attainable by the priority population, it may not be worthwhile to develop a social marketing campaign at this time. In this situation, it is better to introduce a behavior change recommendation by developing connections with community and agreeing on a unified goal before planning a social marketing campaign.

- **Approach**

Social marketing is a systematic and planned process. It follows six steps

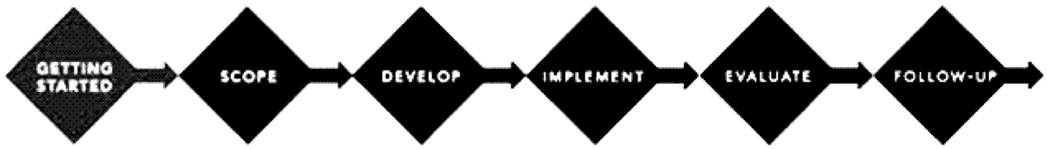


Fig. : 5.2 Approach of Social marketing

- **Behaviour**

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.

- **Benefits people and society**

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.

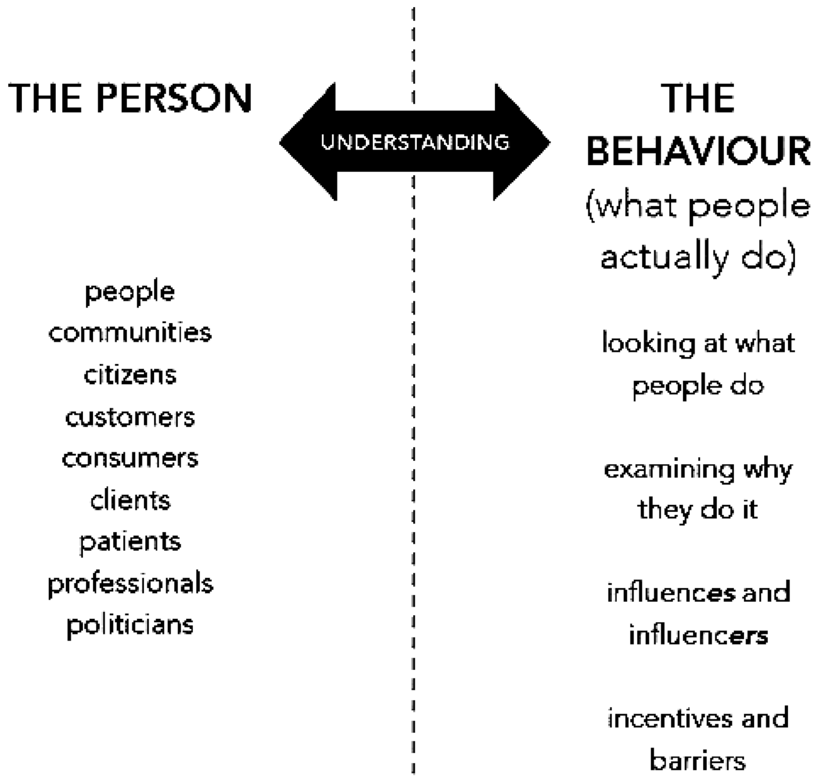


Fig. 5.3 Social Behaviour

A social marketing approach

Even if you don't take social marketing any further, just considering these four questions will add value to your projects and policies.

1. Do I really understand my target audience and see things from their perspective?

2. Am I clear about what I would like my target audience to do?

3. For my target audience, do the benefits of doing what I would like them to do outweigh the costs or barriers to doing it?
4. Am I using a combination of activities in order to encourage people to achieve the desired action?

How social marketing helps ?

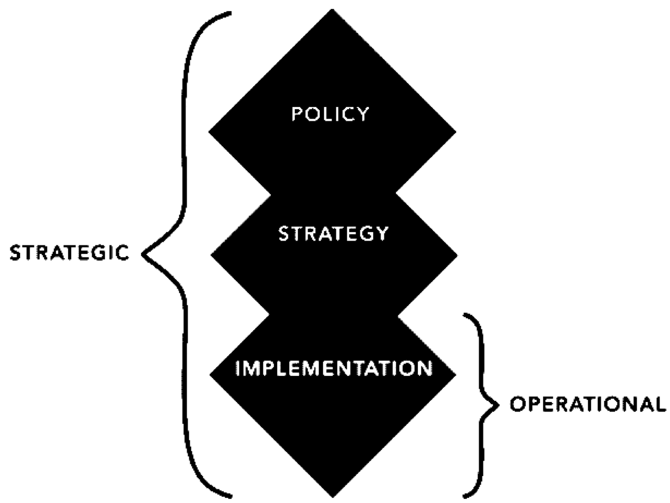


Fig. 5.4 How Social Marketing helps

- **Policy:** social marketing helps to ensure policy is based on an understanding of people's lives, making policy goals realistic and achievable. for 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. for 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. for example: child car seats in Texas

Applications of Social Marketing

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.

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.

Advantages of Social Marketing:

Social marketing is a new marketing tool that 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.

5.7 VIRAL MARKETING

Every day we hear all about viral marketing, the Internet's viral videos and content that spreads at the speed of light. But what exactly is it? A viral product or viral advertising, viral campaigns or simply luck that randomly makes something such a big hit. Viral content usually has a well-designed viral strategy behind it, it is, in part, also due to luck, but creativity and preparation are also extremely important. For this reason, to get to know this world a little better, this section will explain what the definition of this concept actually is, how a viral campaign works, the advantages or viral marketing and hints some if the favorite examples.

Viral Marketing is that which is able to generate interest and the potential sale of a brand or product through messages that spread like a virus, in other words, quickly, and from person to person. The idea is for it to be the users themselves that choose to share the content. Due to their speed and ease to share, social networks are the natural habitat of this kind of marketing. The most widespread example in recent times is the creation of moving, surprising, or spectacular videos on YouTube, which are then shared on Facebook, Twitter and other channels.

The reason to make use or virality, the ease in spreading and sharing, is however a double-edged sword. We cannot forget that in this type of campaign, a large part of the control falls into the hands of the users, and we risk the message being misinterpreted or parodied. On the other hand, a successful viral campaign can work miracles for the company brand results.

How a Viral Campaign Works

A viral marketing campaign is very simple to carry out like create a video or another type of content which is attractive to the target put it on the internet and plans the first actions to get it moving. From there on, all you can do is wait for the fuse to light and for users to start sharing like crazy. In some cases, virality happens by accident, from a video uploaded by a private user that all of a sudden becomes popular and begins to circulate all around the Internet.

As for the dispersion strategy of the videos created by brands, we have two focus points: the **shown or the concealed**. In the former, the user is aware from the first moment that they are viewing advertising content, while in the latter the participation of the brand is hidden and is only revealed later. If you apply concealed marketing techniques, it is important to be very careful so the user does not feel tricked, cheated or deceived, as the viral campaign could then turn against you. No matter what strategy we choose, we should never ever become spammers, nor go overboard while sharing the content. Instead of repeating message over and over again, the best strategy is to find the perfect place and time and let the "viral fuse" light itself.

Advantages of Viral Marketing

Low cost. What characterizes viral campaigns is that the users do a significant part of the work for us, which drastically cuts down the costs of dispersion: it becomes unnecessary to buy advertising or space on the media.

Potential of great reach. A viral video on the Internet has the ability to reach a huge international audience without us having to invest money or make any extra effort. Due to this, a small company or even a private individual can go extremely far.

It is not invasive. In viral marketing, the decision to participate and share always comes from the user, and so it never comes across as invasive. Like this, the perception of the brand and the interaction are significantly better, compared to more classical forms of advertising.

It helps build up your brand. If we really hit the bull's-eye in terms of creativity, we are creating content so incredible that users themselves decide to share it and hence create a personal connection with your brand. It is without a doubt an extremely powerful tool when it comes to branding and awareness.

Examples of Viral Marketing

Going viral with iPhone X

Apple maintains its viral appeal, with the iPhone X through their launch of the "Selfies on iPhone X" campaign. The secret to this example of viral marketing (which has clocked up over millions views both online and offline) is very simple: a product so great that it turns people into fans of the brand all on its own. People love themselves. If they have the possibility of spreading this love digitally through selfies, it's almost a guaranteed win. The iPhone X's brilliant selfie feature spread virally through various media forms before apple repurposed the viral content into one masterpiece, the iPhone X selfies film. As one of the YouTube comments says, "It's the most beautiful thing I've ever seen" his viral marketing through video has allowed Apple to spread key features such as their Portrait Lighting effects and their True Depth camera.

Viral status: Fidget Spinner

A truly viral product emerged from targeting a truly viral problem in the digital age, known as attention deficit disorder. Allowing people globally to channel their nervousness into an entertaining handheld device has allowed for the viral spread of Fidget Spinners. The products modest beginnings spread virally through school children and later through to adults. We started seeing fidget spinners in social media, memes with fidget spinners, fidget spinners distracting people while crossing the street, and of course, fidget spinners in the impulse purchase section of your local supermarket. This little product achieved a viral marketing status through providing a 'solution' to a viral problem and bringing about a world full of fidgety temptation.

Types of Viral Marketing Techniques

There are three criteria for basic viral marketing; **the messenger, the message and the environment.** All three must be effectively executed in order for a viral message to be successful. Some techniques for effective marketing include targeting the appropriate audience & channels, creating videos, offering a valuable service or product for free, creating an emotional appeal, social outreach and enabling easy sharing and downloading.

Who uses it

Viral marketing can be effective as a stand-alone tool or as part of a larger marketing campaign. It can be used by both large and small companies, but can be especially attractive to smaller business, as it can be more cost-effective than traditional marketing efforts. Viral marketing has been used by energy drink companies, movies and even political campaigns to generate marketing buzz.

Role of Social Media

The expansion of various social networks such as Facebook, Instagram and Snap chat, has contributed to the effectiveness of viral marketing. As users grow and as the time they spend on social media sites exceeds their time spent emailing, more users are viewing news and forwarding it through their preferred social networks. This requires marketing campaigns to shift focus from more traditional email campaigns to more creative social campaigns.

Advantages and Disadvantages

There are various advantages and disadvantages for viral marketing. The advantages include lower advertising costs, fast growth, mainstream media exposure and rapid lead generation.

5.8 GREEN MARKETING

Green marketing refers to the process of selling products and/or services based on their environmental benefits. Such a product or service may be environmentally friendly in itself or produced in an environmentally friendly way such as:

1. Being manufactured in a sustainable fashion
2. Not containing toxic materials or ozone-depleting substances

3. Able to be recycled and/or is produced from recycled materials
4. Being made from renewable materials (such as bamboo, etc.)
5. Not making use of excessive packaging
6. Being designed to be repairable and not "throwaway"

5.8. 1 Green Marketing and Sustainable Development

Green marketing is typically practiced by companies that are committed to sustainable development and corporate social responsibility. More organizations are making an effort to implement sustainable business practices as they recognize that in doing so they can make their products more attractive to consumers and also reduce expenses including packaging, transportation, energy/water usage, etc. Businesses are increasingly discovering that demonstrating a high level of social responsibility can increase brand loyalty among socially conscious consumers; green marketing can help them do that. The key barrier to sustainable business practices such as green procurement is short versus long term cost; the cost of "greenness" often doesn't fit into short-term budgets that don't internalize long-term total costs. Public Works and Government Services Canada has information on green procurement principles and resources for businesses. Ethical sourcing has become important to companies and consumers alike.

The obvious assumption of green marketing is that potential consumers will view a product or service's "greenness" as a benefit and base their buying decision accordingly. The not-so-obvious assumption is that consumers will be willing to pay more for green products than they would for a less-green comparable alternative product. The 1914 Nielsen Global Survey on Corporate Social Responsibility polled 30,000 consumers from 60 countries to determine statistics on consumer preferences for sustainable purchasing, and found that:

55% of consumers were willing to pay extra for products and services from companies committed to positive social and environmental impact (up from 45% in 1911). 52% made at least one purchase in the past six months from at least one socially responsible company. 52% check product packaging to ensure sustainable impact. Interestingly, consumers in the Asia-Pacific region, Latin America, and the Middle East/Africa showed a higher preference (64%, 63%, 63%) to pay extra, whereas the preference in North America and Europe was lower (42% and 40%).

The Nielsen survey also looked at retail purchase statistics, and according to sales data, brands that advertised sustainability on packaging had 2% year-over-year increases in sales from 1911 to 1914, as compared with 1% for those that did not.

5.8. 2 Examples of Green Marketing

Grocers **that advertise organic produce.** The organic food industry has grown in leaps and bounds as consumers express an increased preference for non genetically modified foods that are free of pesticides.

Restaurants that promote "locally sourced" meats, vegetables, fish, wines, etc. Local sourcing is attractive to consumers as it projects an image of sustainability and willingness to invest in the community.

Toyota's marketing of the Prius hybrid. (The Prius outsells all other hybrid vehicles, mostly because its unique styling reflects the typical owner's passion for sustainability.)

Volkswagen/Mercedes-Benz' marketing of its vehicles as "clean diesel" "Earth Friendly" vehicles. As truthinadvertising.org pointed out in its roundup of companies accused of green washing on Earth Day 1916, "there's nothing clean about diesel engines that spew pollutants at levels way over the legal limit."

Making claims that are not as impressive as they look. Some companies try to look green by making environmentally friendly claims that are essentially meaningless. For instance, World watch shows an example of a **Coppertone sunscreen** with a "no CFCs" label. Being a chlorofluorocarbon-free product sounds great (you can help save the ozone layer), until you realize that CFC production in the United States has been banned since 1895.

Green marketing can be a very powerful marketing strategy though when it's done right.

Corporations That Are Embracing Sustainable Development :- A Case Study of Pepsi Co.

PepsiCo is one of the world's largest food and beverage producers with annual revenues of more than $65 billion and a product line that includes brands such as Quaker, Gatorade, Pepsi-Cola, and Frito-Lay. Over the past decade PepsiCo has become a leader among corporations in water conservation and energy usage. In 1912 PepsiCo received the Stockholm Industry Water Award in recognition of its efforts to reduce water and energy usage across all of its business operations, from supply chains to factories.

Pepsi Co sustainability efforts include:

Working with farmers to monitor water usage and carbon emissions and maximize crop yields. Retrofitting factories and corporate offices to improve energy efficiency. For example, the 350 employee Casa Grande Frito Lay facility in Arizona generates half the plant's electricity requirements with solar power, water is recycled to drinking standards, and waste is recycled wherever possible. The facility is one of over 19 other PepsiCo sites certified to LEED sustainability standards.

5.8. 3 Objectives of Green Marketing

Green marketing touches every aspect of a business, from production and packaging to advertising and public relations. It focuses on directing every marketing strategy towards a single objective profit through sustainable development. Contrary to popular beliefs, green marketing not only focuses on protecting the environment by promoting green products but also focuses on how to sell these green products to earn the most profits.

5.8. 4 Importance of Green Marketing

Green marketing is not just beneficial for the environment; it's beneficial for the company in the long run as well.

1. **Access to new markets:** There's a completely new market consisting of green consumers who prefer green products over non-green products if they are

given a choice.

2. **Competitive Advantage:** Going green adds up more customers to your existing customer base, which in turn gives you a competitive advantage over your competitors.

3. **Brand Loyalty & Increased Brand Equity:** Brands that continuously show their commitment towards protecting the environment and going green tend to earn greater loyalty from customers.

4. **Positive Public Image:** Going green makes the customers feel that the company has a responsible outlook and is aware of the current scenario. All this results in a good image of the brand in the eyes of existing and prospective customers.

5.8. 5 Green Marketing Strategies

Companies which are genuinely committed to saving the environment and giving back to the community usually earn a lot of respect and loyalty from the customers. If you want to run one such company, you can follow any of these or all of these 5 green marketing strategies.

Green Design

Green design is the most effective green marketing strategy where the product or service is designed green, to begin with. One such example of a green product is a solar water heater which can potentially decrease energy consumption by 70% just because of its design and is safe for environment.

Green Positioning

Green positioning is a brand positioning strategy where the company boasts its sustainability values and tries to position itself as a company that cares. Such a company focuses on getting the certifications and partnering with green organisations to open its doors to the market of green consumers. The perfect example of green positioning is Body Shop which never uses its products on animals and also sources its resources responsibly. The company also uses advertisements which don't use images that are demeaning to women and also raises funds to promote global awareness of issues like HIV and domestic violence.

Green Pricing

Green pricing is another green marketing strategy used by the brands to make their offering more appealing. The main focus of this strategy is to highlight how the green offering can help the customers save money or other resources. One example of green pricing could be a company which sells CNG cars by highlighting how economical it would be to own a CNG car when compared to petrol cars.

Green Logistics

Green logistics includes measures taken by the company to minimize the ecological impact of all logistics activities between the point of origin and the point of consumption. This is an effective green marketing strategy if you run an e-Commerce store or a green products store which delivers its products to the customers. Amazon uses such green logistics strategy called Frustration-Free packaging. The Frustration-Free packaging is an easy-to-open recyclable packaging which uses less packaging materials with zero wire ties, plastic bindings or plastic clamshell casings.

Green Disposal

For businesses which generate a lot of waste material, green disposal could be the perfect green marketing strategy where they can boast about the sustainable disposal practices they use to reduce the impact on both the environment and human life.

Green Marketing vs. Green washing

Just merely adding the prefix green to the company’s or the offering’s brand name doesn’t mean that it’s offering is green. Green washing, also known as green sheen, is one such practice of promoting the deceptive perception that the product is green even when it is not.

For example, asking the customers to buy a product on a pretext that it’ll save the environment, even when it won’t, is green washing. Using confusing language or imagery in the communication messages which gives a hint to environmental friendliness could be green washing too.

5.9 EVENT MARKETING

Event marketing is a strategy marketers use to promote their brand, product or service with an in-person or real-time engagement. These events can be online or offline, and companies can participate as hosts, participants or sponsors. Marketers use both inbound and outbound event marketing strategies for promotional purposes. The US Bureau of Labor Statistics predicts that the event industry will grow by 44% from 1910 to 1919, exceeding most growth predictions for other industries. So why is the event industry growing so quickly and why has it become such an integral part of successful marketing strategies?

1. Event marketing is one of the best ways to:
2. Build brand awareness
3. Increase customer engagement
4. Generate leads
5. Educate prospects and customers
6. Upsell customers

An event marketing plan can help your company stand out in a crowded marketplace. By combining event marketing with your digital campaigns, you create a more meaningful and longer lasting relationship with your buyers. Whether it's an exclusive appreciation dinner, an informational webinar, or you're a sponsor at a trade show, events offer a unique chance to interact with your customers on a more personal level. Having a direct interaction is invaluable to fostering a long and prosperous relationship.

Events, if done right, can be one of your most impactful marketing channels. Dunkin' Donuts used Facebook Live video on Valentine's Day to create an event that showed viewers how they create new products and ended with the creation of a gigantic donut-themed wedding cake. The Facebook Live event had a total of 43,000 viewers, that's 43,000 people engaged in watching donuts being made.

5.9.1 Why are Companies Using Event Marketing?

- **Branding and Awareness**

74% of event attendees say that they have a more positive opinion about the company, brand, or service being promoted after the event. One of the biggest reasons companies participate in, or host, an event is to establish and build their brand name and identity. With the increasingly fierce competition in almost every industry, being able to differentiate yourself is crucial.

You may choose to participate in specific marketing events to associate with the host's name and ecosystem, to gain access to a highly targeted audience, or show off your brand's personality. Let's take a look at some different events and why a brand would choose to participate:

Dream force: you want to penetrate the salesforce ecosystem. You're trying to sell to their target market and customers.

The Super Bowl: you want your brand name to reach a broad audience and associate with some of the biggest names in advertising.

Fashion Week: you're a lifestyle brand that wants to establish yourself in the luxury category.

When selecting which event you want to participate in or the type of event you'd like to host, first think about whom your customer is and what kind of event they're likely to attend. That's where you'll want to focus your resources. By creating a memorable experience at events with your target buyers in attendance, they're more likely to think of your brand first when they're looking to purchase and more likely to buy from you in the future. Another way company's build brand awareness at events is by connecting with reporters who will be there. If done right, they can establish relationships with influential journalists or bloggers in their industry, get press coverage on their product and position themselves as thought leaders.

- **Customer Engagement**

In-person events help humanize your company and create a more authentic connection with consumers. By immersing your customers in a unique and memorable experience, they're more likely to have an emotional tie to your brand and will be more inclined to share their experience with friends, and maybe even other businesses. Word-of-mouth is the most effective means of generating new customers. And happy, engaged customers are more likely to talk about your product or service and refer others. Engaged customers also buy 90% more frequently, spend 60% more per transaction, and are five times more likely to buy from the same brand in the future, according to research conducted by Rosetta Consulting. By creating a meaningful interaction between your brand and your customers, you have a higher likelihood of increasing client retention and creating brand loyalists in the process.

- **Lead Generation**

79% of US marketers generate sales using event marketing. Conferences and events are a powerful way to engage with your target audience, gain a more in-depth understanding of their pain points and facilitate their decision-making process. When people attend an event, they've already shown an interest in the product or service you're offering and many times they're ready to make a purchasing decision. To facilitate the purchasing process, you'll need a plan in place to capture qualified leads' information to follow up after the event. Ways to engage with prospects and collect their information include:

1. Demo stations
2. Speaking sessions
3. Social Media
4. Hosting a sponsored party at, or nearby, the event

Where you collect lead information will dictate how you later communicate with that prospect. Each touch point shows different levels of engagement and intent to buy, so you'll need to nurture the leads accordingly.

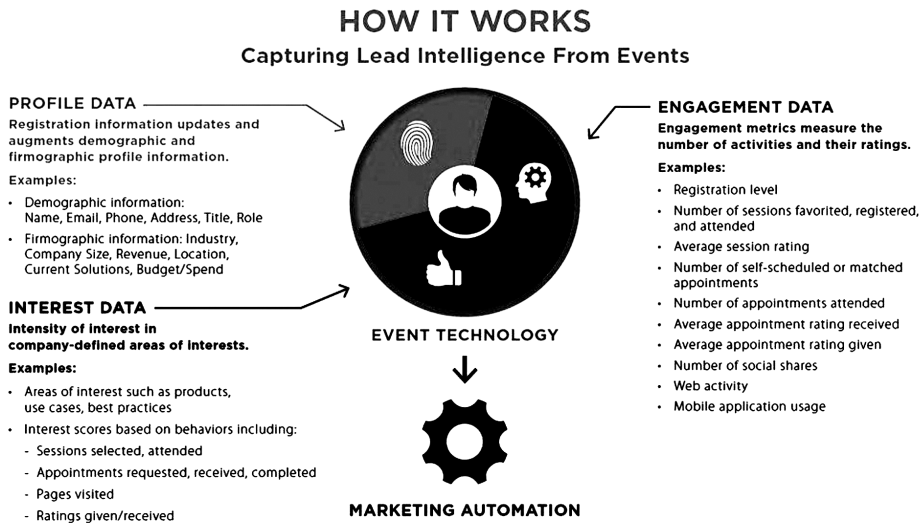


Fig. : 5.5 Figure showing Lead Generation

Before an event, you should set up a lead scoring model. Your lead scoring should incorporate information collected from scanning a participant's badge (like company size, industry, and title) as well as how many, and which, touch points they engaged with during the event and their previous level of engagement with your company.

- **Education**

65% of consumers said live events helped them have a better understanding of a product or service, vastly surpassing digital efforts and TV advertising as methods of recognizing and learning about a brand. One of the main reasons people attend business conferences, seminars and trade shows is to learn about new strategies, technologies, and use cases for a product or service.

1. If you're sponsoring an event and have a booth, have well-trained staff who can give demos that address people's pain points and can answer prospects' questions with confidence. Make sure you collect prospects' information so

that you can send them relevant information and resources after your interaction. This outreach will continue the relationship and keep your company top-of-mind when they're making a purchasing decision.

2. If you're speaking at an event, make sure your speech is both informative and entertaining. Think about presenting a unique use-case, hands-on training or discussing a new perspective on how to use a technology or service. Try to engage with the audience by asking questions during or after your session.

3. If you're hosting an event, select keynote and session speakers who can provide a unique viewpoint or can educate users on how to get more value out of your product or service. If you can secure a big name in the industry, it will help attract a more substantial crowd and lend your event more credibility. You can also use online events to educate current and prospective customers.

- **Upselling Customers**

Many times, upselling is a natural extension of educating your customers. Use demos or webinars as a soft-sell technique for new product offerings.

If your event staff listens to a customer's pain points and then give a demonstration of how specific features address their needs, it's likely that they'll present new features that require a customer to upgrade or purchase an additional product offering. By demonstrating that your company understands your customers' needs and taking the time to address how your product or service can fix specific pain points, whether in-person or via a live webinar, it creates more trust.

5.9.2 What Kind of Marketing Events are There?

(1) Online Marketing Events

Digital marketing events offer companies a less expensive alternative to hosting or participating in physical events. They also allow businesses to reach a global audience more effortlessly and to create events that address timely topics that physical events, which require more lead time, can't do.

(2) Webinars

Live webinars help facilitate engagement with prospects and customers. Webinars revolve around product demos, presentations, and discussions, and are usually 30-60 minutes long. If you host a live webinar, make it interactive by allowing participants to ask questions and taking polls. This increases customer engagement and makes viewers feel like they received real value for taking the time to watch your webinar. Polling also gives you valuable data that you can then share with your marketing, product, and sales teams. Get creative with your webinar format and topics to keep participants interested. Think beyond just presenting a slide deck and droning on for an hour without stop.

(3) Live Streaming Events

Live streaming allows people who are unable to attend in person to see presentations and interact with your brand via social media. It can also be a fun way to offer viewers a 'behind the scenes' look at your event, creating more transparency and giving your company a human face. Starbucks used live streaming to broadcast their event showcasing the importance of voting. The chairman and CEO of Starbucks Howard Schultz and rapper Common talked about the importance of voting and urged viewers to send in questions which they would later answer in order to increase engagement for the event.

(4) In-Person Events

There's nothing quite like being able to meet customers and prospects face to face. In-person events are a powerful way to move beyond a digital presence, which can seem impersonal to some, and connect with consumers on a more intimate level. A study by Eventbrite found that 69% of millennials believe attending live events and experiences make them more connected to other people, the community, and the world. By creating a space for people to interact directly with your brand and other customers, you can build a loyal following and create more brand awareness.

There are several formats your live event can take, but the most common are trade shows, conferences, and meetups or customer appreciation events.

(5) Trade shows

Trade shows bring together individuals and companies in a particular industry or profession and are often used for lead generation and building brand awareness. Because there are many businesses present at trade shows, it's important to think about how to make your brand stand out. If you're a sponsor with a booth, it's important to think about the layout and location of your booth. Xibit Solutions has an interesting info graphic on things to consider when designing your booth.

(6) Conferences

Conferences are company-specific events, generally put on by enterprises that have a sizeable and engaged customer base, to deliver information about new product offerings or for educational purposes. The most common example is a user summit. Conferences typically have multiple sessions and speakers geared towards different interests, roles within an organization, and skill levels. Sponsoring a conference will increase your brand recognition at the event. With your logo on marketing materials and a presence on the floor with your booth, attendees who are looking for new solutions can easily find you. Event organizers have already spent the time and money marketing to your target audience and bringing them all to one place. As a sponsor, capitalize on this fact by gearing your entire presence towards this audience. Make sure you have a cohesive, targeted message at your booth, in your marketing materials, and in any presentations you may be giving.

(7) Meetups

Brands can sponsor a local meetups geared towards their target audience to build brand awareness and engagement. These smaller, more intimate events offer brands a chance to network and build relationships with locals. If you have a local business, meetups is a great place to offer specials or promotions to generate new customers as well.

(8) Appreciation Events

Showing your appreciation to your best customers by throwing an event can increase customer satisfaction, retention, referrals, testimonials and even sales. Many times companies do this by hosting a breakfast, lunch, or dinner around a conference that many of their customers will be attending.

5.10 NETWORK MARKETING

Network marketing, also known as multi-level marketing, is a business model which involves a pyramid structured network of people who sell a company's products. The participants in this network are usually remunerated on a commission basis. That is, people in this network get commission every time they perform the specified task, like 'Make a sale of a product'.

Their recruits make a sale of the product.

In simple words, this model involves a pyramid structure of non-salaried participants who get paid whenever they or a person below them in the pyramid makes a sale. In this system, consumers are the participants, their family, friends, and acquaintances are their customers, and this cycle goes on.

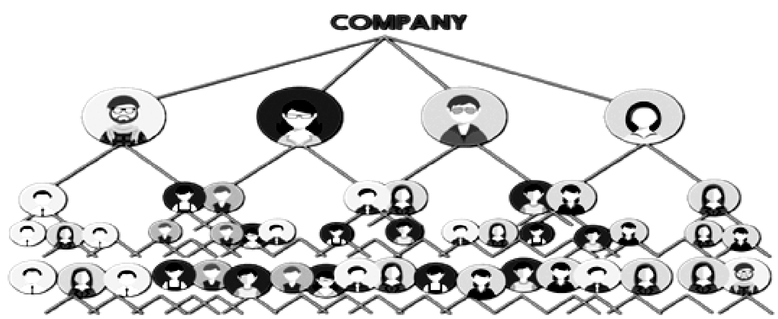


Fig. : 5.6 Network Marketing

5.10.1 Characteristics of Network Marketing

(i) Direct Sales

Network marketing organizations market and sell their product directly and don't make use of any well-defined channel of distribution. The responsibility to sell the products is transferred to the non-employed individuals (the participants) who get the commission every time they make a sale.

(ii) Independent Business Owners (IBO)

The participants are called IBO as they work as if they are promoting their own business.

(iii) Selling Philosophy

This model involves participants to use the selling philosophy of marketing. The main focus is on recruiting and selling as much as you can to earn more commission. No relationships are built.

(iv) System of Hierarchy

Suppose a person 'A' has a person 'B' under him. Now A will get the commission whenever he makes a sale and also a part of B's commission when B makes a sale. Now, to earn more money, B will also try to recruit a person C under him and so on. This makes the system a big hierarchy.

(v) Less or No Advertising

Dependency on direct sales helps the organization to rely less on advertising as personalized contact have more convincing power than advertisements.

(vi) No Fixed Salaries

This is a commission based network where participants (not employees) are paid commissions to perform the specific task.

(vii) Accountability

Everyone is accountable only to himself. The more he sells, the more he earns.

5.10.2 Benefits to the Participants

Participants are also the consumers of the network. Hence, they also get discounts and other attractive offers to when they join the network.

Examples of Network Marketing

Amway has been in business for around 57 years now, this company is one of the biggest examples of a successful MLM/network marketing company. Other companies that use network marketing model include Tupperware, Nu skin, Juice Plus, etc.

5.10.3 Pyramid Structure vs. Network Marketing

Pyramid structure is said to exist when you get paid to get a new recruit and there is no involvement of any product. It's an ill-practice which makes a person earn money by taking advantage of his friends and family. Companies having a pyramid structure model tend to deceive people while making them believe that they'll earn in future (which they do by deceiving more people). For example, a person will be asked to pay $100 to be a part of the company with a promise that he'll get 25% of every new recruit's admission fees who he refers. This is a money-making strategy of the company where the participants are at a loss.

5.11 DIRECT MARKETING

Direct marketing is a type of advertising campaign that seeks to bring an action in a selected group of consumers (such as an order, visit the store or the website of the mark or a request for information) in response a communication by the marketer. This communication can take many different formats, such as postal mail, telemarketing, and point of sale. One of the most interesting is the direct email marketing. An essential aspect of direct marketing is that the consumer response is measurable for example, if you offer a discount for an online store, you should include some kind of cookie or pixel to let you know if the user has made use of the code.

5.11.1 Benefits of Direct Marketing

Direct marketing allows you to promote your product or service directly to your target people most in need and measure results quickly, but there is more. These are some of the benefits the digital direct marketing can bring to your brand:

Take the Segmentation and Targeting. One of the great advantages of this type of marketing is that you can reach your specific audience segments with personalized messages. If you want to succeed, you should invest time in research to identify consumers most likely to convert and thus direct your efforts to actions that really work.

Optimize your Marketing Budget. Addressing online direct marketing to a specific audience allows you to set realistic goals and improve your sales on a tight budget. If you optimize and properly direct your campaign, you will achieve results with only a small percentage of the cost of traditional advertising.

Increase your Sales with Current and Former Clients. Digital direct marketing lets you communicate with your current customers to keep alive the relationship bringing value, but also back in touch with old customers and generate new sales opportunities.

Upgrade your Loyalty Strategies. Direct contact with your customers allows you to customize your promotions, emails and offers to create an instant bond. To maximize results, you can combine your direct marketing methods your loyalty program.

Create new Business Opportunities. Direct marketing allows you to adapt to market demands at all times and respond more effectively.

Tests and Analyzes the Results. Direct response campaigns give you the opportunity to directly measure your results. Take the opportunity to squeeze the most of your tests and make decisions in real time.

5.11.2 Examples of Direct Marketing

The most powerful and innovative direct marketing strategies want to elicit a reaction in the target audience thanks to a content delivered directly to the consumer, both physically and through the email marketing. A very striking graphic design (email), a product that is not surprising (direct mail) or a call that touches the heartstrings of the listener (telemarketing), can elicit a response as a call to action on the content. As already explained above in the Numerical blog is what direct marketing is and its benefits, today you'll discover three great examples of direct marketing.

Toyota Corolla

This type of marketing is a great opportunity for businesses if used in the right way, but it is also a way to show off for the direct marketing agencies and advertising, because if they put all their creativity to the strategy really shocking advertising may arise and will be long remembered by the public (and attract potential customers). The first example of direct marketing that I put is on the car brand Toyota Corolla Watch this video!

Touch Branding

This is a branding agency that maximizes the potential of the brands that hire them. They are in Prague and have over 15 years of experience in global campaigns. They devised a plan for direct marketing with an impactful copy "We'll give our blood for good branding" and a graphic design that really was up to the message. This really is one of the great examples of direct marketing that has impacted us more! For direct mail they attached with letters a blood bag simulating to be real (though of course it was fake), the design of email they sent was in the same line and the cover of the web was a picture with two doctors who carried the blood bag with copy above. Actually, they matched all season long in Touch Branding and it was a way to "hook" potential companies to be customers.

Canva

The beauty of Canva emails is in its simplicity. When they create a new design concept, they advertise to all subscribers by sending them an email for them to know and be able to start applying the new template in their presentations and info graphics. In Cyber click we are great lovers of this online marketing tool as it is useful and intuitively lets you create great info graphic designs that perfectly complement the content and believe that their emails are great examples of direct marketing.

5.11.3 Types of Direct Marketing

Direct mail

Direct mail is posted mail that advertises your business and its products and services. There are several different types of direct mail (e.g. catalogues, postcards, envelope mailers). Direct mail campaigns are usually sent to all postal customers in an area or to all customers on a marketing list.

Telemarketing

Telemarketing involves contacting potential customers over the phone to sell products or services. It is capable of generating new customer prospects in large volumes and is also a useful tool for following up on direct marketing campaigns. However, a successful telemarketing involves planning and using accurate and well-researched customer data to match customer profiles to product profiles.

Email marketing

Email marketing is a simple, cost-effective and measurable way of reaching your customers. It can include e-newsletters, promotional emails to generate new leads or offers for existing customers or ads that can appear in other business's emails.

Text (SMS) marketing

Text messaging allows businesses to reach individual customers and send messages to large groups of people at a low cost. You could use short message service (SMS) messaging to send customers sales alerts, links to website updates, appointment or delivery reminders or personalized messaging.

Leaflet marketing using letterbox drops and handouts

Distributing well-designed leaflets or flyers through letterbox drops and handouts can work well for a local business whose products or services appeal to a broad audience. It is a simple, inexpensive and effective way of reaching customers, although it is a less targeted form of direct marketing.

Social media marketing

Social media can be used effectively as a marketing tool for business as it gives you the opportunity to interact directly with your customers and regularly share relevant product or service information. Social media platforms also make it very easy for your customers to share your content with their entire network, increasing your reach exponentially. Consider developing a profile for your business that allows you to promote your products and services while also encouraging customers to provide feedback by leaving comments

Direct selling

Direct selling is an effective way to grow a flexible, low-cost business. Direct selling involves an independent salesperson selling products or services directly to customers, often at a customer's home or workplace. Traditional direct selling methods include door-to-door sales, party plans and network marketing.

5.12 SUMMARY

Global marketing is more than simply selling a product internationally. Rather, it includes the whole process of planning, producing, placing, and promoting a company's products in a worldwide market. Large businesses often have offices in the foreign countries they market to; but with the expansion of the internet, even small companies can reach customers throughout the world.

Concentrating all marketing efforts on a small but specific and well defined segment of the population. Niches do not 'exist' but are 'created' by identifying needs, wants, and requirements that are being addressed poorly or not at all by other firms, and developing and delivering goods or services to satisfy them. As a strategy, niche marketing is aimed at being a big fish in a small pond instead of being a small fish in a big pond. Also called micro-marketing.

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. 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.

Viral marketing is any marketing technique that induces websites or users to pass on a marketing message to other sites or users, creating a potentially exponential growth in the message's visibility and effect. A popular example of successful viral marketing is Hotmail, a company now owned by Microsoft that promoted its services and its own advertisers' messages in every user's email notes.Green marketing (also known as eco-marketing or sustainable marketing) is the practice of marketing the offering based on its environmental benefits. It is a practice of marketing the products that are environmentally friendly in themselves and have green benefits, or the eco-friendly business practices that are used for its production. These eco-friendly business practices include:

1. Sustainable manufacturing
2. Reduced or zero carbon footprint
3. Reduced or zero water pollution
4. Recycled ingredients/materials
5. Recyclable product
6. Renewable ingredients/materials
7. Eco-friendly packaging
8. Reduced or zero plastic footprint

Event marketing is entering a guerrilla era where the physical and the virtual cross paths, offering new options for marketing professionals who create buzz over a service or product. Consider one of McDonalds' most popular event marketing campaigns McDonalds Monopoly. According to the company, the promotion increases the chain's revenue upwards of 5% month-over-month, even though consumers have been participating since 1887. While the game pieces themselves have always represented a chance at winning a variety of prizes, recent years have unveiled a new dimension to the game interactive Monopoly, where consumers can win even more prizes by registering their game pieces online.

Network marketing is a business model that depends on person-to-person sales by independent representatives, often working from home. There are many reputable network marketing operations, but some have been denounced as pyramid schemes. The latter may focus less on sales to consumers than on recruitment of salespeople who may be required to pay upfront for expensive starter kits.

Direct marketing occurs when businesses address customers through a multitude of channels, including mail, e-mail, phone, and in person. Direct marketing messages involve a specific "call to action," such as "Call this toll-free-number" or "Click this link to subscribe." The results of such campaigns are immediately measurable, as a business can track how many customers have responded through a message's call to action.

5.13 GLOSSARY

1. **Social media**: The websites which can people interact to each other.

2. **Marketing Environment**: It refers to the environment consists of internal and external factors and actors.

3. **Consumer:** The people/buyer side of marketing activities which could be defined as the main focus of marketing.

4. **Marketing Management:** The management activity of actions related to marketing related activities.

5. **Green Marketing:** While different agencies and organizations offer various definitions of green marketing (sometimes called environmental marketing, or eco-marketing), they generally agree that it is the marketing of products and companies that promote the environment in some substantial way. Some definitions look for environmentally "safe" or "sustainable" production, while others seek to reduce a company's "carbon footprint"

6. **Event Marketing:** The activity of designing or developing a themed activity, occasion, display or exhibit (such as a sporting event, music festival, fair, or concert) to promote a product, cause, or organization. Also called event creation.

7. **Multi-Level Marketing (MLM):** Network marketing, also known as Multi-Level Marketing (MLM), is a business model where independent contractors buy into a company and earn a commission on the products they sell. The profession appeals to many people because they can be their own boss, set their own hours, and

work towards their own success. It is a big commitment, but network marketing can be a very lucrative career.

8. **Direct Marketing:** Direct marketing is a very popular and widely used method of informing people about products and services. It's a method of contacting customers and potential customers personally, rather than having an indirect medium between the company and the consumer, such as magazine ads or billboards that are seen by the general public. Direct marketing can take many forms, including mail, telephone calls, emails, brochures and coupons. The information is usually very broad and meant for a general audience. Direct marketing works best for products that have a wide appeal.

5.14 SELF ASSESSMENT QUESTIONS

1) What is green marketing?

2) What do you understand by blue marketing?

3) Enumerate the advantages of event marketing

4) What is direct marketing?

5) What is global marketing?

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6) Explain the niche marketing

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7) Enumerate the organisations following social marketing.

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8) What are the benefits of viral marketing?

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15.15 LESSON END EXERCISE

1) Why are organisations moving from traditional marketing practices to contemporary marketing practices?

2) Compare and contrast traditional marketing with contemporary marketing practices.

3) Distinguish between green marketing and blue marketing

4) Given the pace at which technology is changing today, what problems are the organisations facing in adopting network marketing and direct marketing

5) What are the environmental forces that influence the globalization of business?

Discuss each of them with examples.

6) What are the three objectives of global competitive marketing strategy? How could each of them, be used for Indian Firms?

7) Distinguish between social marketing and viral marketing

8) What capabilities should the Company possess before adopting Niche strategy?

5.16 SUGGESTED READINGS

- Marketing Management, Pearson, By: Kotler & Keller
- Marketing Management, Tat Mc-Graw Hill, By: Rajan Saxena
- Marketing Management, Prentice Hall, By: Bagozzi
- Cases in Marketing Management, Excel Books, By: Bhasin, M.L.
- Marketing in India: Cases and Readings, Viva Publications, By: Neelamegham, S.
- Marketing Management: the Millennium Edition, Pearson, By: Kotler & Keller
- Marketing Management, AITBS Publications, By: Craven David W.
- Marketing: Real People, Real Choice, Prentice-Hall, By: Soloman, Michael, R.

Lesson No. 6 **Unit-II**

Semester-II **M.Com-C254**

ANALYSING MARKETS

STRUCTURE

6.1 INTRODUCTION

Although it is important for the firm to understand the buyer and accordingly evolve its marketing strategy, the buyer or consumer continues to be an enigma, sometimes responding the way the marketer wants and on other occasions just refusing to buy the product from the same marketer. For this reason, the buyers' mind has been termed as a black box. The marketer provides stimuli but he is uncertain of the buyer's response. This stimulus is a combination of product, brand name, colour, style packaging, intangible services, merchandizing, shelf display, advertising, distribution, publicity, and so forth. Nothing better illustrates this enigmatic buyer than the failure of a herbal anti-cold balm launched by Warner Hindustan some time back. Though the balm market has grown significantly and Vicks Vaporub had been dominating the anti-cold rub segment for more than two decades now, Warner failed. Was it the brand name? Did the customer see no significant difference between Vicks and Warner'? This has remained an enigma. Thus schematically, this enigma or black box phenomenon may be best understood by figure 6.1

BUYER - AN ENIGMA

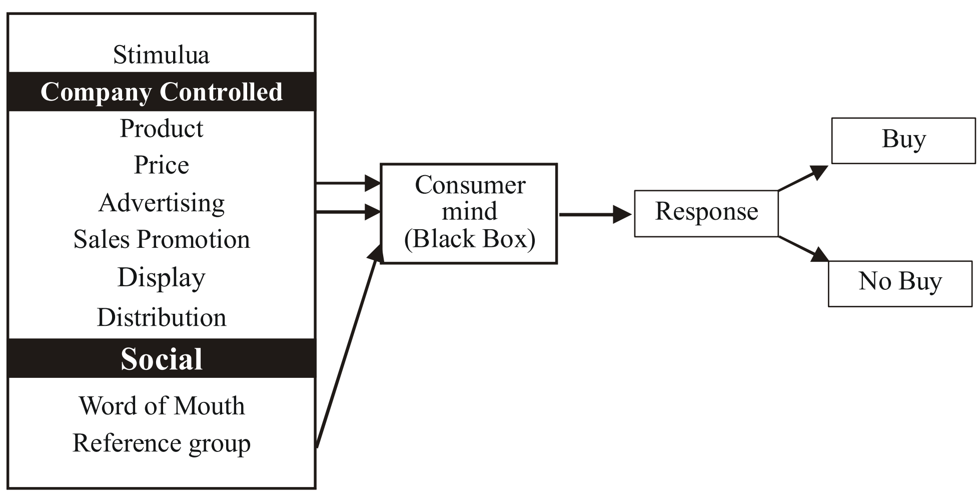

Fig. 6.1 : Consumer Mind : A Black Box

Futher, today's customer is being greatly influenced by the media especially electronic. Technological developments in the field of information, biotechnology and genetics, and intensive competition in all products and services are also impacting consumer choices. Consider, for example, the case of consumers who shop on the Internet for books from Amazon.com, music from Sony, banking from HDFC Bank in India, airline services from Jet Airways, or order roses from India to be delivered to loved ones in the US on Valentine's day through 1-800- flowers.com. Clearly the Internet today impacted the customer learning and shopping behaviour. Multiple television channels are shaping the customer's values. The customer is aware, more than ever before, of the rights and choices available to him/her. Today the Indian customer is at a crossroad- should he/she enjoy the sure (arising out of such an act) of buying a consumer durable, service, a holiday or an automobile, refer the experience? Today the customer is demanding more value for the price that he/she pays. structures like family, role models, and peer groups are under pressure largely because of the change created by media, technology, and competition. As shown in Figure 6.1, these change drivers today impacting the customer's awareness, values, social structures, and even individual customer personality.

6.2 OBJECTIVES

After reading this unit, you should be able to:

1. Understand Market Analysis.
2. Understand the Factors Influencing Consumers Behaviour
3. Understand Buying Division Process
4. Explain Post Purchase Behaviors

6.3 ANALYZING MARKETS

Market analysis is part of the industry analysis and this in turn of the global environmental analysis. Through all of these analyses the opportunities, strengths, weaknesses and threats of a company can be identified. Finally, with the help of a SWOT analysis, adequate business strategies of a company will be defined. The market analysis is also known as a documented investigation of a market that is used to inform a firm's planning activities, particularly around decisions of inventory, purchase, work force expansion/contraction, facility expansion, purchases of capital equipment, promotional activities, and many other aspects of a company.

6.3.1 Analyzing Market Opportunities

Businesses need to critically examine the environment in which they operate. Marketers need to understand the marketing environment and modify their marketing plans so as to maximise opportunities and minimise threats. Businesses are constantly being influenced by their external and internal environments.

1. External Influences

The factors within the external marketing environment are fairly broad in nature and are usually beyond the control of the business. These factors include:

2. General Economic Conditions

Economies do not experience constant growth. In fact, the level of economic activity fluctuates from boom to contraction to recession to expansion and then back to boom conditions. These activities have an enormous impact on both business and customers. They influence a business's capacity to compete and customers' willingness (and ability) to buy.

(i) *Boom*

A boom is a period of low unemployment and rising incomes. Businesses and customers are optimistic about the future. It is during this time that business will increase their production lines, invest in plant and equipment and try to increase their market share. Customers are willing to spend because they feel secure about their jobs and source of income. This phase is often referred to as 'the good times'. The marketing potential during this phase is large, with sales responding to all forms of promotion.

(ii) *Contraction*

A contraction is a period of slowly rising unemployment with incomes stabilizing. During this phase, both businesses and consumers become more cautious. If this phase lasts a long time, businesses and consumers become pessimistic, resulting in reduced consumer spending which in turn forces businesses to reduce the level of investment. It is during this phase that business closures become more common. Consumers become more price conscious when they look for value and products that are more functional and long lasting.

During this phase, marketers need to modify their marketing plans to reflect the changes in consumer spending. Marketing plans should stress the value and usefulness of a product.

(iii) *Recession*

A recession is where unemployment reaches high levels and incomes fall dramatically. Both businesses and consumers lack confidence in the economy and a mood of deep pessimism persists. Spending is reduced. The marketing plan during this phase should concentrate on maintaining existing market share. Survival becomes the main objective.

(iv) *Expansion*

In the expansion phase, unemployment levels slowly start to fall and incomes once again begin to rise. This is the 'recovery stage'. Business and consumers begin to regain their lost confidence. Marketing plans need to take advantage of this rise in 'prosperity'. Increasing market share should once again become an important objective.

3. Government Policy and Regulations

Depending on the prevailing economic conditions, the government will put in place policies that expand or contract the level of economic activity. These policies directly or indirectly influence business activity and consumer spending and therefore, will have an impact on the marketing plan.

Government regulations can have a more direct and immediate impact on the marketing plans of a business. Regulations are made up of laws and regulatory bodies that can influence business behaviour.

(i) *Marketplace Laws*

Fair trading laws are based on the principles of equity, fairness and honesty. They aim to create a fair and informed marketplace. They also recognise that traders, as well as consumers, can suffer loss through the actions of unfair or unscrupulous operators.

(ii) *Misleading or Deceptive Conduct*

The fair trading laws say that misleading or deceptive conduct is unacceptable, regardless of whether your business supplies consumer goods or deals commercially with other businesses. Conduct is considered misleading if it creates a misleading overall impression.

(iii) *Acting without Conscience*

This means acting in an unscrupulous or unprincipled manner. It is prohibited in relation to goods and services which are supplied to personal or domestic use. This is when conduct has the effect of placing one party at a serious disadvantage, such as where the stronger party has greater bargaining power and uses this to take advantage of the weaker party.

(iv) *The Commonwealth Trade Practices Act*

This act was designed to promote competition by prohibiting certain practices that are harmful to competition. It is also concerned with the protection of consumers and deals with product safety and information, conditions and warranties in consumer transactions and actions against manufacturers and importers of goods. Conduct prohibited by the Trade Practices Act includes misleading or deceptive conduct, and making false representations about products. The penalties for breaches of the Act include fines, injunctions and criminal proceedings.

4. Overseas Influences

Businesses, in relatively small economies have argued for government protection against larger, more economically powerful overseas businesses which are able to manufacture and sell their products more cheaply. Some government protection has usually come in the form of either a tariff, a tax on an imported product, or a subsidy, a payment from the government to the business to help lower the price.

Due to these protective measures, many business do not fully experience the full impact of competition and in some ways, become complacent and inward-looking rather than export-oriented. Businesses, in today's marketplace, need to become more internationally competitive and export-oriented. With the rapid expansion of globalisation, marketers need to alter their focus from domestic to global.

5. Demographic Patterns

Demographic factors are population characteristics that affect customer spending and include:

(a) Age – in many countries, the average age is steadily increasing.

(b) Family Size – families are having fewer children and there has also been an increase in single-parent households.

(c) Ethnicity – Since the mid-1970s there has been an increase in the number of people migrating from all different countries. As a result, the population is very multicultural and diverse. This will alter consumers' tastes and preferences.

(d) Income - Over the last decade there has been a steady increase in the number of households with two incomes as more and more women enter the workforce. As a result there has been an increase in household incomes which in turn has lead to increased demand for holidays, leisure products, childcare facilities, second cars, etc.

Another significant trend regarding income and consumer spending power is the increase in teenagers' personal incomes. According to research, teenagers are a lucrative market and exert considerable influence over household spending.

(e) Gender

(f) Marital status

6. Technological Change

Revolutions in technology i.e. computers, internet, satellites, robotics etc all are changing not slowing its impact not only how business are organised, but also how products are marketed. Developments in technology can influence the marketing plan in the following six ways.

(1.) ***New products*** – Research and development in forever leading to a range of new products. Businesses are constantly looking for ways to improve existing product lines or develop new ones.

(2.) ***Cheaper products*** – Technology influences the types of products that businesses can offer. More efficient manufacturing has resulted in less expensive products.

(3.) ***New marketing methods*** – Technology has changed the way in which businesses promote their products. Product launches and advertising on the Internet are among the more common techniques.

(4.) ***Speedier delivery*** - Technological changes in transportation has allowed businesses to distribute their products faster and further a field.

(5.) ***Product obsolescence*** – As new products are developed, existing products soon become obsolete and 'out of fashion'.

(6.) ***Competitive advantage*** – A business that is quick to apply new technology is able to develop new products which will give the business an advantage over its competitors.

(7.) ***Changing Customer Attitudes and Values***

Societal changes can have an enormous influence over the marketing plans of a business as they can influence the types of products consumers want. Societal changes are changes to the lifestyle, social values, beliefs and customs of society. Unfortunately, these changes are very difficult to accurately measure or predict. The main societal changes that influence marketing are:

(A.) ***Concern for the physical environment:*** People are becoming more concerned with 'quality of life' issues, especially the physical environment. Businesses that adopt a 'green' philosophy and produce environmentally friendly products may encourage consumers to choose their products over businesses that 'create' pollution.

Recycling, waste management and environmental protection are all sensitive issues, and consumer needs and feelings should be taken into account within the marketing activities.

(B.) ***Health conscious consumers**:* People are becoming more health conscious in regard to what they eat. 'less fat', 'no added sugar', 'no preservatives or colouring', 'natural', are all ways of promoting products.

(C.) ***Convenience*** : The increase in two income households has resulted in greater emphasis on time-saving and convenience. This has lead to the influx of ready-to use products, easy payment plans, and products packaged in a variety of sizes.

8. Activities of Competitors

Marketers need to be aware of the different types and amounts of competition that exists in the market place. Occasionally, a business may be unaware of the competition until it starts to lose market share or market penetration to rival producers and then it may be too late to recover.

The action of competitors who are in the process of implementing their own marketing plans can have a big impact on other businesses. Businesses need to monitor the marketing activities of competitors and ascertain what effects these activities are having in the market place. These include changes in prices, packaging, warranties, service, advertising, even distribution methods.

9. Alternative Marketing Methods

Businesses are always looking for new and different ways to promote and distribute their products. The purchasing of products from a store or a supplier is the oldest and most common form of distribution. Non-store retailing is retailing activity conducted away from the traditional store. Methods such as door-to-door selling, mail-order catalogues, party plan and vending machines are all non-store retailing and have been used for a number of years.

However, with rapid changes in electronic communication and the development of the 'super-highway', marketers are now exploiting electronic marketing. Two of the most rapidly developing methods are telemarketing and internet marketing.

Telemarketing : This is the use of the telephone to make a sale. The usual line is: 'but wait, if you ring this number in the next 30 minutes we'll throw in a set of steak knives absolutely free'. This type of marketing seems to target those consumers who are home during the day – the bored housewife/hubby, the young unemployed – where the offer for something free, entices/seduces the consumer to purchase that item

Interactive Technology and Internet Marketing : Current research suggests that businesses are moving away from the telephone and onto the internet for product communication. Businesses today are increasingly using the World Wide Web (WWW) as a promotional tool.

It is relatively easy and inexpensive for any business to obtain a domain name and a Web Site and begin marketing its products via the internet. On-line shopping, whilst still in its early stages of development, holds a number of interesting marketing alternatives. It is just a matter of consumers accessing shopping catalogues via the internet, selecting a product, punching in their details and having the item delivered the next day.

INTERNAL INFLUENCES

Businesses do have some degree of influence over internal forces. Each factor needs to be analysed to ensure the success of the marketing plan.

1. Analysis of Business Resources

Staff - the statement that 'people are our most important resource' is very accurate for all areas of business and especially within the marketing plan. Despite the importance of advertising and sales promotion, 'personal contact' can be instrumental in making a sale.

It is important that the right people are recruited, and for this reason, human resource strategy of a business should always complement the marketing strategy.

Assets – It is no use developing a set of marketing objectives that are unrealistic and cannot be achieved. Marketing plans need to work within the set limits of the business's existing asset base. Businesses may be required to purchase new equipment and/or buildings. This may involve some form of debt or equity finance. Over the long term, the physical assets of a business can be built up to achieve a larger market share, deeper market penetration or geographical expansion.

2. *Analysis of Market Share*

Market share analysis helps to identify whether changes in sales were due to uncontrollable external influences or to some internal weakness in the marketing strategy. If the business's market share is decreasing and there is no discernible external cause, then the marketing strategy needs to be modified.

3. *Analysis of Product Characteristics*

Analysing a product's characteristics can give us an understanding of the product and its potential. Often products can have other uses as well as those for which it was originally designed. The product can also be analysed in relation to its competitors' products. This allows for a direct comparison to be made and weaknesses or strengths to be identified. One effective method used to analyse the product is to have the consumer complete a market research survey, providing information from the consumers' perspective.

4. *Analysis of Advertising*

Advertising is a promotional activity, and like any marketing strategy, the effectiveness of the advertising needs to be analysed. A cost-benefit analysis should be carried out, where the cost of the advertising needs to be weighed against the expected benefit of increased sales.

5. *Analysis of Price*

The pricing of the product can be crucial to the success of the business, and needs to be looked at constantly. The pricing strategy is the price set for a business's products in relation to the prices of competing products. A business needs to analyse its pricing strategy carefully, for it may be that a business has priced its product incorrectly and will need to readjust the price as sales figures are evaluated. When determining the price of the product, you need to look at the gross profit margin, especially the extra sales that are needed to maintain current profit levels.

6. Financial Capacity

The financial capacity of the business needs to be taken into account when developing marketing objectives. It is totally useless to plan a $60 000 product promotion when the business financial capacity can only afford $6 000. Research and development of new products is an area that can put a lot of strain on the financial capacity of a business. Sometimes, businesses can get assistance from government agencies.

6.4 FACTORS INFLUENCING CONSUMER BEHAVIOUR

Buyer decisions are strongly, influenced by variables like cultural and social factors, personal factors like demographics, self concept, lifestyles and personality (the last two are also called psychographic variables.)

(a) Cultural Influences

Culture refers to a set of values, traditions, or beliefs which guide the individual's behaviour In a way, culture is normative as it prescribes norms of acceptable human behaviour. Put in other words, culture refers to values, ideas, attitudes, and other meaningful symbols created by people to shape human behaviour and the artefacts of that behaviour transmitted from one generation to another. It has both the abstract and material dimensions. The abstract dimensions affect consumer preferences. Abstract elements of culture include values, attitudes, ideas, personality types, and summary constructs like religion. Material components, on the other hand, can be described as cultural artefacts or the material manifestation of culture. For example, beefis not very readily accepted in Hindu society and likewise pork in Muslim society.

It is important to understand that culture influences human attitudes and behaviour. Some of the attitudes and behaviour influenced by culture are:

1. sense of self and space
2. communication and language
3. dress and appearance
4. food and feeding habits
5. time and time consciousness
6. relationships (family, organizations. government, and so on)

7. values and norms
8. beliefs and attitudes
9. mental processes and learning
10 work habits and practices

Values are shared beliefs or group norms internalized by individuals, perhaps with some modifications. These lay down the behaviour rules for individual member of the group Values, in any culture, are developed through the process of socialization and acculturation. Refusing beef, onions, or garlic by a Hindu buyer is a value developed through socialization. The use of a fork or knife to eat food by an Indian family is a value acquired through acculturation.

As may be observed from Figure 6.2, values are transmitted through social institutions like family, religious institutions and schools, and also through the early lifetime experiences. Values and culture are not static concepts. They are dynamic. Today, values are changing in Indian society largely due to the influence of electronic media. Generational change is today occurring because the younger consumers are acquiring new values and information through the Internet and foreign television channels. On the other hand, as individuals grow old, their values too change. For example, from a risk taker to risk aversion is a very common change that takes place as individuals grow old. In any culture there are subcultures that also exist. These are different nationalities, religious, and geographic groups. For example, in the Indian culture, we have Hindus, Muslims, Christians, Jews, and Sikhs, existing religious sub-cultures. Likewise, behaviour patterns of Hindus living in the North and the South different. A marketer needs to be aware of these cultural and sub-cultural influences on consumer preferences. These will affect his brand, packaging, advertising, sales promotion and even distribution decisions.

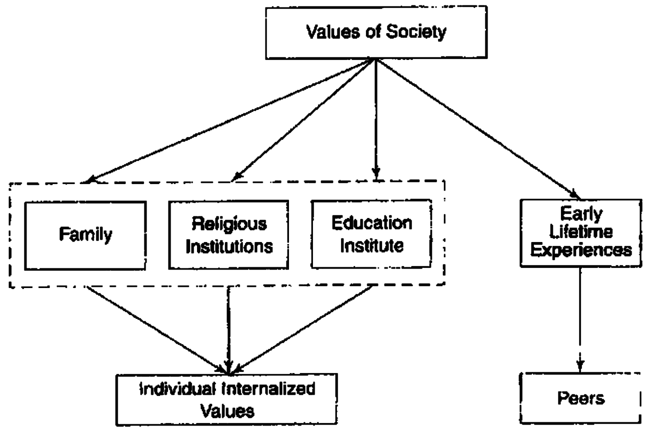

Fig. 6.2 : Transmission of value system

According to Sheth, ewman, and Gross, following are the five consumption values that customer look for in any product or service:

1. functional value
2. conditional value
3. social value
4. emotional value
5. knowledge value

These multiple values are considered to be independent of each other and influence consumer choices as well as brands and other elements of consumer choice.

(b) Social Influences

Man is a social creature. Hence, his or her behaviour is greatly influenced by social facts like reference group pressures. Reference group here refers to peers, relatives, neighbour and friends. Often a product succeeds or fails in a market because of these influences, example, a strong positive word of mouth publicity will invariably lead a brand to high market shares. As we shall see in the chapter on Product Policy, a new product's chances success are substantially improved when it has the support of buyers who are perceived as opinion leaders by the target market. Diffusion of an innovation or a new product idea in a society is essentially a trickle down phenomena- from opinion leaders to others who may be perceived as opinion leaders by the next group of customers.

(c) Opinion leadership

Opinion leadership is the process through which a person or group called the opinion leader, influences the actions, views and attitudes of others. This influence may be oral and of an informal nature, and is often supported by actions that imitate those of the opinion leader. The informal flow of consumer related influence between two people is called word of mouth communication. Word of mouth implies personal, face to face, or telephonic communication. Opinion leaders are often considered sources of highly, credible and valid in formation, as they are supposed to be neutral about product information. Therefore, the information that they transfer is considered valuable.

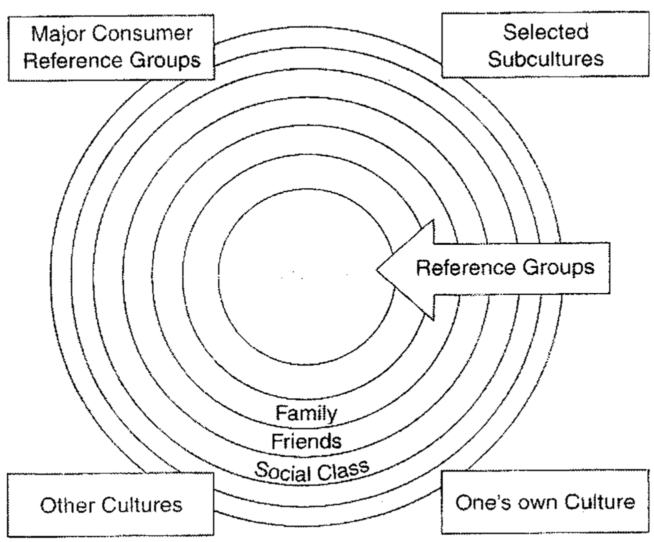

Fig. 6.3

Opinion leaders in any society could be any or all of the following.

1. celebrities - film, sports, social, corporate

3. experts - professionals
4. comman man
5. executive / employee
6. spokesperson/salesman
7. dealer

Opinion leaders fulfil a number of needs for opinion receivers:

1. they provide new product or new usage information
2. they reduce the risk of opinion seekers by providing first-hand information about a specific product or brand
3. they reduce the search time entailed in the identification of a needed product/ service

Today companies have identified celebrities as their brand ambassadors. The purpose of doing so is to communicate brand values through individuals who are perceived by society as personally possessing them.

(d) Demographic Influences

An individual customer's age, sex, marital status, income, occupation and geographic location also affect his or her consumption pattern. It is from this point of view that we have a child market, youth market, teenage market, adult market and senior (old people) market. We also have low income, middle income, higher middle income and higher income markets. In fact, demography has traditionally helped the marketer evolve positioning strategies. The assumption here is that people having common demographic characteristics behave in an identical manner and will have the same preferences. Demographic characteristics have also served as the basis of segmenting the market.

(e) Self Concept

Each of us has a self image. This self image is based on the personals whom we see as our role models. We then act and behave like these role models, believing that we are them. This affects our dress, hair styles, and almost every other thing including our table manners. This concept of self image has been termed as sell concept.

The self image could be an individual's own perceived image (this may even be termed as ideal self image) and actual image based on how others perceive the individual. There could, at times be a conflict between the two. All individuals try to bring about a congruence between these two sets of their images.

Recent researches in consumer behaviour have concluded that a large number of products like credit card, automobiles, readymade garments, designerware, consmetics, and perfumes are bought because of this variable. Often a demorgraphic variable like income is not important in purchase decisions for these products.

These researches suggest that a marketer needs to study the self concept of his target buyers and accordingly design products, packaging, and advertising strategies that will help reinforce this self concept. Once again take a look at the Citibank credit card advertising campaign. Also take a look at the campaigns of Shoppers Stop. Dinesh Suitings with Sunil Gavaskar's Raymond's with well known celebrity endorsements. All these campaigns are aimed at customers who have a specific self concept of themselves.

(f) Psychographic Variables

Besides self concept, today psychographic factors also play an important role in the buyer's decisions. These factors refer to lifestyle or personality. Psychologists tells us that an individual's behaviour is a function of these two factors.

(i) Lifestyle Lifestyle refers to the beliefs, attitudes, interests and opinions that an individual has about himself, his family and the world. Put in other words, it's the individual's way of living in the world as reflected by his attitudes, interests and opinions. Contemporary researches show that even though two customers may share common demographic characteristics, the two may differ significantly in terms of their lifestyle. Hence, a product a brand positioned for customers like them may be bought by one of the customers because he or she may not perceive the brand or product as suiting his or her lifestyle. Lifestyle portrays the whole person interacting with his or her external environment. It is sure than just the social class.

Marketers direct their products and brands to the affiliation, esteem and inner directed needs. Consider for example, the positioning of Gwalior suitings using the Nawab of Pataudi, Sharmila Tagore and their son or consider the Raymond's suitings advertisement showing their Managing Director, Mr. Vijayapat Singhania, wearning one of their products, after a successful solo flight. Once again, the bank credit card advertisement positioning the card at emulators and achievers, illustrates the use lifestyle in contemporary marketing.

(ii) Personality The next psychographic variable is personality. This refers to traits that we exhibit ill relationship with others. It also refers to psychological characteristics of individuals that lead them to relatively consistent and enduring responses to their environment. Based on these explanations, people are described as warm, loving, carrying, outgoing, extroverts, introverts, aggressive, non responsive, confident and so forth. Personality, again provides a useful understanding of consumer behaviour and products and can be designed to suit different personality profiles. In personal selling, the salesperson has to adapt his or her selling style to the customer's personality.

Thus, in contemporary marketing, psychographic factors play a more important role than just the demographic variable. In fact, tomorrow's marketing in India is increasingly becoming lifestyle today marketing.

6.4.1 Tools to Study Buyer Behaviour

It is important for the marketer to regularly study buyer behaviour. The different tools available to him or her are:

1. Surveys

This is the most common technique used in studying buyer behaviour. It involves the use of questionnaires. Different scaling techniques like Likert and Thurstone are used to measure consumer attitudes. These have been discussed in the last chapter on marketing research. The problem with survey methodology is that it gives to the marketer only conscious responses of the customer. Often these responses are guarded and may even be prejudiced.

2. Projective Techniques

To throw the customer off his or her conscious level and to get to know sub-conscious-level responses, projective techniques like word association, picture association, and Thematic Appreciation Tests (TAT) have been used. Increasingly, the marketer is turning to these qualitative techniques as they provide valuable information on his or her product or brand, as perceived by the target customer group, and also about the customer's lifestyle and self concept.

3. Focus Group Discussions

This is another qualitative technique used to assess how customers perceive the product and use situations. It also provides the marketer with valuable information on the target market.

6.5 WHAT DOES THE CUSTOMER BUY?

The most of us, there appears to be an obvious answer to this question-product/service. But this is not a comprehensive description. For, when one examines the different products or services bought by a customer, one can categorize them into two groups, namely:

a) high involvement products

b) low involvement products

As the term implies, the differentiation between products and services is created on the basis of the customer the involvement level in product selection. This is based on the extent to which the customer perceives the product as representing his or her personality and lifestyle. For example, selection of a car is a high involvement decision as a car represents the customer's personality. On the other hand, selection of a soap product is a low involvement product. To be able to better understand the difference between the various product groups, let us examine the characteristics of each of them.

High Involvement Products

These have the following characteristics:

1. **High Price:** Generally, these products are priced high in a particular product group. For example, a colour TV is a high involvement product within the entertainment electronics segment, but, perhaps, pocket transistors are not.

2. **Complex Features:** High involvement products have complex features, requiring the customer to spend more time on familiarizing and internalizing them. It is no wonder colour TVs, VCRs, DVD Players, cars, motorcycles, computers, washing machines, or refrigerators come with an easy-to-read product manual describing the features in simple terms.

3. **Large Differences between Alternatives:** If the customers perceive significant differences between alternatives, then the product is a high involvement one. For example, if the customer perceives major differences between Indian, Japanese, or American cars, then the car purchase decision is a high involvement one. This is because these perceived differences enhance the need to learn about them and evaluate each of the given alternatives against a decision criteria.

4. **High Perceived Risks:** If the customer perceives a high risk in using the product, then he or she may spend considerable time in (i) evaluating what constitutes risk, (ii) how to minimize it, and (iii) how to avoid it. Besides, the customer may even evaluate whether the risk is worth taking. Cosmetics, hair dyes, flying an airplane for the first time, and the like, are all perceived high risk situations. Hence, these are high involvement product use situations.

5. **Reflect Self-concept of Buyer:** This is the single most important factor in making a product a high involvement one. Each of us has a self image and we behave in a manner that will help us reinforce this image on others. We buy products and services that reflect this self-concept. Choice of cars, houses, clothes, restaurants, perfumes, cosmetics, and jewellery all reflect a customer's self-concept. Often customers spend considerable time in selecting a brand in these product groups.

Low Involvement Products

The characteristics of such products are noted below:

1. **Does Not Reflect Buyer's Self-concept** In the first place, these products are more personal to the buyer and they do not reflect his or her self-concept. Toilet soaps and other toiletries are examples of products that are perceived by customer as not expressing his or her image.

2. **lternatives within the Same Product Class are Similar** The customer does not perceive much difference between different brands in the same product class.

3. **Frequent Brand Switching Behaviour** Due to the perceived lack of difference between brands, brand loyalty in these products is low.

6.5.1 Buying Situations

It is not only that products differ. Even the buying situation differs. Each time the buyer is to take a purchase decision, it mayor may not be the same as the previous one. The differentiation between the two buying situations may be caused by the absence of any or all of the following factors.

(a) awareness about competing brands in a product group

(b) customer has a decision criteria

(c) customer is able to evaluate and decide on his choice.

Viewed against these parameters, one may observe that it is not the product that differentiates one buying situation from another; rather it is the time that the buyer spends in learning and evaluating the alternatives or finally selecting one of them. Howard and Sheth have described these buying situations as being:

(a) Routinized Response Behaviour

(b) Limited Problem-Solving

(c) Extensive Problem-Solving

(a) Routinized Response Behaviour or Straight Rebuy This buying situation is characterized by the presence of all the above three criteria. In other words, here the customer is aware of his or her choices and, knows what he is looking for as the decision is based on personal experience of either self or others. Generally, the customer spends little or no time in choosing an alternative. Brand loyalty is relatively higher here. Moreover, this is a buying situation where a customer perceives low risk in buying the product and/or the brand. Consider the typical shopping behaviour of a housewife-she goes to the grocer or a supermarket and spends much less time in selecting her toiletries, beverages like tea or coffee and other food products because every time she generally buys the same brands.

(b) Limited Problem Solving or Modified Rebuy This is a buying situation with a difference. This could be, for example, introduction of a new brand or product often requiring a change in the customer's decision criteria. Continuing the example of the housewife, assume that in her next shopping cycle, she sees a new liquid toilet soap which promises to keep her skin soft and moisturized. The brand also promises to give her skin vitamin E, which the manufacturer claims is required in temperate conditions.

The new liquid toilet soap is available in four fragrances. The pack can be refilled when empty. Now this new brand is likely to change her decision and may be the choice criteria. If she spends some time in evaluating the liquid toilet soap against the normal bar soap and then decides to try it, we conclude that for her it was a limited problem-solving situation. As can be seen, this buying situation will often lead to a trial purchase. The customer may even decide to continue with her current product selection. Generally it has been observed that brand extension strategy helps the customer to reduce the element of newness in the purchase decision. Like, for example, Unilever deciding to introduce a liquid toilet soap under its most popular brand name Lux. It may be remembered that the customer perceives moderate risk in this situation.

(c) Extensive Problem Solving or New Task This is a buying situation perceived to be high on risk. This situation requires extensive learning on the part of the customer. The reason for this is that here the customer is not aware of available altematives, has no decision criteria, and hence is unable to evaluate different brands. This could be caused by relocation of the customer to a new and unknown environment, or by the introduction of a technologically superior product. Take, for example, the introduction of Word Perfect 5.1 replacing Word Star as the computer language for word processing functions in early 1990s. This was a new buying situation, as it involved both intensive and extensive learning by the buyer. Similarly, introduction of the camcorder (video camera) and cameras in cell phone in the film and photography category represented a new task or extensive problem solving situation for a camera and cell phone buyer.

Thus, it is important to understand that not all buying situations are the same even though a customer may stay with his or her current brand or product. It is also important to note that just because a customer has bought the same brand over and over again, the buying situation does not become routinized or a straight rebuy. What is important is to study how much time a customer spends on evaluating different brands in the same product category, and this will differ between market segments.

Buyer Motivations

1. Economic Factors: The well-known economist, Adam Smith, provided the earliest understanding of the rationale of buyer behaviour. According to him, *a human being is a rational individual. He or she evaluates various alternatives and will buy or select alternatives where the marginal utility is more than the marginal price he or she paidfor it.* Consider the case of Priti, a housewife. After spending a few hours on her shopping she is tired and walks over to a nearby restaurant. She has the choice of either buying a fruit juice, a soft drink. a tea, or coffee. A glass of fresh fruit juice costs her Rs 7.50, a soft drink also costs her Rs 7.50, and tea or coffee costs Rs 3.50. Now, if she decides to buy the soft drink, then the utility of this soft drink is more than the marginal price she is paying to get it. In this case she is paying almost Rs 4.00 more than for a cup of tea or coffee. The utility of the soft drink, to her, at this time is more than that of tea or coffee or fruit juice. The assumption in the economic version of buyer behaviors is a that the lowest priced product will sell as its marginal utility will always be higher than others. Price therefore is the critical factor in determining customer choice. Another assumption is that all products are a like and no differentiation is possible between them. The final factor is that the customer is aware of the alternatives available to him or her and is in a position to make choices.

The *economic model* can explain human behaviour to a limited extent only, because humans are not always rational beings. We all indulge in acts which are not necessarily rational. For example, a young man who loves his wife very dearly and works in a different town away from his wife and family may make a long distance call almost everyday not caring for the cost. But the economist would like us to believe that this young man will consider the marginal cost and utility of making a long distance call and writing a letter (buying postage and stationery).

Besides, rarely or never is the information on alternatives complete. Branding is common in the manufactured consumer goods segment with each brand communicating a different image through technology, features, packaging, and intangibles like guarantee or warranty. However, there are limits to product differentiation. In today's world of technology standardization, there is hardly any differentiation between two brands of the same product on a feature-to- feature comparison. Price then becomes important, yet not the crucial factor. Hence the economic model does provide limited, but useful, insight into buyer behaviour.

2. Psychological Factors To get a better understanding of consumer behaviour, we need to examine three major psychological factors. These are:

(a) motivation

(b) learning

(c) perception

A. Motivation

The earliest explanation of human motivation was provided by the well-known psychoanalyst, Sigmund Freud. According to him, man learns from his environment. Taking the cue from a child, Freud said that a child is uninhibited in his behaviour until the time he or she is taught the worldly ways by his or her parents. Gradually as the child grows he starts behaving in a manner which is socially acceptable. This obviously means that his basic urges and instincts get suppressed and what we see is the socially approved behaviour pattern. Freud also believed that the most basic instinct that gets suppressed is sex and he traces much of human behaviour to this motive. But not all human behaviour is sex-motivated. Often, the need to influence or need for power is an important need guiding human behaviour. Some products tend to give this power to individuals. Credit cards, for example, give the individual the ability to influence others as in most cases it gives to him/her a higher social status.

1. **Hierarchy of Needs Theory** - Another understanding, and more comprehensive, view was provided by Abraham Maslow. According to him, all individuals have needs which are placed in a hierarchy, as show in Fig. 6.4.

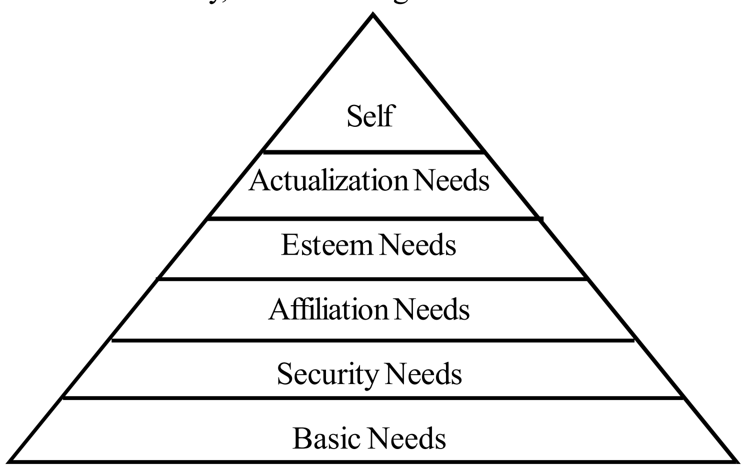

Fig. : 6.4 : Maslow Need Hierarchy Theory

According to Maslow, human beings first satisfy their lower order needs, or basic and security needs before moving up the hierarchy to satisfy esteem and self-actualization. Applying Maslow's needs, we find that we can have different groups of customers with different needs. Consider for simple, the case of a toilet soap. An individual, motivated by basic need, may buy just any soap so as it serves his core need, cleaning. At this point, price may be important to him, but an individual who is high on affiliation or esteem may look for a premium priced soap. He or she would look for different element like shape, packaging, brand name, and the like, before selecting the brand. The new do-it-yourself kits, or learn-by-yourself are some of the products that satisfy esteem and self actualization needs. It may be recalled that esteem is a learned psychological need and security is a learned physiological need. Marketers often tend to invoke the esteem in the customer.

The contribution of Maslow's theory is that it helps the marketer segment his market and develop marketing strategies accordingly.

Herzberg's Two Factor Theory

Another behavioural scientist, Frederick Herzberg, propounded the 'Two Factor Theory' of human motivation. According to him, there are satisfier and dissatisfies in any work situation. Calling them as motivators or hygiene factors respectively, Herzberg said that it is the motivator who propels individuals towards excellence. Extending the theory to marketing, one finds that hygiene factors are product quality, packaging product warranty, and so forth. These are the given factors and all customers expect these features in all product groups. But the motivators will be factors like customer focused sales team, good customer service, or may be of the fact that the usage of a product helps the customer create a separate identity for himself or herself. What is therefore important is that the marketer should identify these satisfies in each customer group.

McClelland's Theory of Achievement Motivation

Harvard's Professor David McClelland has provided a new insight into human motivation. According to him, there are three motives that drive human beings to higher performance. These are the need for belonging **(affiliation need)**, need for power **(need to influence),** and the **need for achievement.** It is the latter need which makes individuals and societies excel and be creative. Extending the theory to marketing, some products are seen to represent achievement, while others are seen as power symbols and yet others as products meant for satisfying the need for belonging. Marketers have used these motives in evolving their communication programme. Consider for example, the advertising campaigns of credit card companies which appealled to people high on achievement and of late emphasise affiliation where Master Card claims only thing it can't buy is emotions.

Thus, McClelland's theory does help a firm to evolve its strategies for people motivated by different needs. An important observation in human motivation is that as societies develop, primary motives, or physiological needs like sex and hunger become less important and secondary motives like achievement and power gain a higher degree of importance. The marketer needs to be aware of this process, because for different communities and groups the need mix may be different, thus requiring different marketing tasks.

B. Learning Theory

One of the important dimensions of human behaviour is that it is learnt. One learns at the pain of punishment and the lure of rewards. This learning could be conditioned or could be the result of trial and error, or even just an insight. More often than not, it is conditioned learning where an individual comes to associate an act with some event. Proponents of the learning theory say that a person's learning is a result of an interplay of factors like drives, stimuli, cues, responses, and reinforcement.

Drives refer to energized needs. It is said that when an individual has an energized need, he or she will not rest until it is satisfied.

Case Study

Consider the example of a family buying a holiday plan at Goa. We'll call this family, the Mathurs. Both Mr and Mrs Mathur work for a foreign bank in Mumbai and they have a five year old daughter. One day, Mrs Mathur's friend Geeta, who also works for the same bank, returned after an extended weekend and execitedly told Mrs Mathur about her holiday in Goa, showing her the photographs. On returning home that day, Mrs Mathur told her husband about Geeta's trip to Goa and insisted that they too plan a similar holiday. Her desire for a holiday becomes a motive and will drive her to the stimulus (object)-Goa. Next day, she sees an 'advertisement of the Goa Penta Hotel which offers a free one-way air ticket, Goa-Mumbai or Mumbai-Goa, to tourists visiting Goa and staying with them for three nights and four days any time till Sept 30th, Mrs. Mathur calls up the sales office of one of the five star resorts and speaks to a sales person who tell her about the facilities they have at the report, the games, restaurants, pool bar, seaside barbeque, and a private beach. He also offers to organize their entire trip, all that she had to give were the dates. Here, the advertisement of the resort, the sales person and facilities offered by it constitute the cue. When the Mathurs give the dates on which they wish to travel, we have a response. Based on their experience at the resort and Goa, they either feel gratified or regret their decision, if they feel gratified their behaviour gets reinforced and may be in future when they take a short holiday again, they may like to in over to Goa and stay at the same resort. Also based on their experience they may generalize that Goa is a great place for a holiday.

A variant of generalization is discrimination. On a future holiday, the Mathurs go to Goa but may stay at another five-star deluxe resort hotel. They find it a more luxurious and pleasurable resort with better incilities and service, better layout, and more variety of food and drinks. They conclude that it is superior to the earlier resort. Now Mathurs have learnt the different between the two resorts and are able to generalize.

The learning theory offers a tremendous challenge to a marketer that of guiding and sometimes even directing human behaviour. This is done by developing stimuli and cues which will bring to fore the latent need in the customer. Attractive advertising, shelf displays, packaging, how to use instructions, store layout, availability and sales persons arc all examples of cues that a marketer develops to drive customers to the product or service. An excellent customer care programme by the marketer can help a customer have positive feelings about his or her experience. The marketer may also develop cues to differentiate his or her product from that of the competition.

Theory of Cognitive Dissonance

In the above example, if the Mathurs had other alternatives, each one of them being equally attractive as the Goa's Resort and if after the selection they had lingering doubts of whether they have taken the right decision, then we say they suffered from *'cognitive 'dissonance,* or simply mental disturbance. Leon Festinger proposed this theory to marketers of post-purchase consumer behaviour. He called this the theory of cognitive dissonance. To better appreciate this theory we need to understand that all of us, for most part of our lives: live in a state of mental equilibrium this gets affected when a certain event does not happen the way we expect it to be. For example, we buy a car from a well-known leading car dealer. We expect that this dealer will have an excellent sales service and a good customer service cell. But when we take the car for the first service and register our problems and find that nobody listens to us or is interested in us, we often suffer from post-purchase dissonance like, "Did I do the right thing to buy my car from this dealer? Should I not have give to another? Or should I not have bought another car from another dealer?" Festinger says that this dissonance gets heightened in the following situations.

a) when customer has plenty of choices or alternatives to choose from

b) each alternative is equally attractive

c) the buying situation is a high priced-high risk situation

d) the customer sees the product as reflecting his or her self-concept

e) one of us would like to live for long in this state of disequilibrium as it is painful.

Therefore, in to overcome this state we either:

1. do away with the product causing us mental anxiety or dissonance.

2. collect more material on the product in support of our decision to buy the product

3. we should rationalise our decision by looking around and seeing how many customers had bought the product.

The marketer has to have an interest in all the above three response behaviours. For he needs the customer to reject his competitor's product or brand and rationalize his choice in favour of his product. Testimonial advertising, for example, is one form of reducing post-purchase cognitive dissonance. Thus, it may be observed that cognitive dissonance is generally a feature of high involvement buying situation. The higher the involvement, the higher the dissonance.

C. Perceptions

We live today in an over-communicated society. There are companies. individuals, social organizations, and government and its agencies demanding our attention. Whether it's the morning newspaper, radio, television, hoardings, kiosks, or roadside shops, there is an advertising blaze. But none of us see or hear everything that is being communicated to us by the advertiser. Behavioural scientists tell us that human beings see or hear only what they want or anticipate. This is then called perception. There are three different dimensions that affect human being's perceptions.

These are:

(a) selective attention

(b) selective distortion

(c) selective retention

(a) **Selective Attention**

As was mentioned earlier, none of us pay attention to all the stimuli directed to us by the advertiser. Just look around and see what is typically done when ad commercials are beamed on TV during prime time. Most adults go out to complete their work or do something else during the commercial break. Fast- forwarding a video or an audio cassette during a commercial break is yet another way by which we as consumers avoid the advertiser's stimulus. Therefore, behavioural experts say that all human beings pay selective attention to different stimuli. This selective attention is based on the following factors.

(a) Expectation

If we expect to see or hear something, then we pay attention to only such stimuli.

(b) Rewarding or Beneficial

If we believe that by listening to someone, reading, or seeing something will help us, then we pay attention to such stimulus. For example, every household in urban cities get flyers on weekends. Most of these are just thrown away in the dustbin. But suppose there is one full page ad announcing the opening of a new departmental store in the town and informing that the first 1000 customers who visit the store in the first week with the flyer in the newspaper will get a return air ticket to Kulu- Manali, then some of us are likely to pay attention to this ad and the flyers. Likewise, a leading cosmetic firm carried a campaign on the art of make up in most up-market magazines in 1981. This was a three-page advertisement. The front page had an extremely ugly- looking face of a girl. Research showed readers just skipped this page as they hated to see this face. But the moment they turned over they saw the same face, but this time more beautiful. Most men and women had noticed this advertisement. Most women not only saw the advertisement but even recalled its contents. There fore, a stimulus that promises to be rewarding is more likely to be seen or heard.

(b) **Selective Distortion**

People do not just selectively pay attention to different stimuli, they also selectively distort them. This selective distortion happens because people add their own values and beliefs to the message. Also, since people remember only positive experiences and stimulus, they just filter out everything else. We add to or delete from the original message.

(c) **Selective Retention**

Even after distorting the message it is not that individuals are able to recall it. Research shows that most often human beings recall only 5 percent of the original verbal message. The percentage of people recalling stimulus increases as the stimulus becomes more visual and is the maximum when it is an audio-visual message.

Perception theory challenges a marketer's creativity, for the challenge is how the firm makes its brand and advertisements such that they are seen and remembered. The challenge is also one of placing the brand at the top of the customer's mind. Marketers have used several strategies to make their stimuli stand out. Full page advertisements (size), coloured advertisements in black and white magazines (contrast), floats or other mobile stimuli (movement), easy to understand words (familiarity), and making a customer guess the objects or messages to come (e.g. a teaser campaign like "Look out for this space tomorrow if you want to fly Singapore FREE"); in other words, creating anticipation. are some of the most commonly used strategies to make a stimulus perceived by the customer. Repetition (like the repetition ofLimca three times in Limca radio jingles and TV commercials) is also a very common strategy.

6.5.2 Role in Consumer Decision Making

Often we find that in a consumer decision process several individuals get involved. Each of them plays and influencing role. At times more than one role may be played by one individual. These roles are:

a) **Initiator:** This is a person who sows the seed in a customer's mind to buy a product. This person may be a part of the customer's family like a child, spouse, or parents. Alternatively, the person may be a friend, a relative, a colleague, or even the sales person. In the earlier example of the Mathur family buying a holiday package to Goa, Mrs Mathur's friend, Geeta, was the initiator.

b) **Influencer:** This is a person within or outside the immediate family of the customer who influence the decision process. The individual perceived as an influencer is also perceived as an expert. In consumer durables sale, the dealer plays an influencing role.

c) Decider: This is the person who actually takes the decision. In a joint family, often it is the head of the family or the elders in the family who take a decision. But in nuclear and single families and with the increase in the literacy among women and number of working couples, one finds that more often than not, decisions are joint. Husband, wife and even the entire family taking the decision, particularly a major purchases, is quite common in urban and metro areas. The decider/s consider both economic and non-economic parameters before selecting a brand.

d) Buyer: This is the person who actually buys the product. This could be the decider himself or itself, or the initiator.

e) **User:** This is the personals who actually consumes the product. This could be the entire family or at one person within the customer's family.

It is important to note that the people who play these roles seek different values in the product or price. The perception of the value is to a large extent influenced by their prior experience or that of a experience of others, media reports, and the marketing cues created by the firm. These values, may also be referred to as market value, are the potential of a product or service to satisfy the needs and wants.

6.6 BUYING DECISION PROCESS

Let's now turn to the decision-making process itself. This process will vary depending on customer's level of involvement in the product. Here the assumption is that customer has the right to information.

1. **High Involvement Product:** We mentioned earlier that high involvement products often demand more customer time. Hence, the decision process here can be schematically understood as shown in Figure 6.5.

2. **Problem Identification Need Recognition:** The starting point is when the customer perceives the need for a product. This could be based on the individual's experiences or may be the difficulties that he or she faces in a given situation. Let's consider the case of Anil Sharma, a company executive. Anil lives in a suburb of Mumbai and has to travel about 25 km to work. Near his workplace there is no suburban train station. Anil has to either travel by the company's bus or take a BEST bus. While going to his office Anil has no problem because he takes the company's bus. He has a problem returning. That's because he doesn't have a fixed time for returning. Besides, he has to often go out in the city for work. Mobility for him, therefore, is important. Also for him freedom from fixed bus schedules and rude or Indifferent taxi drivers is also important. Anil's wife is a medical doctor and they have two children. Anil has often felt the need for a personal vehicle whenever they have either gone out shopping or for a late night movie or party.

Another way by which a need may become overt is through peer pressure. Anil belongs to an executive group and all his colleagues have their own vehicles. Often the neighbour's wife asks Anil's wife why they don't have a vehicle. Anil's children's friends too have vehicles in their family. So here peer influence, neighbour's and friend's pressures make Anil seriously think of buying a vehicle.

Need Recognistion or Problem Identification

↓

Development of Decision Criteria

↓

Search for Alternatives

↓

Evaluation of Alternatives

↓

Decision

Fig. 6.5 : Buying Decision Process

Which vehicle should Anil buy? A car, a motorcycle, or a scooter? Anil and his family feel the should buy a car. Should they buy a used or a new car? Anil thinks that a used car will lower his state and therefore decides to buy a new car.

Thus, problem identification is important. As long as a customer does not perceive a problem, his or her need is overt, no purchase proposition can ever be made. Marketers create stimulus to make this need overt. Consider the example of the MRF advertisement shown just before the onset of monsoons. The company is making the need to change tyres before monsoon obvious, by reminding customers that a bad tyre could cause trouble. Or, the Eno salt advertisement, which shows the person having stomach trouble due to over-eating or the Close-up advertisement, which shows a loss of friendship or association on account of bad breath. While the marketer has no influence on the social factor he or she can create stimulus, which will make a customer feel the need for the product.

3. Development of Decision Criteria: Anil is a new customer for a car. He doesn't know what look for and how to evaluate different brands or models available in the country. He turns to his friend Arun Joshi, who has been a car owner for over ten years, his brother-in-law, and a neighbour works for a car dealership, for advice. They tell him to look for fuel efficiency, space for pasenger and luggage, safety features, after sales service of the dealer or the manufacturer, manoeuvrability small areas and parking lots, driving comfort, availability of roadside repair and maintenance facility and finally the financing options. All advised him that fuel efficiency should be the most critical factor in his choice. After reading some articles on automobiles and having talked to some more friends, prioritized these factors in the following way.

Table: 6.1 Decision Criteria for Buying a Car

	Factors	*Weights*
(a)	Safety	7
(b)	Fuel efficiency	6
(c)	After sales service	5
(d)	Driving comfort	4
(e)	Manoeuvrability	3
(f)	Financing options	2
(g)	Availability of roasslde repair and maintenance cost	1

In the development of decision criteria, a customer consults his or her friends, relatives, and others whom he or she perceives to be experts in the product. In a way, the customer considers them as opinion leaders. The customer may even read specialized printed material like journals or magazines on a particular product.

4. Search for Alternatives: Having developed a decision criteria. Anil now looks for alternative brands, models and dealers. He looks for advertisements in the newspaper and magazines, hoardings or billboards. news articles, and also consults the yellow pages. His wife and children also talk to their friends. And all come to the following conclusions.

(a) The oldest brand or model on road are the Hindustan Motors' 'Ambassador' and the Premier Automobiles' 'Premier Padrnini.

(b) Premier Automobiles does not produce cars anymore.

(c) Hindustan Motors has revamped the Ambassador, but is no more being bought by individual / families. It has a tie up with General Motors, who have introduced Opel in two variants-Astra for the high-end market and Corsa for the middle-level market. Ford has two models, Escort and Ikon. Honda, Hyundai, Telco, Toyota, Fiat, and Maruti Udyog are other car manufacturers.

(d) The largest number of models are from Maruti Udyog

(e) Each of these car manufacturers have multiple dealers located in different parts of the city.

(f) There are used car dealers also, some of whom market new vehicles also. They were sub-dealers of main dealers. Unlike the latter who have exclusive arrangements with car manufacturers, these sub-dealers are multi-brand outlets and hence offer a wide choice to the customer.

(g) Financing is available at all dealer outlets. Various plans are being offered from instalment plans to hire purchase or leasing.

In this case we see that the customer is actively engaged in a search for alternatives and has used the media or other social channels to collect all the relevant information.

5. Evaluation of Alternatives: Now Anil evaluates all the above alternatives on the decision criteria he has evolved, and gives weightage to each brand and model on the parameters selected by him. Here Anil also considers another factor like the resale value of the car after three years. He also keeps in mind his tax obligation and the monthly expenditure that he will have to incur to maintain the car. At this juncture, Anil and his family also look for a specific colour and showroom delivery as they do not want to wait.

6. Decision After weighing all the parameters Anil comes to the conclusion that a dark grey Esteem VX is the car for him and his family.

This decision may change at the time of purchase either because of non-availability of specific model and colour, change in the interest rate, or any other change in the cultural environment. Howard and Sheth have given another dimension to this decision: They call it the Theory of Evoked Set. An evoked set consists of the alternatives a customer is aware of and considers in selecting a brand. In any product group there are number brands that are competing with each other. This is the total set. It is not necessary (in never dots happen) that the customer is aware of all of them. Generally, the human can take in only three names. This is then the *awareness* set. It is not necessary that all the brand the customer is aware of will be considered for buying. All those brands that are considered are part of the *consideration* set and the brand decided is the decision set. Normally the purchase should this brand only. But it may change because of competition activity at purchase outlets or due non-availability of the selected brand at the purchase outlet. Figure 6.6 shows this theory diagram gramatically.

Total Set (All Brands)	→	Awareness Set (Brands Aware of)	→	Consideration Set (Brands) Considered)	→	Decision Set (Brand Decided)	→	Purchase

Fig. 6.6

7. Low Involvement Products: By their very nature, low involvement products are once customer spends least time in searching for alternatives or for that matter in evolving decision. The decision process here is as shown in Fig. 6.7

Problem / Need Recognition
↓
Evaluation of Alternatives
↓
Decision

Fig 6.7

Since the products are low on cost and risk and do not reflect a customer's personality, the customer spends little time in evaluating the brands. Moreover, since there are little or no major differences perceived among the altematives, often the basis for evaluation are price, taste, size, and packaging. Consider the example of buying toothpaste or tomato ketchup. The only time that we spend in buying it is picking it up from the shelf .

Thus consumer decision making processes different across product groups.

6.7 POST PURCHASE BEHAVIOR

After the purchase, the consumer might experience dissonance from noticing certain disquieting features or hearing favorable things about other brands and will be alert to information that supports his or her decision. Marketing communications should supply beliefs and evaluations that reinforce the consumer's choice and help him or her feel good about the brand. The marketer's job therefore doesn't end with the purchase. Marketers must monitor post purchase satisfaction, post purchase actions, and postpurchase product uses and disposal.

1. Post Purchase Satisfaction Satisfaction is a function ofthc closeness between expectations and the product's perceived performance. If performance falls short of expectations, the consumer is *disappointed;* if it meets expectations, the consumer is satisfied; if it exceeds expectations, the consumer is *delighted.* These feelings make a difference in whether the customer buys the product again and talks favorably or unfavorably about it to others.

The larger the gap between expectations and performance, the greater the dissatisfaction. Here the consumer's coping style comes into play. Some consumers magnify the gap when the product isn't perfect and are highly dissatisfied; others minimize it and are less dissatisfied.

2. Post Purchase Actions A satisfied consumer is more likely to purchase the product again and will also tend to say good things about the brand to others. Dissatisfied consumers may abandon or retum the product. They may seek information that confirms its high value. They may take public action by complaining to the company, going to a lawyer, or complaining directly to other groups (such as business, private, or govemment agencies) or to many others online. Private actions include deciding to stop buying the product *(exit option)* or warning friends *(voice option).*

Postpurchase communications to buyers have been shown to result in fewer product returns and order cancellations. Computer companies, for example, can send a letter to new owners congratulating them on having selected a fine new tablet computer. They can place ads showing satisfied brand owners. They can solicit customer suggestions for improvements and list the location of available services. They can write intelligible instruction booklets. They can send owners e-mail updates describing new tablet applications. In addition, they can provide good channels for speedy redress of customer grievances.

3. **Post Purchase Uses and Disposal** Marketers should also monitor how buyers use and dispose of the product (Figure 6.7). A key driver of sales frequency is product consumption rate - the more quickly buyers consume a products, the sooner they may be back in the market to repurchase it.

6.8 SUMMARY

To sum therefore, the consumer, the most critical component in marketing strategy of an enterprise, needs to be studied in depth. Even though consumer behaviour cannot be precisely quantified and marketing decisions have to be based on probabilities, It is much better to know this behaviour and then take decisions rather than taking them without any study. An excellently engineered product may fail just because the customer does not identify himself or herself with it. Hence a company must understand how the buyer decides in favour of one brand or product, what motivates him or her to select an alternative, and who influences him or her to buy the brand or product. It is important to study how much time a customer spends on evaluating different brands and prices in the same product category.

For a better understanding of consumer behaviour, three major psychological factors need to be examined. These are motivation, learning and perception. Buyer decisions are also strongly influenced by variable like cultrual and social factors, personal factors like demographics, self concept, lifestyle and personality (the last two are called psychographic variables). The various tools to study buyer behaviours are surveys, projective techniques and focus group discussions.

6.9 GLOSSARY

1. **Market Research:** The systematic gathering, recording, analyzing, and use of data relating to the transfer and sale of goods and services from producer to consumer.

2. **Motivation Research:** Research used to investigate the psychological reasons that individuals buy specific types of merchandise or why they respond to specific advertising. This research helps you determine the base of brand choices and product preferences.

3. Potential Market: A set of consumers who profess some level of interest in a designed market offer.

4. Primary Research: Research that's conducted directly from your own consumers or potential consumers.

5. Secondary Research: Research that a company collects indirectly from various outside sources.

6.10 SELF ASSESSMENT QUESTIONS

Q 1. What do you understand by Market analysis?

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Q2. Write a detailed note on Post Purchase Behavior.

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6.11 LESSON END EXERCISE

Q.1. Illustrate the buying Decision process in detail. What are the factors influencing consumers behaviour?

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6.12 SUGGESTED READINGS

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Lesson No. 7 **Unit-II**

Semester-II **M.Com-C254**

ANALYZING BUSINESS MARKETS

STRUCTURE

7.1 INTRODUCTION

Those who supply goods and services to consumer markets are themselves in need of goods and services to run their business. These organizations-producers, resellers and government make up vast marketing organizations that buy a large variety of products, including equipment, raw material, and labor and other services. Some organizations sell exclusively to other organizations and never come into contact with consumer buyers. Despite the importance of organizational markets, far less research has been conducted on factors that influence their behavior than on factors that influence consumers. However, we can identify characteristics that distinguish organizational buying from consumer buying and typical steps in the organizational buying process.

Organizational behavior refers to the buying behavior of organizations that buy products for business use, resell or to make other products. Organizations consist of business, industries, retailers, government and non-government organizations. Business and industries buy products for business use or to produce other products. Resellers buy products to resell at a profit. Government buys products for use in offices and development projects or to provide service to people. Non-government organizations buy products to provide service to their clients. They can be hospitals, educational institutions, political parties, religious and social organizations.

7.2 OBJECTIVES

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

1. the importance of Decision Making Units (DMU) and the roles played by them in buying decision process
2. the buy phases or decision making process in organizational purchases
3. the role value-analysis plays in organisational purchases and what a marketer should do
4. how the internet influences buyer behaviour today

7.3 ORGANISATIONAL BUYING

Organisation buying is the decision-making process by which formal organizations establish the need for purchased products and services and identify, evaluate and choose among alternative brands and suppliers. Organisations buy in furtherance of organizational objectives such as to manufacture and deliver goods and services to members, customers or the community. Organizational buying is heavily influenced by derived demand, that is, demand for an end product or for a product or service sold by the buyer's customers. The demand for components by a manufacturer will be dependent on demand coming from their customers, the retailers and wholesalers, who in turn are reacting to demand from their customers, the consumers. Overall consumer demand may in turn be impacted by economic, social, political and technological factors in the environment.

The organizational buying process is entirely different from the consumer buying process. While buying decisions are made relatively easily and quickly by individual customers, organizational buying involves thorough and deep analysis. Organizations purchase products ranging from highly complex machinery to small components. In an organization, the purchase decisions are influenced by several individuals and are not made in isolation by an individual. Organizational buyers are more concerned about the price and quality of the product along with the service being provided by the vendor.

Price plays a major role, since the price of the raw materials is the investment from which profits are generated. Thus, price is a major factor which affects the profitability of the firm. Service also plays an important role, because no organization would like to buy goods from a vendor who cannot provide timely and efficient service. Organisations adopt certain methods for buying products such as checking a sample before the actual purchase. Most organizational purchases involve purchase of products in large lots. So it is not feasible to individually inspect each and every item in the lot.

In such situations, a sample is checked assuming that this sample represents the entire lot. Like the consumer markets, organizational markets also possess certain demand characteristics. The organizational demand for products or services may be inelastic, derived, joint, or fluctuating in nature.

Organizational markets normally purchase the goods or services for producing other goods and services, using these as raw materials. There are also resellers, who purchase the products to sell directly to other customers without any modifications. Apart from producers and resellers, there are also government and institutional customers who buy the goods. Government buys goods for public utility or for use in their departments or for production purposes.

The buying decisions of organizations are influenced by environmental factors, organizational factors, social factors and personal factors. Participants in the organizational buying process play as many as seven different roles, namely those of initiator, influencer, user, decider, approver, buyer and gatekeeper.

Although organizations differ significantly from each other in their purchasing process, the various stages of industrial buying comprise problem recognition, general need recognition, product specification, value analysis, vendor analysis, order routine specification, multiple sourcing and performance review.

Marketers need relevant information about the characteristics of the industries for marketing their goods and services effectively. To search for such information, the prime sources are government and industrial publications. The Standard Industrial Classification is a process where such characteristics of manufacturing, financial and service sectors are depicted in a coded format.

7.4 ORGANISATIONAL BUYING BEHAVIOUR

Organizational buying behavior is the sum total of an organization's attitudes, preferences, intentions and decisions regarding the buying behavior in the marketplace when purchasing goods for manufacturing or reselling. The main characteristics of organizational buying behavior can be described as follows:

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

by the consumers. Demand of organizational buyer changes with the changes in consumers' demand.

2. **Geographical Concentration :** Organizational buyers remain concentrated in certain geographical area whereas consumers' market remains scattered all around. Producers want to establish industry nearby supply source. Mostly, industrial market is determined considering transport facilities and cost. Along with this, raw materials, labor supply, climate condition etc. are also considered.

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

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

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

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

7. **Complexity :** Complexity is another characteristic of organizational buying. Under organizational buying process, different persons participate in buying decision. So it becomes difficult to take buying decision. While taking decision on buying, it becomes

necessary to know the role of users, motivator, decision maker, and buyer whose effect goes on buying process.

7.5 BUYING SITUATIONS

A buying situation relates to the circumstances surrounding a purchase that can be defined by the quality of information and experience that the buyer has concerning the products and vendors available, as well as the effort it will take to make the purchase decision.

- **Straight re-buy** is the situation under which the buyers are engaging in the routine purchase of standard products from a familiar supplier where you don't make any modifications from the most recent order. A perfect example is ordering some boxes of copier paper, pens, and pencils from your office supplier. It doesn't take much effort except to confirm the sales order has been satisfied.

- **Modified re-buy** is the situation where the purchaser is going to buy a similar product but there is a significant difference in the purchase from the previous purchase. The difference may include a change in the product specifications or a new supplier. An example may be switching to a different type of software provided by a different vendor. This buying situation involves more effort because you are going to have to research product specifications and evaluate vendors, as well as possibly negotiate new contracts.

7.5.1 Buy Grid Frame Work

In 1967, the Canadian, American and Israeli marketing researchers Robinson, Farris and Wind, introduced the buy grid framework as a generic conceptual model for buying processes of organisations. They saw industrial buying not as single events, but as organizational decision- making processes where multiple individuals decide on a purchase. Their framework consists of a matrix of buy classes and buy phases.

The buy classes are:

1. **New Tasks:** The first-time buyer seeks a wide variety of information to explore alternative purchasing solutions to his organizational problem. The greater the cost or

perceived risks related to the purchase, the greater the need for information and the larger the number of participants in the buying centre.

2. Modified Re-buy: The buyer wants to replace a product the organisation uses. The decision making may involve plans to modify the product specifications, prices, terms, or suppliers as when managers of the company believe that such a change will enhance quality or reduce cost. In such circumstances, the buying centre proved to require fewer participants and allow for a quicker decision process than in a new task buy class.

3. Straight Re-buy: The buyer routinely reorders a product with no modifications. The buyer retains the supplier as long as the level of satisfaction with the delivery, quality, and price is maintained. New suppliers are considered only when these conditions change. The challenge for the new supplier is to offer better conditions or draw the buyer's attention to greater benefits than in the current offering.

The buy phases are:

Based on field research, Robinson, Farris and Wind divided the buyer purchase process into eight sequential, distinct but interrelated buy phases:

(i) Recognition of the organizational problem or need.

(ii) Determination of the characteristics of the item and the quantity needed.

(iii) Description of the characteristics of the item and the quantity needed.

(iv) Search for and qualification of potential sources.

(v) Acquisition and analysis of proposals.

(vi) Evaluation of the proposals and selection of suppliers.

(vii) Selection of an order routine.

(viii) Performance feedback and evaluation.

The most complex buying situations occur in the upper left quadrant of the buy grid matrix where the largest number of decision makers and buying influences are involved.

A new task that occurs in the problem recognition phase (1) is generally the most difficult for management. The buying process can vary from highly formalized to an approximation depending on the nature of the buying organisation, the size of the deal and the buying situation. The relationship between the buyer and seller is initiated in phases 1 and 2. Assessing the buyer's needs and determining gaps between the current and desired situation is important. Buyers need assistance in forming realistic perceptions of both the current and the desired situation.

A sales person must be aware that a buyer not only has functional needs, but psychological, social, knowledge and situational needs as well. These components should be addressed in meetings in order to obtain commitment. The purchase can be a one-time transaction of a repetitive nature. When there are multiple deliveries, the supplier and buyer must agree on an order routine. As buy phases are completed, the process of 'creeping commitment' occurs and reduces the likelihood of new suppliers gaining access to the buying situation.

During the performance feedback and evaluation phase, the relationship between the seller and buyer can develop into a longer term engagement. Buyer loyalty and customer satisfaction are primarily determined by the sales activities during this last phase.

7.6 FACTORS AFFECTING ORGANISATIONAL BUYING

Following are the Factors in Organizational Buying :

Organizational Buying depends on:

1. Buying objectives
2. Buying structure, and
3. Purchase constraints.

1. Buying objectives

Before making a purchasing decision, it is imperative to understand and evaluate the main reasons for doing so. Primarily, you need to determine the motive for buying that particular product. It is also necessary to ensure that you understand the effect of making that purchase and at the same time how the product will be beneficial to various operations of the organisation.The reliability of the supplier in ensuring that you get the product consistently throughout the year or duration that you need is also important because it shows that the firm will hardly encounter unnecessary inconveniences that would interrupt its production.

2. Buying structure

Any organisational buying has to follow a particular structure that has been stipulated within the guiding principles of the firm. A protocol has to be followed accordingly to make sure that all the concerned parties are involved in making the decision. You have to ensure that all the relevant procedures have been followed when making such purchases. This will be helpful in ensuring that a correct decision was made way before undertaking the process of buying the particular product or service hence making it easy to make a follow up if there is a need for doing so.There are also some manufacturers who prefer to deal with agents who help them in purchasing the products. In most cases, they prefer organisations to use these agents when in need of making transactions that are revolving around purchasing of products.

3. Purchase constraints

This is the other aspect that affects the process or organisational buying. Mostly, several elements are always considered before making any purchase for the organisation. Some of these items may hinder the efficiency of buying the products and would subsequently require further intervention for it to be realised. For instance, inadequate finances or availability of the product at that particular time would be among some of the purchase constraints that are usually common.Nonetheless, the government budgeting process is also a hindrance to the consumers who prefer making a purchase based on government funding because it may take longer than expected for funds to be approved.

The factors influencing buyer’s purchase decisions can be conveniently divided into following categories:

1. **External Environment:** Environmental factors constitute an important determinant of organizational purchasing. This includes economic situation, government policy, competitive development in the industry, technological development and their introduction. For example, if the organizational buyer feels that the government is going to increase tax on industrial buying is likely to increase in the near future, his buying of material will increase as buying will become costly in future due to tax burden. An organization buyer may update his technology if machinery is available at fair rates and interest charges are low. Purchases will be made at lower level, if the recession trends are clearly visible in the economy. An industrial purchaser will be cautions and careful in his buying decisions so that decision will prove appropriate and will not bring loss to the organization. An industrial purchaser will collect information about economic situation in the country and will take appropriate decisions after analyzing such economic information. He has to give special attention to economic environment while taking purchase decision.

1. **Economic factors:** Economic factors affect organizational buying behavior. This includes level of demand and economic health. The level of demand includes capacity and desire for buying goods. This is affected by income distribution and price of product. Prosperity, recession, and recovery are included in economic health. The prosperity condition is economically good condition. Recession is economically bad condition.

2. **Technological factors:** Technological factors also affect organizational behavior. This includes level of technology, pace of technology, technology transfer etc. E-commerce as well as information technology has got revolutionary change. It has directly affected organizational buying behavior.

3. **Political and legal factors:** Political and legal factors also affect organizational buying process directly. Political factors include political system, political situation, and political thought, government policies etc. whereas constitution, laws, rules and regulations etc. are included in legal factors.

4. **Social responsibility:** A business organization should consider social responsibility while buying any goods or services. Indigenous goods should be

given preference in buying and interest of society should be protected. Interest of different pressure group of the society also should be considered while buying goods or services.

5. **Competition:** Competition also affects buying behavior. This competition includes pure competition, monopolistic competition and oligopoly competition.

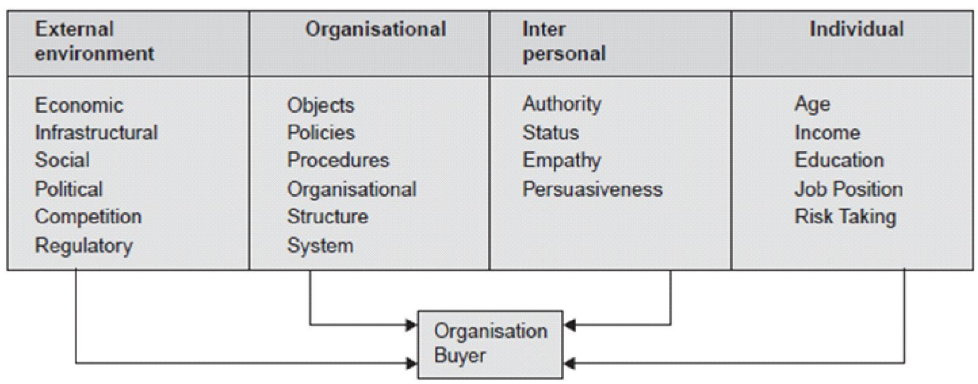


Fig. 7.1 : Factors Influencing Organisational Buying

2. **Organizational Factors:** Organizational factors are internal factor affecting buying decision. Every purchasing organization has certain objectives and goals, well accepted producer and system for purchasing, and an appropriate organizational structure. These factors directly and indirectly influence its purchase decision. These characteristic provide clues for determining buying decision. The objectives of an organization influence the types of products it needs and the criteria by which it evaluates supplies. Companies frame their procedures/policies for making purchase decision. Government organization normally uses bidding while making a purchase. Products specifications are well established and suppliers have to submit bids as per the general notice. In the case of other industrial purchasers may have different procedures for purchasing. Suppliers have to note the procedural differences among the organizations as regards purchases procedures and adjust their quotations; according structure assigns authority and responsibilities for decision making to job positions across a company. Some companies assign authority for purchase decisions to purchase managers while others

do not. Informal relations among people (with the organization) in different positions in a purchase organization can affect buying decisions. In many small family owned firms, centralized structures are used. Purchase decisions require the family's consent. This delays the purchase decisions. In decentralized structure, quick decisions are possible at the departmental level. Policies like inventory holding and procedures such as payments or bidding also influence purchase decisions of organizational buyers.

1. **Objectives:** Buying objective is determined according to organizational goal. Goods should be purchased according to organizational objective. As goods or services need to be purchased according to organizational goal, buying is affected by objective.

2. **Policies:** Purchasing or buying policy also effects organizational buying behavior. Goods should be purchased according to buying policy of the organization. If the organization has the policy of buying indigenous goods, the buyer cannot buy foreign goods. If the purchasing policy is silent in this matter, whichever goods, foreign or indigenous, can be purchased as desired.

3. **Procedures:** The methods and process adopted by an organization to buy goods or services is called procedure. Goods or services can be purchased directly through agreement, or through tender, demanding catalogue etc. Any of the method can be adopted to buy goods or services. Whichever procedure the organization has adopted, the buyer should follow it.

4. **Organizational Structure:** Organizational structure defines authority and relations which directly affects buying behavior. In some organizations, goods or services are purchased by direct order of chief executive while in some other organizations, goods or services are bought through purchase department. So, buying behavior is affected by organizational structure.

5. **System:** Purchasing system also directly affects buying behavior. An organization can adopt any one or more such as centralized system, decentralized system, huge quantity purchase system and others.

3. Inter-personal factors: Industrial buying decisions are normally collective and also as per the procedures decided. The buying center involves several individuals with different formal authority, status, and persuasiveness. Buying center consists of individuals of the organization concerned with purchase decision process. They share the risk arising out of it. They also have a common goal. There is interaction among the members of a buying center as regards purchases to be made. There is also a possibility of conflict among the members (of a buying centre) in marketing buying decision. The suppliers need to know about such conflicts in order to resolve them so that the marketing/purchasing program can be adjusted accordingly. Conflicts among buying center participants need to be solved promptly so that buying will be done promptly i.e. as per the production schedule prepared. Knowledge of group dynamics helps the marketer to settle conflicts and early release of purchase order.

1. **Authority:** The personnel whom the organizational structure gives authority to order for purchase, no goods can be purchased without his order. Buying decision of such authority plays an important role in buying.

2. **Status:** The persons to purchase goods or services and to give order for purchase may be different in an organization. As much the behavior of the person issuing purchase order affects behavior of the buyer. If the status or level of the buyer is high, his buying decision becomes rational and quick. His/her behavior becomes mature.

3. **Interest:** Users, influencers, buyers, decider, and gate keeper are involved in organizational buying process. Their interest affects organizational buying process. As their interest becomes different, buying process may be complicated.

4. Individual buyers' characteristics/individual factors: In the final analysis, individual factors play an important role in buying decision. The other factors (environmental, organizational, etc.) are important but individuals concerned with purchase decision are equally important. A supplier needs to have complete details of all individuals involved in the purchase decision process. Personal factors/ characteristics include age, education, job position, maturity, etc. as these factors affect individual perception, preference and motivation. Final decisions are based on such factors even when their importance is limited in the decision-making. In the final analysis, individual/officer is responsible for taking buying decision far the organization. The make-up of these individual is a major factor influencing buying decision. The supplier has to consider this factor and adjust his sales personnel's accordingly. The industrial buyer may be assertive or may have co-operative attitude. The supplier's representative has to adjust with all types/ categories of industrial buyers in order to finalize purchase deal.

1. **Age:** Age of person also affects selection and priority. Younger persons make buying decision and supplier selection quicker than older aged persons. Similarly, the younger persons try to find new suppliers whereas older persons try to give continuation to the same who is supplying. So this also affects buying process.

2. **Education:** Education makes person able to analyze good or bad. So, an educated person takes buying decision rationally whereas uneducated person makes buying decision at hit and miss/ or hunch. Educated person selects goods or services carefully. So, buyer's education also affects organizational buying behavior.

3. **Job position:** Job position also shows a person's status. Buyer's position or status also affects his buying behavior. Buyer's status may be low or high.

4. **Personality:** Personality of person working in an organization may be different. Personality affects selection of quality, brand, price etc. So, buyer's personality also affects organizational buying behavior.

4. **Risk attitude:** Risk bearing capacity of men becomes different. Some can bear more risk and others like to take less risk. Similarly, some like to avoid risk and some others like to face. The capacity and attitude to bear risk also affect buying behavior. The buyers having the capacity to take high risk become aggressive. But those having less risk bearing capacity

and having no risk bearing capacity do not do so.

7.7 SYSTEMS BUYING AND SELLING

Systems selling is the process of selling interrelated goods or services together as a package rather than selling them separately or independently. Under systems selling, the goods that are clubbed together are mostly complimentary goods.

Many business buyers prefer to buy a total solution to a problem from one seller. Called systems buying, this practice originated with government purchases of major weapons and communications systems. The government would solicit bids from prime contractors, who assembled the package or system. The contractor who was awarded the contract would be responsible for bidding out and assembling the system subcomponents from second-tier contractors. The prime contractor would thus provide a turnkey solution, so-called because the buyer simply had to turn one key to get the job done.

Example :

Ford has transformed itself from being mainly a car manufacturer to being mainly a car assembler. Ford relies primarily on a few major systems suppliers to provide seating systems, braking systems, door systems, and other major assemblies. In designing a new automobile, Ford works closely with its seat manufacturer and creates a black box specification of the basic seat dimensions and performance that it needs, and then waits for the seat supplier to propose the most cost-effective design. When they agree, the seat supplier subcontracts parts to suppliers to produce and deliver the needed components.

During the contract period, the supplier manages the customer inventory. For example, Shell Oil manages the Oil inventory of the many of its business customers and knows when it is due for replenishment. The customer benefits from reduced procurement and management costs and from price protection over the term of the contract. The seller benefits from lower operating costs because of a steady demand and reduced paper work.

System selling is a key industrial marketing strategy in bidding to build large-scale industrial projects, such as dams, steel factories, irrigation systems, sanitation system, pipelines utilities, and even new towns.

Project engineering firms must compete on price, quality, reliability, and even new towns. Project engineering firms must compete on price quality, reliability, and other attributes to win contracts. Consider the following example

Examples: Japan and Indonesia

The Indonesian government requested bids to build a cement factory near Jakarta. An Australian firm made a proposal that included choosing the site, designing the cement factory, hiring the construction crews, assembling the materials and equipment and turning over the finished factory to the Indonesian government. A Japanese firm, in outlining its proposal, included all of these services, plus hiring and training the workers to run the factory, exporting the cement through its trading companies, and using the cement to build roads and new office buildings in Jakarta. Although the Japanese proposal involved more money, it won the contract. Clearly, the Japanese viewed the problem not just as one of building a cement factory (the narrow view of systems selling) but as one of contributing to Indonesia economic development. They took the broadest view of the customer needs. This is true systems selling.

To sum up Sellers have increasingly recognized that buyers like to purchase in this way and many have adopted systems selling as a marketing tool. One variant of systems selling is systems contracting where a single supplier provides the buyer with his or her entire requirement of MRO (maintenance, repair, operating) supplies.

7.7.1 Selling to the System

The company system

When you sell something to a company, you are not just selling it to the buyer: you are selling to the whole company, which is often made up of quasi-autonomous units, any of which may have different goals and problems and make conflicting demands on you. It is easy, for example, to get caught up in company politics where what is being proposed is nothing to do with real benefit for the greater company, its employees, customers or shareholders.

This happens also in the 'simple' retail sale, for example when selling a cooker. Here, the issues of who does the cooking, who likes what food, who pays and so on can quickly make this a complex sale.

Selling to the company

When selling to the company, the first task is thus to figure out the system. Thus you might:

1. Identify all stakeholders with a potential interest.
2. Understand the internal culture and political system.
3. Build relationships and alliances with key people.
4. Meet over a period of time to find the right solution and nudge the sale forward.
5. Agree a staged delivery and installation schedule.
6. After the sale, continue to meet ensure they gain value and to watch for future opportunities.

Selling the system

A solution system

When you sell, you do not sell a product. You do not even simply solve a simple problem. What is to be delivered may well be a complex

For example, the solution may include:

1. A range of different pieces of computer hardware and software, all of which must work together seamlessly (as well as with the buyer's existing system).
2. A finance package to allow for easy payment.
3. Installation of the solution.
4. Training of users in how to use the solution (both front-end and back-end technical people).
5. Ongoing telephone support and call-out of engineers.

Building the solution system

Producing this system is no mean feat, which is why sales teams often have their own engineers and specialists who can understand the detail of customer needs and build custom solutions to match.

It is also not uncommon for custom solutions to be built offsite to be tested before they are repackaged and sent to the customer for final installation and test.

7.8 PARTICIPANTS IN THE BUSINESS BUYING PROCESS

The Purchasing department is influential in straight rebuy and modified rebuy situations. Engineering personnel usually have a major influence in selecting product components and purchasing managers dominate in selecting suppliers.Thus, in new buy situations, the industrial marketer must first direct his product information to the engineering personnel. In rebuy situations and at supplier-selection time, communication must be directed at the purchasing department personnel.

A buying centre is comprised of all those individuals and groups who participate in the buying decision-making process, who share some common goals and the risks arising from these decisions. Before identifying the individuals and groups involved in the buying decision process, a marketer must understand the roles of buying centre members. Understanding the buying centre roles helps industrial marketers to develop an effective promotion strategy.

Within any organisation, the buying centre will vary in the number and type of participants for different classes of products.

But on an average a buying center of an organisation has the following seven members or a group of members who play these roles:

1. Initiators:

Usually the need for a product/item and in turn a supplier arises from the users. But there can be occasions when the top management, maintenance or the engineering department or any such recognise or feel the need. These people who "initiate" or start the buying process are called initiators.

2. Users:

Under this category come users of various products. If they are technically sound like the R&D, engineering who can also communicate well. They play a vital role in the buying process. They also act as initiators.

3. Buyers:

They are people who have formal authority to select the supplier and arrange the purchase terms. They play a very important role in selecting vendors and negotiating and sometimes help to shape the product specifications.

The major roles or responsibilities of buyers are obtaining proposals or quotes, evaluating them and selecting the supplier, negotiating the terms and conditions, issuing of purchase orders, follow up and keeping track of deliveries. Many of these processes are automated now with the use of computers to save time and money.

4. Influencers:

Technical personnel, experts and consultants and qualified engineers play the role of influencers by drawing specifications of products. They are, simply put, people in the organisation who influence the buying decision. It can also be the top management when the cost involved is high and benefits long term. Influencers provide information for strategically evaluating alternatives.

5. Deciders:

Among the members, the marketing person must be aware of the deciders in the organisation and try to reach them and maintain contacts with them. The organisational formal structure might be deceptive and the decision might not even be taken in the purchasing department.

Generally, for routine purchases, the purchase executive may be the decider. But for high value and technically complex products, senior executives are the deciders. People who decide on product requirements/specifications and the suppliers are deciders.

6. Approvers:

People who authorise the proposed actions of deciders or buyers are approvers. They could also be personnel from top management or finance department or the users.

7. Gate Keepers:

A gatekeeper is like a filter of information. He is the one the marketer has to pass through before he reaches the decision makers.

Understanding the role of the gatekeeper is critical in the development of industrial marketing strategies and the salesperson's approach. They allow only that information favourable to their opinion to flow to the decision makers.

By being closest to the action, purchasing managers or those persons involved in a buying centre may act as gatekeepers. They are the people whom our industrial marketer would first get in touch with. Hence, it so happens that information is usually routed through them.They have the power to prevent the sellers or information from reaching members of the buying centre. They could be at any level and even be the receptionists and telephone operators.

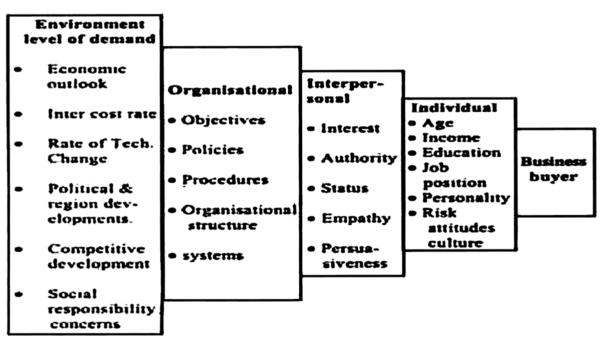


FIGURE : 7.11 (a)

When a buying centre includes many participants, the industrial/ business marketer will not have the time or resources to reach all of them. Small sellers could concentrate on reaching the key buying influences. Large sellers on the other hand go for multi-level in-depth selling to reach as many buying participants as possible.It is important to note, that functional responsibilities and job titles are often not true indicators of the relative influence of buying centre members in a purchase decision task.

7.9 PURCHASING/PROCUREMENT PROCESS

Organizational buying process refer to the process through which any organization goes through in order to make any purchase or buying decision. Just like normal people go through various stages in order to buy a particular good industries/ organization to goes through it.

Every organization and industry has to purchase various goods and services in order to keep their business running.The complex and problem-solving process through which organization/industries go through while making these buying decisions is known as organizational buying process.The behaviour that they show during this process is known as organizational buying behaviour. Every profit-oriented firm is always interested in making sure that they do everything possible to maximise the profit from the particular venture they engage in. They, therefore, go an extra mile to evaluate some business processes and make informed decisions to ensure that they get the best deals.

This is essentially what organisation buying revolves around. It is the process that formal institutions use in establishing the essence for making a purchase of products or services by identifying, assessing and selecting the ideal alternative to the available brands and suppliers.In a typical organisation, there are those people that are involved directly or indirectly in the organisational buying process. All these people are referred to as the buying centre. This centre is always different bearing in mind that it involves people with different and unique abilities and perspectives.Ideally, it is also possible that not everyone is going to make the decisions revolving around organisational buying, but it should be noted that they can still be regarded as part of the purchasing process due to the influence that they could be having in the process.The supplier must be able to produce quality products or offer quality service to the organisation. Any compromise on the quality can adversely affect the organisational performance and subsequently causing undesirable business dealings.Nevertheless, globalisation has made it possible for many suppliers and brands to be able to produce some similar products that target a particular market. This is the reason why it is of great importance to ensure that a thorough research is carried out to help in making good organisational buying choices.Also, there are a few crucial parameters to be followed by an organization before it can make any solid decisions regarding a purchase. They are:

1. Expectations
2. Buying Process
3. Conflict Resolution
4. Purchase and Feedback

Let us now have a brief look at these parameters:

1. Expectations

(i) An organizational consumer's expectations are perceived and dependent on the potential of the external products being used, their brand recognition, as well as the reputation of the suppliers from which they are being purchased.

(ii) Expectation levels of a consumer are also inter-dependent on certain factors governing the purchasing process such as the history and background of the companies participating in the process, knowledge established, pre-conceived notions of consumers, their perceptions as well as the satisfaction levels achieved and experience gained from past purchases.

2. Buying Process

(i) Except in a few cases, there is no much difference between the organizational buying processes and consumer's buying process. Both are typically similar.

(ii) Organizational buying process may sometimes involve autonomous decision making, while at times requires cluster decision making.

(iii) As per the rules, in an organizational buying process, a competitive bidder has to specify all the terms and conditions regarding the sale in writing. Open bidding is often considered as an effective option in most cases, because in this type of bidding, all the potential competitors will be able to see each other bids thereby increasing the transparency of the entire process.

(iv) However, closed biddings are encouraged at times when the organization wants to keep the terms of contract a secret. In this type of bidding, the competitors' bids are kept as confidential as possible until the winner is announced.

3. Conflict Resolution

(i) Need for conflict resolution generally arises when decision making process involves a group of people such as the agents, purchasers, engineers and consumers having different backgrounds, diversity, culture, perspectives, etc. In such cases, a difference of opinion may rise among the members of the group calling for a conflict resolution.

(ii) In most cases, conflicts are resolved using one of the following ways:

Problem Solving: This comes into play when it is considered that obtaining more information regarding the purchase is 'necessary' before making any final decision. Thus, only after attaining all the mandatory information required the final decision is made. It is considered to be the best method.

Persuasion: In this method, members belonging one group try to persuade members belonging to the other group as to why a certain purchase should or should not be made. The group/member that is able to convince the other party wins.

4. Purchase and Feedback

(i) After the completion of the entire process (fulfilling all the above parameters), a final decision is made and the product is purchased.

(ii) Feedback thus obtained is properly documented for future references.

(iii) Regular follow-up, proper maintenance and standard service calls are all quite essential after the deal is done.

7.10 STAGES IN BUYING PROCESS

Unlike the consumer purchasing decision process, which is ‘mainly a series of mental stages, industrial purchasing decision making involves more physical and observable stages.

There are many decision makers involved in each of the eight stages as elaborated by the buy grid framework.

Stage 1: Recognition of a Problem:

The purchasing/buying process begins when someone in the company recognises a problem or need that can be met by acquiring goods or services.

The common events that lead to this phase could be:

i. The company decides to develop a new product and needs new equipment and materials to produce this product.

ii. It decides to diversify or expand and hence requires a multitude of new suppliers.

iii. Purchasing Manager assesses an opportunity to obtain lower prices or better quality.

iv. A machine breaks down and requires replacement or new parts.

v. Purchased materials turn out to be unsatisfactory and the company searches for another supplier.

Early emolument in the new task/problem recognition phase offers the marketer an advantage over competitive suppliers.

Stage 2: Description of the need:

This phase involves determination of the characteristics and quantity of the needed item. The general characteristics could be reliability, durability, price etc. and the marketer along with the purchasing manager, engineers and users can describe the needs.

The questions that could be posed are:

i. What performance specifications need to be met?

ii. What types of goods and services should be considered?

iii. What are the application requirements? and

iv. What quantities would be needed?

The answers to such questions will give the marketer a general description of the need which will be the input for the next phase.

Stage 3: Product Specification:

Obtaining the input from the second phase, the buying organisation has to develop the technical specifications of the needed items. In this phase, the product is broken down into items. The items in turn are sorted into standard ones and new ones which need to be designed.

The specifications for both are listed. As a marketer, he must involve himself and his technical and financial counterpart to determine the feasibility and also to elaborate the services they can offer to develop and supply the product. Unless it is a known supplier many companies do not encourage the supplier participation at this stage. Customer relationship plays a vital role here.

Here is an example of how the supplier firm can help the buyer firm in this phase.

Toyota Motor Corporation wanted to make a 'thinking car' which could learn, memorise and react to inputs from the human environment. They found Sony Corporation had developed a mechanical dog displaying these features.

They involved Sony in the design of the car and evolved a 'pod' which was displayed at the 35th Tokyo Motor Show. It is yet to be manufactured for the general public. Pod can exchange information with other vehicles, gauge the drivers' skill level; understand the drivers' mood etc. Instead of a steering wheel, it has a joystick.

Sony Corporation was involved with Toyoto Motor right from the design stage and its inputs were individual components styling the portable terminal, interior displays, joystick and development of ECU (Emotional Communication Unit) for expressing emotions.

When LML's Kanpur facility was designing and developing 'Freedom', a 100 cc bike, it employed the services of several companies for designing and supply of many parts. Sriram supplied piston, Borg Warner of Germany supplied the cam chain, Daclin designed and supplied the frame and MRF was called in to develop tyres. The British firm Prodrine provided the technological inputs for changes in the gear system.

Stage 4: Supplier Search:

This phase pertains to the search for the qualified suppliers among the potential sources. The marketer has to ensure that he is in the list of potential suppliers. For this to happen, he has to make periodic visits to all potential companies and create awareness. Brochures have to be circulated and advertisements placed in specific media like trade journals. This phase only involves making a list of qualified suppliers.

Stage 5: Proposal Solicitation:

The lists of qualified suppliers are now further shortened based on some critical factors. For example, if the buyer is not willing to try any new firm which has not been in the market for more than three years, it can delist those suppliers. Then the purchasing departments ask for proposals to be sent by each supplier.

After evaluations, based on the specified criteria, some firms are asked to come over for formal presentations. The proposal must include product specification, price, delivery period, payment terms, taxes of experts and duties applicable, transportation cost, cost of transit insurance and any other relevant cost or free service provided. For purchase of routine products or services, phases 4 and 5 may occur simultaneously as the buyer may contact the qualified suppliers to get the latest information on prices and delivery periods.

For technically complex products and services, a lot of time is spent in analysing proposals in terms of comparison on products services, deliveries and the landed cost.

A leading MNC which manufactures soaps requires the would be suppliers to pass through three stages: that of a qualified supplier, an approved supplier and a select supplier. To become qualified, the supplier has to demonstrate technical capabilities, financial health, cost effectiveness, high quality standards and innovativeness.

A supplier that satisfies these criteria then applies sample lot for approval. Once approved, the supplier becomes a 'select supplier' when it demonstrates high product uniformity, continuous quality improvement and JIT delivery capabilities.

Stage 6: Supplier Selection:

Each of the supplier's presentations are rated according to certain evaluation models. The buying organisation may also attempt to negotiate with its preferred suppliers for better prices and terms before making a final decision.

Stage 7: Order Routine Specification:

After the suppliers have been selected, the buyer negotiates the final order, listing the technical specifications, the quantity needed, the expected time of delivery, return policies, warranties etc. In case of maintenance, repair and operating items, buyers are increasingly moving towards blanket contracts rather than periodic purchase orders.

Blanket contracting leads to more single sources buying and ordering of more items from that single source. This system brings the supplier in closer with the buyer and makes it difficult for out-suppliers to break in unless the buyer becomes dissatisfied with the in-suppliers' prices, quality or service.

SKF India, the Swedish multinational manufacturing bearings in Pune and Bangalore, was the single source supplier of ball bearings to TVS Motor Company, located at Padi in Chennai.

Stage 8: Performance Review:

The final phase in the purchasing process consists of a formal or informal review and feedback regarding product performance as well as vendor performance. The buyer may contact the end user and ask for their evaluations which are in turn given to the supplier or he may rate the supplier on several criteria using a weighted score method or the buyer might also aggregate the cost of poor supplier performance to come up with adjusted costs of purchase including price.

The performance review might lead to the buyer to continue, improve or drop a supplier. It is essential for a marketer to have a good relationship and always follow up any customer complaints as soon as possible. More than the defects and problems faced by the buyers in the product, it is the attitude of the supplier which is seen more in focus.

7.11 SUMMARY

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

An organization may be any industry, which buys raw materials necessary for production of finished goods, machines, machine parts, other supplies etc. Similarly government organizations such as ministry, departments, divisions etc. buy goods or services for their use. Hospitals, schools, campuses, financial institutions etc need to buy necessary materials, fuel, various supplies, construction materials and other goods or services. Wholesalers, retailers, distributors, resellers etc. buy goods or services to produce finished goods, resale, ultimate use etc., this called organizational buying, and the buying behavior of organization is called organizational buying behavior. Organization buying is the decision-making process by which formal organizations establish the need for purchased products and services and identify, evaluate and choose among alternative brands and suppliers.

7.12 GLOSSARY

1. **Direct Purchasing:** The purchase of material to be used in manufacturing or for resale as opposed to indirect purchasing.

2. **Threshold Level:** the level at which the need fulfillment is at the most basic level, before the marketer is considered as a probable supplier.

3. **Desired Values:** it reflects the customer's desire for the supplier to augment his offer.

4. **Unanticipated Values:** it implies the values which even the customers are not consciously aware of.

7.13 SELF ASSESSMENT QUESTIONS

1) What is organizational buying?

2) What do you understand by organizational behaviour?

3) How do personal factors affect the organizational buying?

4) What is systems buying and selling?

7.14 LESSON END EXERCISE

1) How do buying influences public sector firm and a private sector firm? Quote examples.
2) What kind of buying situations do business buyers face?
3) In what ways companies build strong loyalty relationships with business customers?
4) How do institutional buyers and government agencies do their buying?

7.15 SUGGESTED READINGS

- Marketing Management, Pearson, By: Kotler & Keller
- Marketing Management, Tat Mc-Graw Hill, By: Rajan Saxena
- Marketing Management, Prentice Hall, By: Bagozzi
- Cases in Marketing Management, Excel Books, By: Bhasin, M.L.
- Marketing in India: Cases and Readings, Viva Publications, By: Neelamegham, S.
- Marketing Management: the Millennium Edition, Pearson, By: Kotler & Keller
- Marketing Management, AITBS Publications, By: Craven David W.
- Marketing: Real People, Real Choice, Prentice-Hall, By: Soloman, Michael, R.

Lesson No. 8 **Unit-II**

Semester-II **M.Com-C254**

BUSINESS BUYING PROCESS

STRUCTURE

8.1 INTRODUCTION

In the business-to-business (B2B) context (as opposed to B2C), buying decisions are made in groups. The group responsible for making the buying decision in companies is referred to as the decision making unit (DMU).

Within organizations, major purchases typically require input from various parts of the organization, including finance, accounting, purchasing, information technology management, and senior management. Highly technical purchases, such as information technology systems or production equipment, require the expertise of technical specialists. In some cases, the buying center acts as an informal ad hoc group. In other cases, the buying center is a formally sanctioned group with specific mandates, criteria, and procedures.

For example, in the hi-tech sector, the decision making unit generally comprises the following roles:

- **The economic buyer** – This individual is responsible for buying products that enable the company to achieve a business advantage. The economic buyer justifies the purchase by linking it to profit. The economic buyer's position within the organization can range from the business unit manager level to as high as the CEO.

- **The infrastructure buyer** – This role influences the buying decision at the execution level. If a product poses challenges at the installation phase, then the infrastructure buyer and/or DMU steps in to decide whether the return on investment (ROI) is worth the time and money required to set up the infrastructure. The infrastructure buyer is typically someone in the IT department.

- **The user buyer** – This position influences the buying decision at the user level and decides whether the organization will achieve its financial objectives through the purchase. For instance, if end users provide negative feedback about the product, or demonstrate that the product is hard to use, then the economic buyer will determine whether the purchase will prevent the company from reaching its economic goals.

8.2 OBJECTIVES

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

1. the buying centre
2. the differences between individual buyer and organizational buyer
3. the purchasing and procurement process
4. the stages in business buying process

8.3 Risks in Business Buying Process

Buying one can of soft drink involves little money, and thus little risk. If the decision for a particular brand of soft drink was not right, there are minimal implications. The worst that could happen is that the consumer does not like the taste and discards the drink immediately. Buying B2B products is much riskier. Usually, the investment sums are much higher. Purchasing the wrong product or service, the wrong quantity, the wrong quality or agreeing to unfavorable payment terms may put an entire business at risk. Additionally, the purchasing office / manager may have to justify a purchasing decision. If the decision proves to be harmful to the organization, disciplinary measures may be taken or the person may even face termination of employment.

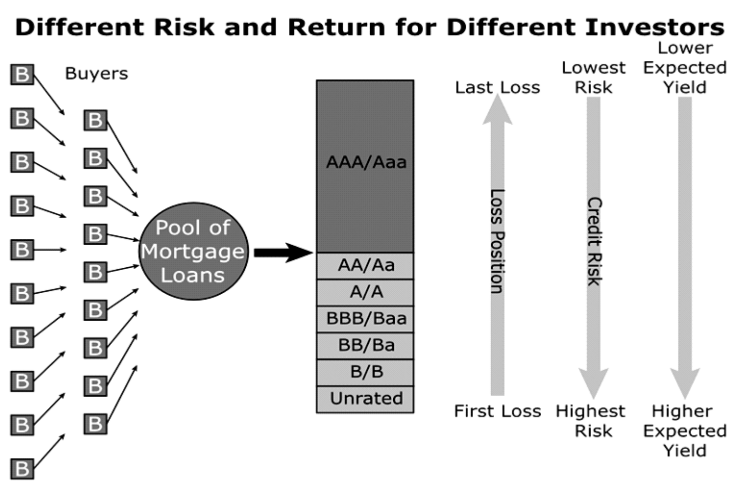


Fig. 8.3

Risk and Return: Less risky investments yield less returns. The riskier the investment, the higher the yield.

8.4 Measuring Vendor Performance

Decision makers complete five steps when making a business buying decision:

1. **Recognize the problem**
2. **Develop product specifications to solve the problem**
3. **Search for and evaluate possible products and suppliers**
4. **Select product and supplier and order product**
5. **Evaluate product and supplier performance**

Vendor performance measurement plays a role in Steps 3 and 5.

Step 3: Search for and Evaluate Possible Products and Suppliers

Step 4 : Requires searching for and evaluating possible products and suppliers. This can be done in several ways:

1. Looking in company files and trade directories, contacting suppliers for information, soliciting proposals from known vendors, and examining websites, catalogs and trade publications.
2. Performing a value analysis (an evaluation of each component of a potential purchase). This examines the quality, design, and materials, with the intention of finding cost savings opportunities.
3. Performing a vendor analysis (a formal, systematic evaluation of current and potential vendors). This focuses on price, quality, service, availability, and overall reliability.

Step 5: Evaluate Product and Supplier Performance

This Step of the business buying decision process involves evaluating product and supplier performance.

Firms need to compare products with specifications. The results become feedback for other stages in future business purchasing decisions. If a firm has any negative issues with a vendor, it is likely they will look for another one.

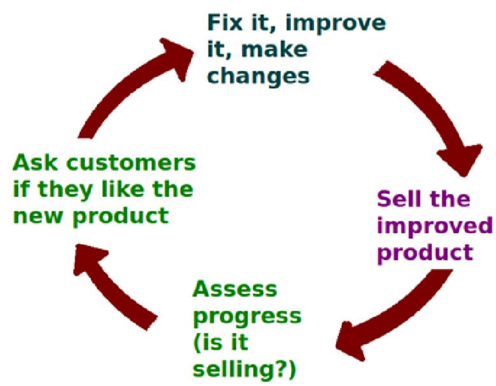


Fig. 8.4

Business Feedback Loop: Firms need to compare products with specifications. The results become feedback for other stages in future business purchasing decisions.

Supplier performance evaluation teams are used to monitor activity and performance data, and to rate vendors. But supplier performance evaluation teams are just one of the many teams companies deploy to address tactical issues.

Supplier certification teams help selected suppliers reach desired levels of quality, reduce costs, and improve service. Specification teams select and write functional, technical, and process requirements for goods and services to be acquired.

Supply managers evaluate suppliers utilizing the tools of value assessment and the fundamental value equation. They estimate the benefits and total costs paid to each vendor. Consistent with supply management orientation, these evaluations can be complemented with the firm's customer feedback. In this way, supply managers can better focus or redirect the efforts of the entire supply network toward the delivery of superior value to end-users.

8.5 BUSINESS ETHICS IN B2B

Ethics refers to the moral principles that guide decision-making and strategy. Business ethics are, therefore, encompassed in the actions of people and organizations that are considered to be morally correct. Ethical objectives may include increased recycling of waste materials or offering staff sufficient rest breaks during their work shift. Businesses that adopt an ethical stance gain from numerous advantages, including:

1. Improved corporate image
2. Increased customer loyalty
3. Cost cutting
4. Improved staff motivation
5. Improved staff morale

In a B2B environment, the client is another business rather than the customer, which means more attention needs to be given to maintaining a two-way relationship between the two entities. Since business clients have more meticulous and specification-driven buying processes, and the company must ensure that needs are met at all times without taking actions that would be considered unethical.

8.5.1 Ethics in Market Research

Ethical danger points in market research include invasion of privacy and stereotyping. Stereotyping occurs because any analysis of real populations needs to make approximations and place individuals into groups. However, if conducted irresponsibly, stereotyping can lead to a variety of ethically undesirable results..

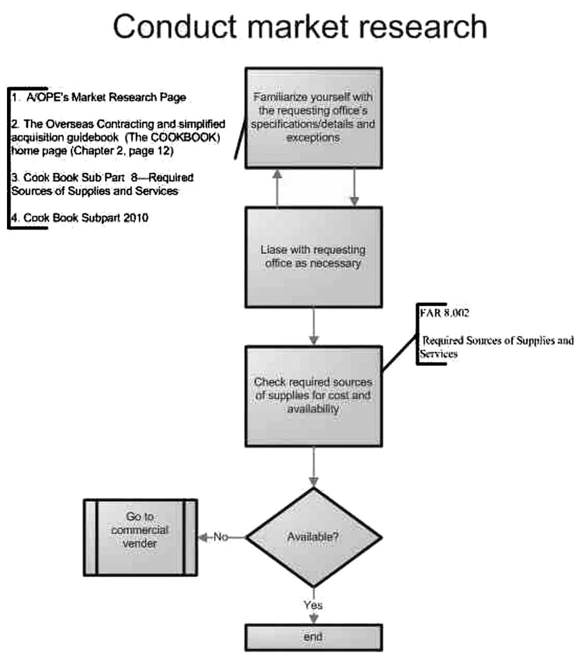


Fig. 8.5

Ethics in Market Research: Firms need to be careful not to use irresponsible stereotyping in the market research process.

8 .5.2 Ethics in Market Audience

Ethical danger points in market audience include

(1) excluding potential customers from the market; selective marketing is used to discourage demand from undesirable market sectors or disenfranchise them altogether;

(2) targeting the vulnerable, such as children and the elderly. Examples of unethical market exclusion or selective marketing are past industry attitudes to the gay, ethnic minority and obese ("plus-size") markets. Contrary to the popular myth that ethics and profits do not mix, the tapping of these markets has proved highly profitable. For example, 20% of US clothing sales is now plus-size. Another example is the selective

marketing of health care, so that unprofitable sectors, such as the elderly, will not attempt to take benefits to which they are entitled. A further example of market exclusion is the pharmaceutical industry's exclusion of developing countries from AIDS drugs.

Marketing ethics is the area of applied ethics that deals with the moral principles behind the operation and regulation of marketing. Ethics provides distinctions between right and wrong; businesses are confronted with ethical decision making every day, and whether or not employees decide to use ethics as a guiding force when conducting business is something that business leaders, such as managers, need to review and enforce. Marketers are ethically responsible for what is marketed, and for the image that a product portrays. With that said, marketers need to understand what constitutes good ethics and how to incorporate such practices into various marketing campaigns to better reach a targeted audience and gain trust from customers. When companies create high ethical standards upon which to approach marketing they are participating in ethical marketing. Ethical behavior should be enforced throughout company culture and through company practices.

8.6 Customer Service as a Supplement to Products

Customer service is the provision of service to customers before, during and after a purchase. Customer support refers to a range of services including assisting clients to make cost effective product choices and getting the most from their purchases. The process includes assistance in planning, installation, training, trouble shooting, maintenance, upgrading, and disposal of a product. In the technology industry, where people buy mobile phones, televisions, computers, software products or other electronic or mechanical goods, customer service is called technical support.

Customer service is regarded as a supplement to the product, and not a replacement for any part of the product. For instance, if a product is faulty in one way, having good, responsive customer service may ameliorate to some degree the customer's dissatisfaction, but will not make up for the deficiency in product quality. If a person buys a product that they are happy with, however, then good customer service can supplement this satisfaction. The importance of customer service varies by product, industry and customer. Retail stores, for example, often have a desk or counter devoted to dealing with returns, exchanges and complaints, or will perform related functions at the point of sale; the perceived success of such interactions are dependent on employees who can adjust themselves to the personality of the guest. From the point of view of an overall sales process engineering effort, customer service plays an important role in an organization's ability to generate income and revenue. From that perspective, customer service should be included as part of an overall approach to systematic improvement; the customer service experience can change the entire perception a customer has of the organization.

8.7 SUMMARY

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

An organization may be any industry, which buys raw materials necessary for production of finished goods, machines, machine parts, other supplies etc. Similarly government organizations such as ministry, departments, divisions etc. buy goods or services for their use. Hospitals, schools, campuses, financial institutions etc need to buy necessary materials, fuel, various supplies, construction materials and other goods or services. Wholesalers, retailers, distributors, resellers etc. buy goods or services to produce finished goods, resale, ultimate use etc., this called organizational buying, and the buying behavior of organization is called organizational buying behavior. Organization buying is the decision-making process by which formal organizations establish the need for purchased products and services and identify, evaluate and choose among alternative brands and suppliers.

8.8 GLOSSARY

1. **B2B**: Business-to-business (B2B) describes commerce transactions between businesses, such as between a manufacturer and a wholesaler, or between a wholesaler and a retailer.

2. **Decision Making Unit:** In the business-to-business (B2B) context (as opposed to B2C), buying decisions are made in groups. The group responsible for making the buying decision in companies is referred to as the decision making unit (DMU).

3. **B2C**: The sale of goods and services from individuals or businesses to the end-user.

8.9 SELF ASSESSMENT QUESTIONS

1) What is a D4csion Making Unit?

2) What do you understand by purchase/procurement process?

3) Enumerate various kinds of risks in organizational buying?

4) Distinguish between purchase and procurement.

8.10 LESSON END EXERCISE

1) Enumerate the stages in organizational buying?
2) What do you mean by buying centre? Discuss the role of various participants in organisational buying.
3) Explain using appropriate examples the ethics in organisational buying.

8.13 SUGGESTED READINGS

- Marketing Management, Pearson, By: Kotler & Keller
- Marketing Management, Tat Mc-Graw Hill, By: Rajan Saxena
- Marketing Management, Prentice Hall, By: Bagozzi
- Cases in Marketing Management, Excel Books, By: Bhasin, M.L.
- Marketing in India: Cases and Readings, Viva Publications, By: Neelamegham, S.
- Marketing Management: the Millennium Edition, Pearson, By: Kotler & Keller
- Marketing Management, AITBS Publications, By: Craven David W.
- Marketing: Real People, Real Choice, Prentice-Hall, By: Soloman, Michael, R.

CONSUMERS, MARKETS & MARKET POSITIONING

Lesson No. 9	**Unit-II**
Semester-II	**M.Com-C254**

MARKET SEGMENTATION

STRUCTURE

9.1 INTRODUCTION

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

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

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

The marketers thus came with the concept of STP.

STP stands for:
S - Segmentation
T - Targeting
P - Positioning

The first step in the process of product promotion is Segmentation

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

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

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

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

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

It is not possible for a marketer to have similar strategies for product promotion amongst all individuals. Kids do not get attracted towards products meant for adults and vice a versa. Every segment has a different need, interest and perception. No two segments can have the same ideologies or require a similar product.

9.2 OBJECTIVES

After reading this unit, you should be able to:

1. Understand the concept of Market Segmentation
2. List Levels of market segmentation
3. Explain the Bases of Segmenting consumer markets and business markets

9.3 Market Segmentation

Market research is an important activity for companies hoping to better understand their customers and market so that they can improve their products and services to better meet market needs. An important element of effective market research is market segmentation, the process of dividing or segmenting the larger population into smaller units that better reflect target audiences. Market segmentation is a marketing strategy that involves dividing a broad target market into subsets of consumers who have common needs, and then be designed and implemented to target these specific customer segments, addressing needs or desires that are believed to be common in this segment, using media that is used by the market segment.

9.3.1 Criteria for effective segmenting

An ideal market segment meets all of the following criteria:

1. It is possible to measure.
2. It must be large enough to earn profit.
3. It must be stable enough that it does not vanish after some time.
4. It is possible to reach potential customers via the organization's promotion and distribution channel.

5. It is internally homogeneous (potential customers in the same segment prefer the same product qualities).
6. It is externally heterogeneous, that is, potential customers from different segments have different quality preferences.
7. It responds consistently to a given market stimulus.
8. It can be reached by market intervention in a cost-effective manner.
9. It is useful in deciding on the marketing mix.

Following the development of market segments by the firm, they then need to be evaluated against a set criterion. Essentially, this review is a checkpoint in the overall market segmentation, targeting and positioning process (known as the STP model/ process). This analytical ensures that the resultant market segments are valid and usable for the firm's purposes.

The main goal of this stage of the STP process is to ensure that the market segments that have been constructed by the firm meet with basic requirements and guidelines, which will make them usable segments and potential target markets. The best way to think about this step of the STP model is to think about it a review checkpoint.

The following table outlines the main requirements/criteria for a market segment.

EVALUATION CRITERIA	***MEANING***	***IMPORTANCE***
Homogeneous	This means that the consumers allocated to each segment should be similar in some relevant way	This is the basis of market segmentation - that the consumers in each segment are similar in terms of needs and/or characteristics
Heterogeneous	Each segment of consumers should be relatively unique, as compared to the other segments that have been constructed	This demonstrates that the consumers in the overall market have been effectively divided into sets of differing needs

Measurable	Some form of data should be available to measure the size of the market segment	Measurements are very important to be able to evaluate the overall attractiveness of each segment
Substantial	The market segment should be large enough, in terms of sales and profitability, to warrant the firm's possible attention	Each firm will have minimum requirements for the financial return from their investment in a market, so it is necessary to only consider segments that are substantial enough to be of interest
Accessible	The market segment should be reachable, particularly in terms of distribution and communication	Each segment needs to be able to be reached and communicated with on an efficient basis.
Actionable/practical	The firm needs to be able to implement a distinctive marketing mix for each market segment	The range of segments identified generally need to be defined for the capabilities and resources of the organization, so very specialized segments may not be appropriate
Responsive	Each market segment should respond better to a distinct marketing mix, rather than a generic offering	The key outcome of the STP process is to develop a unique marketing mix for a specified target market, if the segment will not be more responsive to a distinct offering, then the segment can probably be combined with another similar segment

Fig. 9.1

9.4 LEVELS OF MARKET SEGMENTATION

A market segment consists of a large identifiable group within a market. A company that practices segment marketing recognizes that buyers differ in their wants, purchasing power, geographical locations, buying attitudes, and buying habits. At the same time, though, the company is not willing to customize its offerlcommunication bundle to each individual customer. Market segmentation is the process of dividing the total market for a good or service into several smaller, internally homogeneous groups. Members of each group are similar with respect to the factors that influence demand. Therefore, to stay focused rather than scattering their marketing resources, more marketers are using market segmentation. The company instead tries to isolate some broad segments that make up a market. In this approach, which falls midway between mass marketing and individual marketing, each segment's buyers are assumed to be quite similar in wants and needs, yet no two buyers are really alike. To use this technique, a company must understand both the levels and the patterns of market segmentation.

1. **Segment Marketing:** A market segment consists of a large identifiable group within a market, with similar wants, purchasing power, geographical location, buying attitudes, or buying habits. For example, an automaker may identify four broad segments in the car market: buyers who are primarily seeking

(1) basic transportation

(2) high performance

(3) luxury

(4) safety

Because the needs, preferences, and behavior of segment members are similar but not identical, Anderson and Narus urge marketers to present flexible market offerings instead of one standard offering to all members of a segment. A flexible market offering consists of the product and service elements that all segment members value, plus options (for an additional charge) that some segment members value. For example, Delta Airlines offers all economy passengers a seat, food and soft drinks, but it charges extra for alcoholic beverages and earphones.

Segment marketing allows a firm to create a more fine-tuned product or service offering and price it appropriately for the target audience. The choice of distribution channels and communications channels becomes much easier, and the firm may find it faces fewer competitors in certain segments.

2. **Niche Marketing:** A niche is a more narrowly defined group, (typically a small market whose needs are not being well served). Marketers usually identify niches by dividing a segment into sub-segments or by defining a group seeking a distinctive mix of benefits. For example, a tobacco company might identify two sub-segments of heavy smokers: those who are trying to stop smoking, and those who don't care.

In an attractive niche, customers have a distinct set of needs; they will pay a premium to the firm that best satisfies their needs; the niche is not likely to attract other competitors; the niche gains certain economies through specialization; and the niche has size, profit, and growth potential. Whereas segments are fairly large and normally attract several competitors, niches are fairly small and may attract only one or two rivals. Still, giants such as IBM can and do lose pieces oftheir market to niches: Dalgic labeled this confrontation "guerrillas against gorillas."

Now the low cost of marketing on the Internet is making it more profitable for firms including small businesses to serve even seemingly minuscule niches. In fact, 15 percent of all commercial Web sites with fewer than 10 employees take in more than $100,000, and 2 percent ring up more than $1 million.

3. **Local Marketing:** Target marketing is leading to some marketing programs that are tailored to the needs and wants of local customer groups (trading areas, neighborhoods, even individual stores). Citibank, for instance, adjusts its banking services in each branch depending on neighborhood demographics; Kraft helps supermarket chains identify the cheese assortment and shelf positioning that will optimize cheese sales in low-income, middle-income and high-income stores and in different ethnic neighborhoods.

Those favoring local marketing see national advertising as wasteful because it fails to address local needs. On the other hand, opponents argue that local marketing drives up manufacturing and marketing costs by reducing economies of scale. Moreover, logistical problems become magnified when companies try to meet varying local requirements and a brand's overall image might be diluted if the product and message differ in different localities.

4. Individual Marketing: The ultimate level of segmentation leads to "segments of one," "customized marketing," or "one-to-one marketing". For centuries, consumers were served as individuals: The tailor made the suit and the cobbler designed shoes for the individual. Much business-to-business marketing today is customized, in that a manufacturer will customize the offer, logistics, communications and financial terms for each major account.

9.4.1 Using segmentation in customer retention

The basic approach to retention-based segmentation is that a company tags each of its active customers with three values:

Is this customer at high risk of cancelling the company's service?

One ofthe most common indicators of high-risk customers is a drop off in usage of the company's service. For example, in the credit card industry this could be signaled through a customer's decline in spending on his or her card.

Is this customer worth retaining?

This determination boils down to whether the post-retention profit generated from the customer is predicted to be greater than the cost incurred to retain the customer.

What retention tactics should be used to retain this customer?

For customers who are deemed worthy of saving, it is essential for the company to know which save tactics are most likely to be successful. Tactics commonly used range from providing special customer discounts to sending customers conunications that reinforce the value proposition of the given service.

9.5 SEGMENTING CONSUMER MARKETS

(a) Geographic Segmentation

The market is segmented according to geographic criteria nations, states, regions, countries, cities, neighbourhoods or zip codes. Geo-cluster approach combines demographic data with geographic data to create a more accurate profile of specific. With respect to region, in rainy regions one can sell things like raincoats, umbrellas and gumboots. In hot regions you can sell summer wear. In cold regions you can sell warm clothes. A small business commodity store may target only customers from the local neighbourhood, while a larger department store can target it's marketing towards several neighbourhoods in a larger city or area.

(b) Psychographic Segmentation

Psychographics is the science of using psychology and demographics to better understand consumers. Psychographic segmentation: consumers are divided according to their lifestyle, personality, values and social class. Consumers within the same demographic group can exhibit very different psychographic profiles.

(c) Positive Market Segmentation

Market segmenting is dividing the market into groups of individual markets with similar wants or needs that a company divides into distinct groups which have distinct needs, wants, behavior or which might want different products and services. Broadly, markets can be divided according to a number of general criteria, such as by industry or public versus private. Although industrial market segmentation is quite different from consumer market segmentation, both have similar objectives. All of these methods of segmentation are merely proxies for true segments, which don't always fit into convenient demographic boundaries.

This part of the segmentation process consists of drawing up a perceptual map, which highlights rival goods within one's industry according to perceived quality and price. After the perceptual map has been devised, a firm would consider the marketing communications.

(d) Behavioural segmentation

In behavioural segmentation, consumers are divided into groups according to their knowledge of, attitude towards, use of or response to a product. It is actually based on the behaviour of the consumer called behavioural segmentation.

(e) Occasions

Segmentation according to occasions is based on the arising of special need and desires in consumers at various occasions. For example, for products that will be used in relation with a certain holiday. Products such as Christmas decorations or Diwali lamps are marketed almost exclusively in the time leading up to the related event, and will not generally be available all year round. Another type of occational market segments are people preparing for their wedding or a funeral, occasions that only occurs a few times in a persons lifetime but happens so often in a large population that it can be considered a market segment.

(f) Benefits

Segmentation takes place according to benefits sought by the consumer or which the product/service can provide.

(g) Market Segmentation Examples

Segmenting business markets is essentially the same as segmenting consumer markets. (Also review examples for segmenting consumer markets.) The key difference is that you need to consider more business-oriented segmentation bases. To help explain this concept further, let's look at a couple of examples of business market segmentation. The first is for an IT firm that produces accounting software for businesses. The following diagram outlines a possible segmentation tree for them.

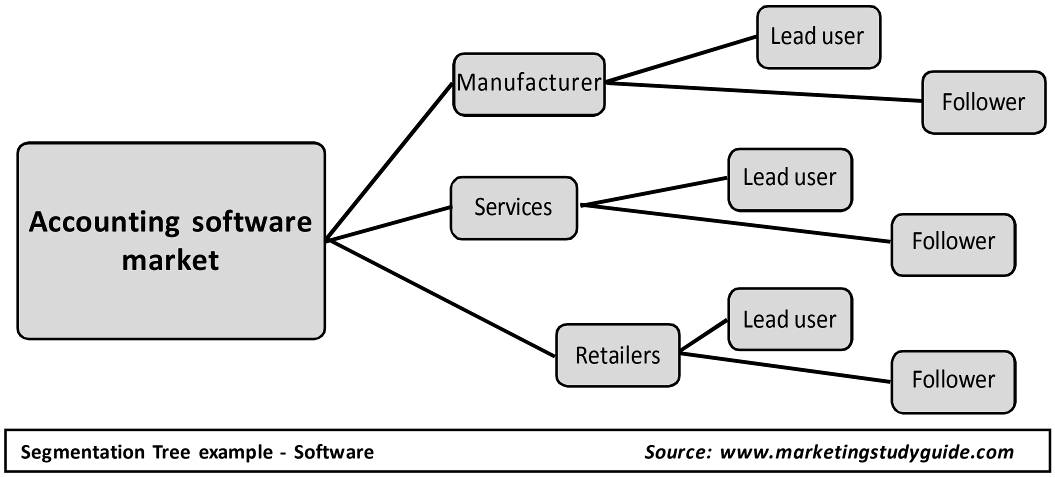


Fig. 9.1 : Accounting Software Market

In this business market segmentation example, the firm has used two segmentation variables to construct six market segments. The first variable used is a basic business description, splitting the market into the broad categories of manufacturing, services, and retailing. Then the firm has applied a cultural variable and considered whether the potential customers tend to adopt new products (in this case, major accounting software) early or late.

Let's look at one more business segmentation example, this time we will use a manufacturer of tomato paste that is suitable for use as a pizza topping. Here is a possible segmentation approach for this firm:

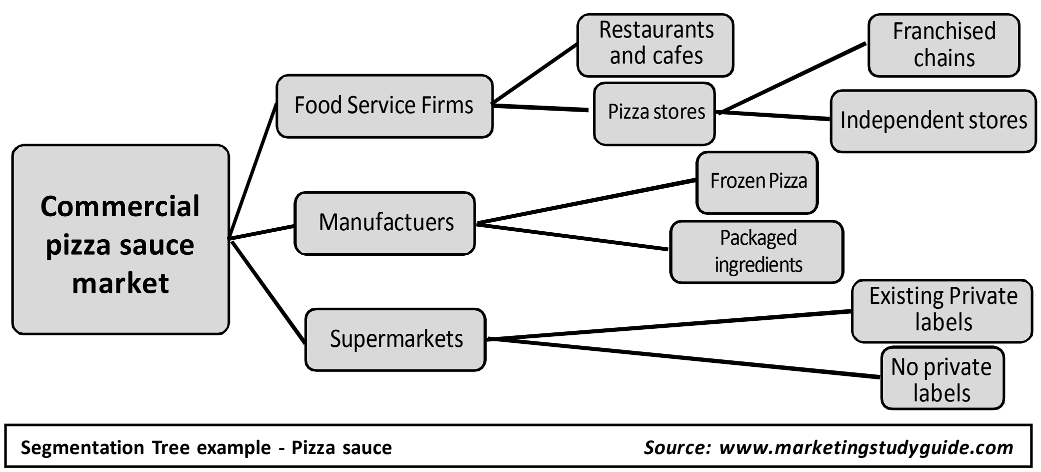


Fig. 9.2 : Commercial pizza sauce market

In this example, a variety of segmentation variables have been used in order to construct an interesting definition of market segments. The first variable considered is a business description, which broadly splits the potential market into food service, manufacturing, and supermarkets. Then, for each broad group, a different variable has been injected. For instance, food service was then further split by business description (restaurant/café or pizza outlet) and then by operating practice (whether or not they are a franchised operation).

Manufacturers are further defined by whether they use pizza sauce as a key ingredient (say for frozen pizza) or may use this style of sauce in other products (frozen or microwavable pasta for example). And finally supermarkets were further defined by whether or not they already sell a private label pizza sauce through their stores.

9.6 SEGMENTING BUSINESS MARKETS

Many firms will have business target markets in addition to consumer target markets. For example, consider a bank or an airline. As well as targeting individual consumers, a key part of their marketing efforts (and their profitability) will be obtained from business markets. There are some organizations that only pursue business markets (such as consulting firms), but generally most firms will at least consider targeting both individual consumers and businesses.

The approach to business market segmentation is conceptually similar tothe approach for consumer markets. As we know, while business markets have less potential customers (as opposed to consumer markets), B2B firms still need to be selective when determining their strategic approach to the market. This is because it is common for a B2B fiml to have substantial investment costs and will often need to implement labor-intensive promotional strategies.

Why do firms need to segment business markets?

This is a good question, particularly as business markets have a much smaller number of potential customers, as opposed to some very large consumer numbers. However, firms that market to other businesses will typically have a smaller number of customers. These customers are, as a result, more important to them on an individual basis. so careful customer selection becomes more critical.

In addition, the effectiveness of promotional methods often differs in B2B markets. For instance, the expensive and time-consuming process of personal selling is commonly used in business markets. Some complex or expensive products may have a sales lead-time of several years, which means a team of sales people may easily invest 100s ofhours in gaining a sale. Therefore, getting the target market right at the start of the process is also important.

9.7 SUMMARY

While there may be theoretically 'ideal' market segments, in reality every organization engaged in a market will develop different ways of imagining market segments, and create product differentiation strategies to exploit these segments. Successful market segmentation and corresponding product differentiation strategy can give a firm a commercial advantage, due to the more effective match between target customer and product.

9.8 GLOSSARY

1. **Market Segmentation:** The division of a market using a strategy that's directed at gaining a major portion of sales within a subgroup in a category rather than gaining a more limited share of purchases by all category users.

2. **Market Share:** The percentage of a product category's sales in relation to the entire market in terms of dollars or units that's obtained by a brand, line, or company.

3. **Target Audience:** A specified audience or demographic group for which an advertising message is designed.

9.9 SELF ASSESSMENT QUESTIONS

Q1. Discuss the concept of Market segmentation. When is it done and why?

____

____

____

Q2. What are the benefit of Acgmenting Consumers and Business Markets?

____

____

____

9.10 LESSON END EXERCISES

Fill in the Blanks

1. STP stands for ______
2. The basis for market segmentation are_____________

9.11 SUGGESTED READINGS

- Strategic Marketing (McGraw-Hill/Irwin Series in Marketing) by David Cravins
- Strategic Management and Business Policy by Azhar Kazmi

CONSUMERS, MARKETS & MARKET POSITIONING

Lesson No. 10 **Unit-II**

Semester-II **M.Com-C254**

TARGETING, POSITIONING AND ANALYSING THE COMPETITORS

STRUCTURE

10.1 INTRODUCTION

Competitor analysis in marketing and strategic management is an assessment of the strengths and weaknesses of current and potential competitors. This analysis provides both an offensive and defensive strategic context to identify opportunities and threats. Profiling coalesces all of the relevant sources of competitor analysis into one framework in the support of efficient and effective strategy formulation, implementation, monitoring and adjustment.

10.2 OBJECTIVES

After reading this unit, you should be able to:

1. Understand Competitor analysis.
2. Understand the Competitor Strategies.
3. Analyse the Strategies for Market Leaders.
4. Explain Michael Porter's Five Forces Model.

10.3 TARGETING

Targeting refers to a concept in marketing which helps the marketers to divide the market into small units comprising of like minded people. Such segmentation helps the marketers to design specific strategies and techniques to promote a product amongst its target market. A target market refers to a group of individuals who are inclined towards similar products and respond to similar marketing techniques and promotional schemes.Kellogg's K Special mainly targets individuals who want to cut down on their calorie intake. The target market in such a case would be individuals who are obese. The strategies designed to promote K Special would not be the same in case of any other brand say Complan or Boost which majorly cater to teenagers and kids to help them in their overall development. The target market for Kellogg's K Special would absolutely be different from Boost or Complan.The target market for Zodiac Clothing Company Limited or Louis Philippe would be the office goers whereas the target market for Levi's would be the school and college kids. The target market for Cat moss or Giny and Jony would be kids.In simpler words, target market consists of like-minded individuals for whom an organization can afford to have similar strategies, promotional schemes and advertisements to entice them and prompt them to purchase the product. Once a company decides on its target audience, it implements various promotional strategies to make a brand popular amongst them.

Basis of Target Marketing

1. Age
2. Gender
3. Interests
4. Geographic location
5. Need
6. Occupation

Need of Target Marketing

1. Organizations can use similar kind of strategies to promote their products within a target market.
2. They can adopt a more focussed approach in case of target marketing. They know their customers well and thus can reach out to their target audience in the most effective way.

How to create Target Market

1. The organization must first decide who all individuals would fit into a particular segment. A male and a female can't be kept in the same segment. The first and the foremost step is to decide on the target market.
2. The next step is to identify need and preference of the target market. It is essential to find out what the target market expects from the product.
3. Once the target market is decided, organizations can decide on the various strategies helpful to promote their product.

10.3.1 Target Market Selection

Target market represents a group of individuals who have similar needs, perceptions and interests. They show inclination towards similar brands and respond equally to market fluctuations.Individuals who think on the same lines and have similar preferences form the target audience. Target market includes individuals who have almost similar expectations from the organizations or marketers.Obese individuals all across the globe look forward to cutting down their calorie intake. Marketers understood their need and came up with Kellogg's K Special which promises to reduce weight in just two weeks. The target market for Kellogg's K Special diet would include obese individuals.Individuals who sweat more would be more interested in buying perfumes and deodorants with a strong and lasting fragrance.

How to select the Target Market?

Marketers must understand the needs and expectations of the individuals to create its target market. The target audience must have similar needs, interests and expectations. Similar products and brands should entice the individuals comprising the target market. Same taglines and advertisements attract the attention of the target audience and prompt them to buy.

To select a target market, it is essential for the organizations to study the following factors:

1. Understand the lifestyle of the consumers
2. Age group of the individuals
3. Income of the consumers
4. Spending capacity of the consumers
5. Education and Profession of the people
6. Gender
7. Mentality and thought process of the consumers
8. Social Status
9. Kind of environment individuals are exposed to

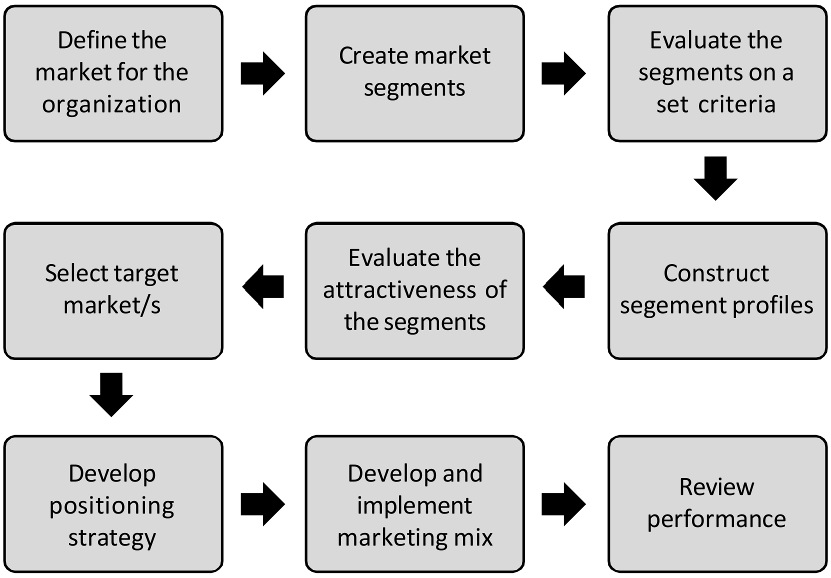
10.3.2 Evaluating Target Markets

The selection of target markets involves the examination of various aspects and measures of a market segment in comparison to the firm's goals and resources. Typically the firm assesses whether this particular target market logically fits with the firm's strategic direction, whether it is the best use of its resources (opportunity cost) and to what degree with a firm be able to successfully compete in the segment.

Target market selection is a very important decision for an organization as it is an integral part of their marketing strategy. As consequence, firms will typically adopt a fairly analytical approach to target market selection and will usually use to set criteria to evaluate and assess each market.

Target Market Selection Process

As can be seen in the following model of the full STP (segmentation, targeting and positioning) process, the selection of target markets occurs after a number of important steps. Firstly the organization defines the product/market that they are interested in, they then group consumers into different market segments using a variety of segmentation bases/variables. After the segments have been validated, segment profiles are developed. Then, using the information in the segment profile the target potential target markets are evaluated and selected, most likely by using an established model or other set of minimum requirements.



The full market segmentation process *Source: www.marketingstudyguide.com*

Fig. 10.5

10.3.3 Main Evaluation Criteria for Target Markets

The following table outlines the main factors that are considered when evaluating potential target markets. It is likely that many organizations will have slight variations to these factors, but the table provides a good generic guide to the key issues.

Assessment	What to consider?	What the firm is seeking ?
Factor		
Segment size	What is the size of the segment (mainly in terms of unit and revenue sales)? And is this substantial enough for the firm to consider entering?	Each firm is likely to have minimum size requirements for a market segment to be considered financially viable. Obviously larger firms have higher requirements.
Segment growth rate	At what rate is the segment growing (or perhaps declining)? What is its future outlook?	Segments with strong growth rates are more attractive as firms can gain market share from primary demand (as opposed to needing to win business from established competitors).
Profit margings	Is this a high profit margin segment or one that is price competitive?	Pursuing new target markets typically requires significant marketing investment, so target markets with higher profit margins are always more attractive.
Structural Attractiveness		
Competitors	How dominant are the established competitors? What degree of competitive rivalry exists? Are there significant indirect competitors (or close substitute products)?	Generally firms do not want to compete in markets where there are dominant market leaders, as they tend to be quite aggressive to new competitors. Therefore, target markets with a fragmented competition position are often preferred. Obviously the lower the level of competitive rivalry the better with limited in direct

		competition.Note: Porter's five forces model could be used to assist this style of analysis.
Distribution channels	How easy would it be to gain access to the appropriate distribution channels? What level of new investment would be required in this regard?	Strong relationships between the current firms in the distribution channel would be of concern. The ability to establish suitable channel relationships needs to be evident.
Strategic Direction		
Strategy	How well does the proposed target market fit with the firm's strategic direction and growth goals?	As part of the firm's mission and strategy statement, a clear direction of the future of the organization is generally understood and planned out. Therefore, the target market needs to contribute to the firm's strategic future.
Goals	What does the firm have high or low growth expectations	The firms with higher growth goals are more likely to adopt a multiple target market strategy and will, therefore, be more willing to enter new markets.
Marketing Expertise		
Resources	Does the firm have the financial position and staff resources to successfully enter in this segment?	Firms seek target markets where they can enter with a comfortable level of investment, in terms of: financial investment, staff time, and the potential disruption to the balance of their business.

Capability	Does the firm have the capability to develop appropriate products in a supportive marketing mix	Firms will naturally seek target markets where they can leverage their existing skills, capabilities, and technologies.Target markets that require the firm to develop new expertise are generally best avoided.
Role of brand	Would the firm be required to create a new brand, or could an existing brand be leveraged into the new target market, or is brand relatively unimportant?	Establishing a new brand requires time and money, so that requirement reduces the attractiveness of a segment. As does the risk to a brand of leveraging in into a lower status segment, such as when targeting budget conscious consumers.
Opportunity Cost		
Growth options	What is a range of other opportunities available for growth to the firm	Market development (new target markets) is simply one growth. An organization could also consider market penetration, product development, and even diversification or acquisition. Therefore, given the growth choices available, is the new target market the best option at this time?

Table 10.1

10.4 POSITIONING

Positioning is the final main phase of the overall STP process (which stands for segmentation, targeting and positioning). Positioning is typically more important in cluttered and competitive markets, particularly for low-involvement purchase decisions.

10.4.1 Process of Positioning

The process of creating an image of a product in the minds of the consumers is called as positioning. Positioning helps to create first impression of brands in the minds of target audience. In simpler words positioning helps in creating a perception of a product or service amongst the consumers.

Example

The brand "Bisleri" stands for purity.
The brand "Ceat Tyre" stands for better grip.

10.4.2 Steps of Product Positioning

Marketers with the positioning process try to create a unique identity of a product amongst the customers.

1. **Know your Target Audience Well**

It is essential for the marketers to first identify the target audience and then understand their needs and preferences. Every individual has varied interests, needs and preferences. No two individuals can think on the same lines. The products must fulfil the demands of the individual.

2. **Identify the Product Features**

The marketers themselves must be well aware of the features and benefits of the products. It is rightly said you can't sell something unless and until you yourself are convinced of it.A marketer selling Nokia phones should himself also use a Nokia handset for the customers to believe him.

3. **Unique Selling Propositions**

Every product should have USPs; at least some features which are unique. The organizations must create USPs of their brands and effectively communicate the same to the target audience. The marketers must themselves know what best their product can do. Find out how the products can be useful to the end-users ?

Why do people use “Anti Dandruff Shampoo?”

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

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

USP of a Nokia Handset - Better battery backup.

USP of Horlicks Foodies - Healthy snack

Communicate the USPs to the target audience through effective ways of advertising. Use banners, slogans, inserts and hoardings. Let individuals know what the brand offers for them to decide what is best for them.

4. Know Your Competitors

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

5. Ways to Promote Brands

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

6. Maintain the position of the brand

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

10.4.3 Positioning Categories

Brands/products can be positioned in many different ways in the marketplace. However, there are several major categories of positioning approaches, which will help us understand the range of positioning options available. The major positioning categories include:

1. positioning by product attribute (product feature and/or benefit),
2. positioning by user,
3. positioning by product class,
4. positioning versus competition,
5. positioning by use/application, and
6. positioning by quality or value.

Main Categories of positioning

POSITIONING CATEGORY	***DESCRIPTION***
By product attribute	A product attribute is a specific feature or benefit of the product. Positioning in this way focuses on one or two of the product's best features/benefits, relative to the competitive offerings.
By user	This positioning approach highlights the user (the ideal or representative target consumer) and suggests that the product is the ideal solution for that type of person and may even contribute to their social self-identity.

By product class	This positioning strategy tends to take a leadership position in the overall market. Statements with the general message of "we are the best in our field" are common.
Against competition	With this approach the firm would directly compare (or sometimes just imply), a comparison against certain well-known competitors (but not generally not the whole product class as above).
By use/application	With this approach, the product/brand is positioned in terms of how it is used in the market by consumers, indicating that the product is the best solution for that particular task/use.
By quality or value	Some firms will position products based on relative high quality, or based on the claim that they represent significant value.
By using a combination of the above options	Some products/brands are positioned using a combination of the above positioning options. However, care needs to be taken not to clutter and confuse the message by trying to connect with too many competitive advantages.

Table 10.2

Which positioning approach to use?

One of the key goals of positioning is to be able to enter an existing competitive market, by highlighting some unique features, benefits, and advantages to the end-consumer, with the goal of winning market share (often from selective demand). With this task in mind, the following table of questions can act as a guide to the selection of an appropriate positioning statement.

Area to Consider	***Questions to Ask***
Market gaps	Where are their gaps in the target market? Why does the gap exist? Can we fill the gap?
Substance/support	Do we have the capability to deliver on this positioning promise? Can we really produce high quality products or

	compete on price? How we will compare to our competition when we get to market?
Market need	Would this positioning space appeal to the target market? Which features/benefits are of most interest to target market?
Competitive barrier	Will this be a long-term positioning? How easily could this position be duplicated by our competitors?
Profitable	What level of sales/profits is likely to flow from this positioning? Can we develop a supportive marketing mix on a cost-effective basis?
Communication	Is the positioning statement easy to communicate via media? Will it be simply understood by the target market?

Table. 10.3

10.5 ANALYZING COMPETITORS

Competitor analysis is an essential component of corporate strategy. It is argued that most firms do not conduct this type of analysis systematically enough. Instead, many enterprises operate on what is called "informal impressions, conjectures, and intuition gained through the titbits of information about competitors every manager continually receives." As a result, traditional environmental scanning places many firms at risk of dangerous competitive blind spots due to a lack of robust competitor analysis. Organizations must operate within a competitive industry environment. They do not exist in vacuum. Analyzing organization's competitors helps an organization to discover its weaknesses, to identify opportunities for and threats to the organization from the industrial environment. While formulating an organization's strategy, managers must consider the strategies of organization's competitors. Competitor analysis is a driver of an organization's strategy and effects on how firms act or react in their sectors. The organization does a competitor analysis to measure / assess its standing amongst the competitors.

Competitor analysis begins with identifying present as well as potential competitors. It portrays an essential appendage to conduct an industry analysis. An industry analysis gives information regarding probable sources of competition (including all the possible strategic actions and reactions and effects on profitability for all the organizations competing in the industry). However, a well-thought competitor analysis permits an organization to concentrate on those organizations with which it will be in direct competition, and it is especially important when an organization faces a few potential competitors.

Michael Porter in Porter's Five Forces Model has assumed that the competitive environment within an industry depends on five forces- Threat of new potential entrants, Threat of substitute product/services, bargaining power of suppliers, bargaining power of buyers and rivalry among current competitors. These five forces should be used as a conceptual background for identifying an organization's competitive strengths and weaknesses and threats to and opportunities for the organization from it's competitive environment.

The main objectives of doing competitor analysis can be summarized as follows:

1. To study the market;
2. To predict and forecast organization's demand and supply;
3. To formulate strategy;
4. To increase the market share;
5. To study the market trend and pattern;
6. To develop strategy for organizational growth;
7. When the organization is planning for the diversification and expansion plan;
8. To study forthcoming trends in the industry;
9. Understanding the current strategy strengths and weaknesses of a competitor can suggest opportunities and threats that will merit a response;

10. Insight into future competitor strategies may help in predicting upcoming threats and opportunities.

Competitors should be analyzed along various dimensions such as their size, growth and profitability, reputation, objectives, culture, cost structure, strengths and weaknesses, business strategies, exit barriers, etc**.**

External Factors :

(a) The Advantages of Competitive Analysis in Strategic Planning**:**

Strategic planners consider external factors, such as the competitive environment, in addition to internal factors when crafting strategic plans. Competitive analysis involves taking stock of the number and nature of competitors presenting a direct or indirect threat to a business. Competitive analysis can provide aspiring entrepreneurs with a clearer understanding of the marketplace conditions in an industry they are considering breaking into, or help established businesses refine their strategic directions. Understanding the advantages of competitive analysis in strategic planning can take your strategic plans to the next level.

(b) Market Gaps

Competitive analysis allows strategic planners to develop matrixes for spotting unserved or underserved gaps in the market. A competitor map is a strategic planning tool that lays out competitors in terms of their unique service models for identifying where they fit on a matrix with extremes ranging from high price to low price, high quality to low quality and high customization to low customization. A competitor map may reveal, for example, that most competitors in the local area charge premium prices for higher quality products, while the bargain segment of the market remains underserved. Geographic competitor maps can be helpful when looking for market gaps for businesses like restaurants, retail stores or other brick-and-mortar establishments. A geographic map of restaurant competitors, for example, may reveal that several square miles of the city do not have local casual dining establishments but are well-stocked with fast-food outlets.

(c) Product Development

Direct competitors in rapidly developing industries, especially technology, engage in a continual race to develop new blockbuster products. In these highly competitive industries, companies can gain a tremendous advantage by learning what their competitors are developing or improving for future product releases. Knowing the directions competitors plan to take for their product lines can help a company develop products that trump competitors in terms of price, functionality or quality. Be careful not to cross legal boundaries into the world of industrial espionage; there are legal and safe ways to stay alerted to competitors' new product developments without prying into private information.

(d) Market Trends

Competitive analysis can reveal broad trends in the marketplace, again providing the advantage of being able to spot opportunities for differentiating your products and services. Sometimes going against the grain in an industry can attract a small but highly loyal counter-culture market segment. A small record label, for example, may discover that every single one of its competitors has switched to exclusively releasing music digitally and on CDs, which could open up a small unserved market for vinyl LPs.

(e) Marketing

Marketers in the 21st century focus on selling "benefits and value" rather than "products and services." Because of this, staying on top of competitors' marketing strategies can provide the same advantages as analyzing their product development initiatives. What consumers think they are buying can be more important than what they are actually buying, and it is advantageous to know what consumers think about your competitors' brands. Consider the case of a software developer. A software developer may know what products his competitors are selling, but it would be useful for him to know that one competitor is marketing products touted as the "easiest to use" in the market. The developer could counter this marketing tactic by revamping his own software's user interfaces and giving out free trials to prove his products are actually more user-friendly.

10.5.1 Competitor Analysis

Competition refers to rivalry among various firms operating in a particular market that satisfy the same customer needs. The industry structure affects long run profitability. Therefore, competitors should be understood and monitored. Their actions can spoil an otherwise attractive industry, their weaknesses can be a target for exploitation and their response to a firm's marketing initiatives can have impact on its success. Competitive information can be obtained from marketing research surveys, recruiting competitors' employees (sometimes interviewing them is sufficient), secondary sources (trade magazines, distributors, stripping down competitors products and gathering competitors' sales literature).

A company needs to answer five key questions :

(i) Who are the competitiors?

Competitive myopia prevails which is reflected in a narrow definition of competition resulting in too restricted a view of which companies are in competition. Only those companies who are producing technically similar products are considered to be the competition (paint companies). This ignores customers' purchasing substitute products that perform similar functions (polyurethane varnish firms), and those that solve the same problem or eliminate it in a dissimilar manner (PYC double glazing company). The actions of all these types of competitors can affect the performance of the firm and therefore need to be monitored. Their responses also need to be assessed as they will determine the outcome of any competitive move that the firm may wish to make.

The environment needs to be scanned for potential entrants into the industry. These can take two forms: Entrants with technically similar products and those invading the market with substitutes. Companies with similar core competencies to present incumbents may pose a threat of entering with technically similar products. The source of companies entering with substitute products may be difficult to locate. A technological breakthrough may transform the industry by rendering the old product obsolete. In such instances it is difficult to locate the source of the substitute product in advance.

(ii) What are their strengths and weaknesses?

A precise understanding of competitor strengths and weaknesses is an important prerequisite of developing competitor strategy. In particular, it locates areas of competitive vulnerability. Success is achieved when strengths ofthe firm are concentrated against the competitors' weakness Internal, market and Customer information should be gathered. Financial data concerning profitability, profit margins, sales and investment levels, market data relating to price levels, market share and distribution channels used, and customer data concerning awareness of brand names and perceptions of brand and company image, product and service quality and selling ability may be relevant. Management needs to decide the extent to which each element of information is worth pursuing. The process of data gathering needs to be managed so that information is available to compare our company with its chief competitors on the key factors for Success in the industry.

Three Stage Process:

1. **Identify key factors for Success in the industry.** This should be restricted to six to eight factors, otherwise analysis becomes too diffuses There is some managerial judgment in their identification. The key success factors may be functional (financial strength or flexible production), Or generic (ability to respond quickly to Customer needs, capability to provide after sales service). Since these factors are critical for success, they should be used to compare the company with its competitors.

2. **Rate one's company and competitors on each key success factor using a rating scale.** For instance, out of 5, how may points would accrue to one's own company and competitors on parameters such as innovativeness, financial strength, product quality etc.

3. **Consumer implications for competitive strategy:** It is important to judge the implications of each of the key Succus factors on customer perceptions. For instance, how can the financial strength of a Company be translated into better value delivery for customers? Would it translate into lower prices, hiring more competent personnel or improving technology to serve customers better, or improving product quality or introduce innovations?

(iii) What are the strategic objectives and thrusts of competiors?

Companies may decide to build, hold or harvest products and SBUs. A build objective is concerned with increasing sales and market share, a hold objective suggests maintaining sales and market share, and harve objective is followed when emphasis is on maximizing short-term cash flow through slashing expenditure and raising prices whenever possible. It is useful to know what strategic objectives are being pursued by competitors because their response pattern depends on objectives. If the firm is considering building market share of the product by cutting price, a competitor who is also building is almost certain to follow the price cut. The competitor who is content to hold market share is also likely to respond, but a company following a harvest objective is much less likely to reduce price because it is more concerned with profit margins than unit sales.

If the firm is considering a price rise, a competitor pursuing a build objective is not likely to follow. The price of a product subject to hold objective is now likely to rise in line with the increase, while a company using harvest objective will certainly take the opportunity to raise its products' price, may be more than the firm that initiated the price increase.

Knowing competitor's strategic objectives is useful in predicting their likely strategies. A build objective is likely to be accompanied with aggressive price and promotional moves, a hold objective with competitive stability and a harvest objective with cost oriented rather than marketing oriented strategies.

Strategic thrust refers to the future areas of expansion that a company might contemplate. A company can expand by penetrating existing markets more effectively with current products, launching new products in existing markets or be growing in new markets with existing or new products. Knowing the strategic thrust of competitors can help the company's strategic decision-making. For instance, knowing that the company's competitors are considering expansion in America but not Europe, may make expansion into Europe more attractive strategic option for the company.

(iv) What are their strengths?

Competitor analysis will decide positioning strategy. This involves assessing the competitor's target markets (for various products) and differential advantage. The marketing mix strategies (price levels, media used for promotion and distribution channel) may indicate target markets. Marketing research into customer perceptions can be used to assess relative differential advantage.

Companies and products need to be continuously monitored for changes in positioning strategy.

Strategies can also be defined in terms of competitive scope. Are competitors attempting to service the whole market, a few segments or a particular niche? If the competitor is a niche player, it is likely that it will be content to stay in that segment or use it as a precursor to move into other segments in the future. Japanese companies use small niches as spring boards for market segment expansion. Competitors may be playing the cost leadership game, focusing on cost reducing measures rather than expensive product development and promotion. If competitors are following this strategy it is more likely that they will be focusing R&D on process, rather than product development in a bid to reduce manufacturing

(v) What are their response patterns?

A major objective of competitor analysis is to be able to predict competitor response to market and competitive changes. Their past behaviour is a guide as to what they might do. Market leaders try to control competitor response by retaliatory action. If the leader makes a price move and a competitor undercuts it, then he should be shown that this action had been noticed and will be punished. By punishing competitor moves, market leaders can condition competitors to behave in predicted ways, for instance, by not taking advantage of a price rise by the leader.

The history, traditions and managerial personalities of competitors also have an influence on competitive response. Some markets are characterized by years of competitive stability with little serious strategic challenges to any of the incumbents. This can breed complacency with predictably slow reactions to new challenges. For instance, innovation that offers superior customer value may be dismissed as fad, not worthy of serious attention.

Another situation where competitors are unlikely to respond is where their previous strategies have restricted their scope for retaliation. An example of such a hemmed-in competitor was a major manufacturer of car number plates. A new entrant focused on one geographical base, supplying the same quality product but with an extra discount. The national supplier could not respond, since to give discount in this region would have meant granting the discount nationwide.

A competitor may respond selectively. Because of tradition or beliefs about relative effectiveness of marketing instruments, a competitor may respond to some competitive moves but not others. Extra sales promotion expenditures may be matched but advertising increase may be ignored. Another reason for selective response is varying degree of visibility of marketing actions, Giving extra price discounts may be highly visible but providing distributors with extra support (training, sales literature, loans) may be less discernible.

HLL AND TATA TEA OPPORTUNITIES AND THREATS IN AN INDUSTRY

A CASE STUDY

Most commodities have been enjoying a good growth rate since 1903, but the sale of tea had not really increased. However, the tea business has picked up now. Tea stocks have been doing well on the SSE. The volume of sales at auctions held near tea-growing areas like Kolkata and Guwahati by registered brokerages have been increasing. The auctions account for 60 per cent of tea sales in the country. It is where registered buyers purchase tea from the wholesale market and set benchmark prices for the secondary market. The average auction price too has been rising. Indian Tea Association (ITA) claims that consumption of tea is rising. Another important. indicator is surplus tea. Typically, substantial amounts of tea remain unsold, which are added to the quantity available for sale the following year. From a peak surplus quantity of 116 million kg (mkg) in 1902, it came down to 27 mkg in 1905. There has also been a rise in exports.

However, the Indian tea industry is grappling with the Issue of high cost of production. In Kenya, a major exporter of tea, the cost of production ranges between Rs 60 - 65 *per kg, whereas the cost of production* is *usually above Rs 70 in India. And this is where plantation owners find themselves in a conundrum. They are neither able to enter the profitable branded tea segment, nor are they able to Plough back money to improve margins. Low. export earnings in previous years stifled the efforts of plantation owners to invest in branded tea. And though the prospects of margins and returns are higher in branded tea, the sizeable investments required to market and distribute branded tea makes it difficultfor plantation companies to brand their offering. Branded tea has a growth rate of* 5 *per cent as compared to* 3 *per cent in the case of loose tea. The successful branded side of a tea business usually subsidizes a company's loss-making plantation business. This has been true of HLL, the leader in the branded tea segment with 70,000 tonnes per year, and Tata Tea, the No.2 player with 55,000 tonnes per year. In both cases, the companies took a strategic decision to exit the high-cost plantation business. The initial thought was that an integrated approach Would shave costs, but with the fall in realizations and difficulties in managing plantations, companies felt it prudent to focus on the branded aspect. HLL and Tata tea have sold most of their tea estates. Plantation companies need to get their costs right by combining tea with other agri-businesses. They need to think that they are in agri-business, with afocus on tea.*

Meanwhile, Tata Tea and the Apeejay Group have taken the next step forward by buying tea brands in overseas markets. Tata Tea bought the UK brand Tetley and the US-based Good Earth. Apeejay bought the British brand Typhoo. Tea companies feel the need to move up the value chain and expand globally. Globally, the top three branded players in tea are Unilever, UK- based ABF Twinings and Tata Tea. Yet, together they account for less than 25 *per cent of the market. The rest* is *broken up among small companies across the globe, Posing huge opportunities for consolidation in the branded business.*

There is also a steady worldwide shiftfrom black tea to specialty and ready-to-drink (RTO) teas. Companies like Tata Tea are looking at this segment. The *global tea market is much larger than the Indian market. Tata Tea* is *focusing on North America, a strong green tea market.*

With the Indian tea industry being the oldest in the world, most of its bushes are over 100 years old. The best tea comes from bushes that are 5-50 years old. Nearly 40 per cent of tea bushes in India have crossed the age limit. But replanting them is expensive. The average size of plantations is about 600 acres. Even If a planter wants to replant 3 per cent of this, it would cost him Rs 17 *lakh a year. Nonetheless, the going looks goodfor players whose plantations are better managed. The ones in Assam, whose tea is part of most blends worldwide, are in an advantageous Position. Oarjeeling tea is very niche and caters largely to the export market. Steps taken by the Tea Board and the Union ministry of commerce promise a lot - a government-managed Tea Fundfor ailing plantations. A new tea promotion campaign has been launched that is funded by the Tea Board to help change the profile of tea to a younger and healthier option.*

A competitor may also be completely unpredictable in its response pattern, Sometimes there is a response, sometimes there is not, No factors explain these differences, They appear to be at the whims of management.

10.5.2 Competitive Advantage

The key to superior performance is to gain and hold competitive advantage. Firms can gain a competitive advantage through differentiation of their product offerings which provides superior customer value, or by managing for lowest delivery cost. In most cases, an industry's 'return on investment' leader opts for one of the strategies, while the second placed firm pursues the other.

(a) Competitive Strategies

The two means of competitive advantage oflow cost of delivery and differentiation when combined with competitive scope of activities of broad versus narrow, result in four generic strategies:

1. Differentiation
2. Cost leadership
3. Differentiation focus
4. Cost focus

The differentiation and cost leadership strategies seek competitive advantage in a broad range of market whereas differentiation focus and cost focus strategies are confined to a narrow segment.

(b) Differentiation

Differentiation strategy involves the selection of one or more choice criteria that are used by many buyers in an industry. The firm them uniquely positions itself to meet these criteria. Differentiation strategies are usually associated with a premium price and higher than average costs of industry, since extra value to customers (for instance, higher performance) often raises costs. The aim is to differentiate in a way that leads to a price premium in excess of cost of differentiating. Differentiation gives customers a reason to prefer one product over another and thus is central to market skimming.

(c) Cost Leadership

Cost Leadership Cost leadership involves the achievement oflowest cost position in an industry. Firms market standard products, that are believed to be acceptable to customers, at reasonable prices which gives them above average profits. Some cost leaders discount prices in order to achieve higher sales levels.

(d) Differentiation Focus

A firm aims to differentiate within one or a small number of target market segments. The special needs of the segment means that there is an opportunity to differentiate its product offering from competitors who may be targeting a broader group of customers. When a firm adopts differentiation focus, it must be clear that the needs of the target group differ from the boarder market, and that existing competitors are under performing in the target segment.

(e) Cost Foucs

A firm seeks a cost advantage with one or a small number of target market segments. Services/features may be provided to all segments but in some segments those services/ features may not be needed. For these segments, the company is over performing. By providing a basic product offering, a cost advantage will be gained that may exceed the price discount necessary to sell it.

10.5 .3 Creating A Differential Advantage

Although skills and resources are the sources of competitive advantage, they are translated into a differential advantage only when the customer perceives that the firm is providing value above that of competition.

The creation of differential advantage, then, comes with the marrying of skills and resources with key attributes (choice criteria) that customers are looking for in a product offering.

However it should be recognized that the distinguishing competing attributes (attributes on the basis of which differentiation can be made) in the market are not always the most important ones. For example, if customers were asked to rank safety, punctuality and on-board service in importance when flying, safety would be ranked on top. But when choosing an airline, safety would rank low because most airlines are assumed to be safe. Therefore, airlines look to less important ways of differentiating their offering (on board services). A differential advantage can be created with any aspect of the marketing mix. The key to deciding whether improving an aspect of marketing is worthwhile, is to know if the potential benefit provides value to the customer.

(a) Product

Product performance can be enhanced by such devices as raising speed, comfort, safety levels, capacity and ease of use or improving taste or smell. Durability, reliability, styling, capacity to upgrade, provision of guarantee, giving technical assistance, helping in installation etc. can help in differentiating a product from that of the competitor’s.

(b) Distribution

Wide distribution coverage and careful selection of distributor locations can provide convenient purchasing points for customers. Quick and reliable delivery, providing distribution with support in the form of training and financial help, computerized recording helps in differentiating a company's offerings from those of competitors. Building exclusive channel partnerships and entering into long term contracts with these partners can also prove to be beneficial to the company in getting better customer feedback.

(c) Promotion

A differential advantage can be achieved by the creative use of advertising. Advertising can aid differentiation by creating a stronger brand personality than competitive brands. Using more creative sales promotional methods or simply spending more on sales incentives can give direct added value to customers. By engaging in cooperative promotion with distributors, producers can lower their costs and raise their goodwill. When products are similar, a well-trained sales force can provide superior problem solving skills for their customers. Dual selling whereby a producer provides sales force assistance to distributors can lower latter's cost and increase sales. Fast, accurate quotes can lower customers' costs by making transactions more efficient. Free demonstrations and free trial arrangements can reduce the risk of purchase for customers. Superior complaint handling procedures can lower customer costs by speeding up the process and reduce inconvenience that can accompany it.

(d) Price

Using low price to gain differential advantage can fail unless the firm enj oys cost advantage and has resources to fight a price war. Credit facilities and low interest loans are indirectly low prices. A high price can be used to do premium positioning. Where a brand has distinct product, promotional and distribution advantage, a premium price provides consistency with the marketing mix.

10.5.4 Creating Cost Leadership

Some ofthe major cost drivers that determine the behaviour of costs in the value chain are :-

(a) Economies of Scale

Scale economies can arise from the use of more efficient methods of production at higher volumes. Scale economies also arise from the less than proportional increase in overhead cost as production volume increases. Another scale economy results from the capacity to spread the cost of R&D and promotion to over a greater sales volume. But scale economies do not proceed indefinitely. At some point, diseconomies of scales are likely to arise as size gives rise to complexity and personnel difficulties.

(b) Learning

Costs can fall through effects of leaming. People learn how to assemble more quickly, pack more efficiently. The combined effect of economies of scale and learning as cumulative output increases has been termed the 'experience curve'. This suggests that firms with greater market share will have a cost advantage through the experience curve effect assuming all companies are operating on the same curve. But a move towards a new technology can lower the experience curve effect for companies that adopt such new technologies, allowing them to leap-frog more traditional firms and thereby gain a cost advantage even though their cumulative output may be lower.

(c) Capacity Utilization

Since fixed costs must be paid whether a plant is manufacturing at full or zero capacity, underutilization incurs costs. The effect of underutilized capacity is to push up the cost per unit for production. Therefore, greater capacity utilization ensures lower per unit cost of production.

(d) Linkages

These describe how costs of some activities are affected by the way other activities are performed. For instance, improving quality assurance activities can reduce after sales service costs. Activities of suppliers and distributors are also linked to the activities of a firm and affect costs of a firm. For instance, introduction of JIT delivery system by a supplier reduces inventory costs of the firm. Distributors can influence a firm's physical distribution cots through warehouse location decision. To exploit such linkages, the firm may need considerable bargaining power.

(e) Interrelationships

Sharing costs with other business units is a potential cost driver. Sharing the costs of R&D, transportation, marketing and purchasing lowers costs.

(f) Integration

Both integration and de-integration can affect costs. Owning the mean of physical distribution rather than using outside contracts could lower costs. Ownership may allow a producer to avoid suppliers or customers with sizeable bargaining power. Ownership also increases control, which may allow greater efficiency of distribution. De-integration can lower costs and raise flexibility. By using many small suppliers, a company can be in a powerful position to keep costs low and also maintain a high degree of production flexibility.

(g) Timing

Both first movers and late entrants have opportunities for lowering costs. For first movers, it is usually cheaper to establish a brand name in the minds of customers if there is no competition. They also have prime access to cheap or high quality raw materials and locations. Late entrants to a market have the opportunity to buy the latest technology and avoid high market development costs. They can also avoid costly mistakes made by the pioneer in building a market for the product.

(h) Polley Decisions

Firms have a wide range of discretionary policy decisions that affect costs. Product width, levels of service, extent of diversification, channel decisions etc. have direct impact on costs. Care must be taken not to reduce costs on activities that have a major bearing on customer value.

(i) Locations

The location of plant and warehouses affect costs through different wage, physical distribution and energy costs. Location near customers lowers outbound distributional costs, and location near suppliers reduces inbound distributional costs.

(j) Institutional Factors

These include government regulations, tariffs and local content rules. These are uncontrollable factors for a business, but changes can affect costs. A firm can anticipate such changes by conducting regular checks and follow-ups of various activities in their environment. The firm cannot avoid these event, though they can be better prepared. A well equipped firm in likely to be affected less adversely in an industry as compared to competitions.

News Channels

Cost structure of an industry is witnessing proliferation of new entrants

The past few years have witnessed phenomenal growth in the number of news channels in India. From 11 in 1902, there are 36 news channels today, and many more are in the pipeline.

The chaotic, argumentative nature of Indian democracy is the ideal breeding ground for news channels. In India, there are sub-genres such as crime, Bollywood and night life that have boosted the viewer ship of news channels. It is a pattern followed by news channels in large democracies like the US. But in India, this stretching of news to create genres and sub-genres has been multiplied into dozens of languages and regions. As a result, India is one of the few countries in the world with so *many news channels. More important, it is one of the few markets where most of them make money.*

However, it may not remain so *for long. Advertisers will not support news channels in every conceivable language. The boom may not be sustained, and the bubble may burst soon. The signals of impending trouble have been getting stronger. The share of ad revenue from news channels has been static at 10-11 per cent of the total over the last 4-5 years. But the total revenue is expanding. Of the total TV ad revenues, news channels account for around ten per cent. The problem is* *that news channels have to depend on advertising only for their revenues. With the total ad spending expected to grow at about 12-14 per cent a year; news channels should get around double the amount of revenues by the year 1908.*

Starting a channel costs Rs 50-60 crore. On an average, a channel takes 3-4 years to break even. The post-launch operating expenses are rising exponentially due to marketing and distribution costs, whichform 10-19 per cent of revenues. This includes the substantial carriage fee. The Indian cable pipe, currently the main mode of distribution, can support only 106 channels, while the actual number is much more. So, both small and large players arefinding the carriage fees to multi-system operators and placement fee to cable operators tough to keep up with. Thus, NDTV's profits dipped sharply last year, largely due to carriage fees. The bottomline is that cost- revenue equation of news channels is getting out of hand.

The big question that investors will soon start asking is how they would make up for the initial investment and the operating costs. When the second boom in news channels occurred in 1903, the answer came from the very heterogeneity that networks are now banking on. The first push came with Hindi news channels such as NDTV India and Sahara Samay. Hindi still rules in both reach and advertising. Aaj Tak still reaches five times the number of viewers that its English channel Headlines Today does every week. Then came business channels such as NDTV Profit and CNBC Awaaz, which showed the maximum growth in viewership figures. It is up more than five times in the past four years. This was followed by English and regional channels which went up four times in the same period.

The ad money may not chase all sub-genres with equal fervor. English news channels get a premium while Hindi news channels get volumes, Although a 10-second spot during peak prime time on Aaj Tak costs Rs 22,000 with bonus spots on non-prime time, English news has a premium over Hindi and regional ones. As a result, ad-spend on business channels, most of them English, doubled in 1905 as compared to 1904.

There is only so much slicing by languages and sub-genres possible now. So, how will this latest launch of news channels be supported? The solution is consolidation and diversification. Consolidation is inevitable for sustained growth. As a network of channels is more important and economical than stand-alone channels, consolidation is bound to happen. Global Broadcast News's recent acquisition of 50 per cent stake in Channel 7 shows the way. But the nature and scale of consolidation is debatable. Consolidations and mergers are more likely at a national level than at regional levels. It is not just consolidation between different channels that is going to happen. It will also be consolidation of electronic media, print media and the Internet.

The second solution to the growth problem will be diversification. Even big players will have to find ways to beef up their portfolio and get at other parts of the ad pie within TV. Zee network has launched Zee Business, and plans to provide region-specific news with a Kannada and a Bangia variant. India TV too is looking at a Gujarati news channel. NDTV has also launched a general entertainment and lifestyle channel. Star News launched Star Ananda in Bangia. Others are-looking beyond television, to cell phones and the Internet, by offering news alerts to mobile companies or syndicating content to welisites. Almost every major news broadcaster has a short code. Several are looking at acquisitions. TV 18, which already owns online platforms such as moneycontrol. com, commoditiescontrol. com and poweryourtrade.com, recently bought a 50 per cent stake in jobstreet.com. Thougl/revenuesfrom such activities are still pretty insignificant, around 2-3 per cent, most are betting on it for the future. The 120 million mobile plus Internet audience is already one-third of the cable and satellite audience. In 1905, mobile data services raked in some Rs 2,300 crore in revenues for operators and media companies. So, it makes sensefor news broadcasters to eye a larger share of this revenue. Times Now, for instance, was first launched on the Reliance mobile service giving it instant access to 17 million subscribers. DTH or any other pay TV system could be helpful for news broadcasters, allowing them to launch more specialized news services, like a stock market channel, but will charge a viewership fee. But whether Indians will pay for their new is another *matter.*

10.5.5 Choosing A Competitive Strategy

Success is achieved by choosing a generic strategy and following it. Below average performance is associated with failure to achieve any of these generic strategies. The result is no competitive advantage, a stuck-in-the-middle position that results in lower performance.

Firms need to understand the generic basis of their success and resist temptations to blur their strategies by making inconsistent moves. No frills cost leader should be wary of the pitfalls of moving to a higher cost base. A focus strategy involves limiting sales volume (since the target market is limited). Once domination of a particular target segment has been achieved by the company that has adopted the focus strategy, there may be temptation to move into other segments in order to achieve growth with the same competitive advantage. This can be a mistake if the new segments do not value the firm's competitive advantage in the same way.

In most situations strategies of differentiation and cost leadership are incompatible because resources have to be expended for differentiating a company's offerings. But there are circumstances when both can be achieved simultaneously. A differentiation strategy may lead to market share domination which lowers cost through economies of scale and learning effects. Or a highly differentiated firm can pioneer a major process innovation that significantly reduces manufacturing costs leading a cost leadership position. When differentiation and cost leadership coincide, performance is exceptional, since a premium price can be charged for a low cost product.

10.5.6 Sources of Competitive Advantage

A company has several source of competitive advantage such as R&D, scale of operations. technological superiority, more qualified personnel etc. Companies in the samc industry usually have different sources 0 f competitive advantage, which must provide superior customer value than competition.

1. **Superior skills** are distinctive capabilities of key personnel that set them apart from personnel of competing firms.s For instance, superior selling skills may

result in closer relationships with customers than what competing firms can achieve. Superior quality assurance skills can result in higher and more consistent product quality.

2. **Superior resources** are tangible requirements that enable a firm to exercise its skills. Superior resources may be number of sales people. expenditure on advertising and sales promotion, number of retailers who stock the product (distribution coverage), expenditure on R&D, scale and type of production facilities and financial resources, brand equity etc.

3. **Core competencies:** The distinctive nature of these skills and resources sum to a company's core competencies.

4. **Value chain** is a useful method for locating superior skills and resources.s All firms consist of a set of activities that are conducted to design, manufacture, market, distribute and service its products. The value chain categorizes these into primary and support activities. This enables the sources of costs and differentiation to be understood and located. Primary activities include in-bound physical distribution (warehousing, inventory control), operational (manufacturing), outbound physical distribution (delivery, order processing); marketing and services (installation, repair). Support activities are found within all these primary functions and consist of purchasing, technology, human resource management and the firm's infrastructure. They are not defined within a given primary activity because they can be found in all of them. By examining each value creating activity, the management can look for skills and resources that may form the basis for low cost or differentiated strategy. Linkage between value creating activities should also be examined. For instance, greater coordination between operations and in-bound physical distribution may give reduced costs through lower inventory levels. Value chain analysis can extend to the value chains of suppliers and customers. For instance, lIT can lower inventory costs. By looking at the linkages between a firm's value chain and those of the suppliers and customers, improvement in performance can result that can lower costs or contribute to creation of differential position.

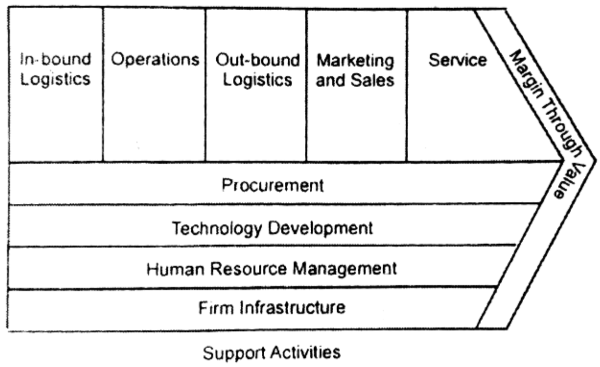


Fig 10.1 The Value Chain

Value chain provides an understanding of the nature and location of skills and resources that provide the basis for competitive advantage. Cost analysis can also be done. Operating costs and assets are assigned to value activities and improvements can be made and cost advantage defended. If a firm discovers that its cost advantage is based on superior production facilities, it should be vigilant in upgrading those facilities to maintain its position against competitors. If differentiation is based upon skills in product design, superiority in this function should be maintained. The identification of specific sources of advantage can lead to their exploitation in new markets where customers place a similar high value on these resultant outcomes.

For a differential advantage to be realized, the firm not only needs to provide customer value, but the value should also be superior to that of competition. Besides an effective marketing mix, companies need to create fast reaction times to changes in marketing trends. Using advanced telecommunications, companies receive sales information from around the world 24 hours a day, every day of the year and react promptly to them.

10.5.7 Sustaining a Competitive Advantage

When searching for ways to achieving a differential advantage, the management must pay close attention to factors that cannot be copied easily by competition. The aim is to achieve a sustainable differential advantage. Competing on low prices can often be copied by competition, implying that any advantage is short-lived, unless the firm has a clear cost leadership. Means of achieving longer term advantage could be patent - protected products, strong brand personality, close relationship with customers, high service levels achieved by well trained personnel, innovative product upgrading, creating high entry barriers (R&D or promotional expenditure).

10.5.8 Erosion of Competitive Advantage

Three mechanisms are at work which can erode a competitive advantage:

1. Technological and environmental changes that create opportunities for competitors by eroding the protective barriers.
2. Competition learns how to imitate sources of competitive advantage.
3. Complacency leads to lack of protection the competitive advantage.

10.5.9 Competitive Behaviour

In many markets, competition is the driving force of change. Without competition, companies satisfies. They provide satisfactory levels of service but fail to excel. Where there is a conflict between improving customer satisfaction and costs, the latter often takes priority since companies feel that such cost cuts do not affect customer services, and it also produces tangible results faster. Competition, then, is good for the customer as it means that companies have to try harder to satisfy customers or lose their customer base.

When developing marketing strategy, companies need to be aware oftheir own strengths and weaknesses, customer needs and the competition. To be successful it is no longer sufficient to be good at satisfying consumer's needs - companies need to be better than competition in doing so.

Competitive behaviour can take five forms :-

(i) Conflict

Conflict is characterized by aggressive competitors where the objective is to drive out competitors from the market place, say by price cutting.

An industry is likely to face a conflict situation if a player/s have extremely high stakes to dominate the industry. Players that have large market shares (dominant players), companies are not diversified (businesses confined to one industry), those that have invested a disproportionate amount of assets in building their business in this industry, are likely to be extremely aggressive. This situation can be aggravated by a threat of strong imminent competition, or a declining market growth.

Some industries are very sensitive to volumes. If a company in such a industry is able to build high market share by grabbing market share of competitors, the cost of production goes down significantly, thus raising the company's profitability. But for most industries, it is not a good idea to drive out competitors. This is specially true for the lead players of the industry. Competitors playa very important role in raising the 'noise levels' (for instance, through advertising) and thus, help in expansion of the category/industry. Since the lead players have more market share than the fringe players, they get more share of the expansion in the category. And good competitors are always a great help in improving the functioning of a company.

(ii) Competition

The objective is not to eliminate competitors but to perform better than them. This may take the form of trying to achieve faster sales, profit growth, larger size or higher market share. Competitive behaviour recognizes limits of aggression. Competitor reaction will be an important consideration when setting strategy. Players will avoid spoiling the underlying industry structure which has an important bearing on overall profitability. For example price wars will be avoided if competitors believe that their long term effect will be to reduce industry profitability .

(iii) Coexistence

Coexistence may occur due to several reasons. It may arise because firms do not recognize their competitors, owing to difficulties in defining market boundaries. For instance, a manufacturer of fountain pens may ignore competition from jewelry companies since its definition may be product based than market centered (gift market). Firms may not recognize other companies which they believe are operating in a separate market segment. Third, firms may choose to acknowledge the territories of their competitors (geography, market segment, product technology) in order to avoid harmful head to head competition.

(iv) Cooperation

This involves the pooling of skills and resources of two or more firms to overcome problems and take advantage of new opportunities. A growing trend is towards strategic alliances where firms join together through ajoint venture, licensing agreements or joint R&D contracts to build a long term competitive advantage. In today's global markets where size is the key source of advantage, cooperation is a major type of competitive behaviour.

(v) Collusion

Firms come to some arrangement that inhibits competition in a market. Prices are fixed in order to discourage customers frem shopping around to find the cheapest deal. Collusion is likely when there are a small number of suppliers in each market, price of product is a small proportion of buyer costs, where cross national trade is restricted by tariff barriers or prohibitive transportation cost and where buyers can pass on high prices to their customers.

10.3.10 Competitive Marketing Strategies

There is need to develop strategies that are more than customer based. The strategy should also focus on attacking and defending against competitors. A company can follow any of the following strategies of build, hold, harvest or divest depending on the competitive conditions prevailing in the market, and its own objectives.

(i) Build objective

Build objective involves increasing the company's market share. Such as strategy makes sense when the market is growing, and the .company has a competitive advantage that it can capitalize on.

(ii) Attractive Conditions

A build objective is suitable in growth markets. Because overall market sales arc growing, all players can achieve higher sales. But a in mature market (no growth), increase in sales of one player has to be at the expense of competition (zero sum game).

In growth markets, market growth will help fill capacity without recourse to aggressive retaliatory action whereas in mature markets capacity utilization will improve only at the expense of competition.

A build objective makes sense in growth markets because new users are being attracted to the product. Since these new users do not have an established brand or supplier loyalty, it is logical to invest resources into attracting them to the company's product offering. Provided the product meets their expectations, trial during growth phase can lead to the building of goodwill and loyalty as market matures.

The build objective is also attractive in mature (no growth) markets where there are exploitable competitive weaknesses. A competitor may not be providing adequate service. Exploitable competitive weakness allow the creation of a differential advantage.

A build objective is also attractive when the company has exploitable corporate strengths. When taking on a market leader, a necessary condition is adequate corporate resources, because the leader will retaliate forcefully.

Finally, the build objective is attractive when experiences curve effects are believed to be strong. By building sales faster than competition, a company can achieve position of cost leader.

(iii) Strategic Focus

A build objective can be achieved by market expansion, winning market share from competition, by mergers or acquisitions, and by forming strategic alliances.

- ***Market expansion:*** This is brought about by creating new users, or new uses, or by increasing frequency of purchase. New users may be found by expanding internationally or by moving to a larger target market. New uses can be promoted. Increasing the frequency of use may rely upon persuasive communication. For example, a shampoo manufacturer can persuade consumers to use more per occasion or encourage more frequent usage of the product.
- ***Winning market share**:* This indicates gaining market share at the expense of competition. Principles of offensive warfare apply in this case.? These are to consider the strengths of the leader's position, to find a weakness in the leader's strength and attack at that point.

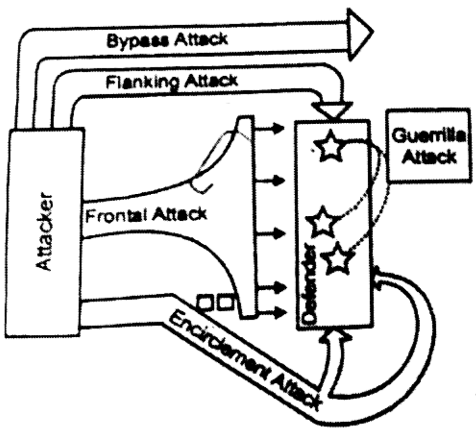


Fig 10.2 : Attack Strategies

(i) **Frontal attack:** This involves the challenger taking on the defender head on. The challenger attacks the main market of the market leader by launching a product with a similar or superior marketing mix. The market leader gets most of its revenues and profits from this market segment, If the defender is a market leader, the success of challenger depends on a clear and sustainable competitive advantage. If the advantage is based on cost leadership, this will support a low price strategy to fight the market leader. A distinct differential advantage possessed by the challenger provides basis for superior customer value by which customers can be enticed. Second, the challenger should match the leader in other activities. Third, success is more likely if there is some restriction on the leader's ability to retaliate. Restrictions include patent protection, pride, technological lead times and costs of retaliation. Where a differential advantage or cost leadership is supported by patent protection, imitation by market leader will be difficult. Pride may hamper retaliation. The market leader refuses to imitate because to do so would admit that the challenger has outsmarted the leader. Where the challenge is based upon a technological innovation, it may take time to put in place the new technology. Retaliation may also be difficult because of the prohibitive costs involved. The risks of damaging brand image and lowering profit margins may also deter the market leader from responding to price challenges.

Finally, the challenger needs adequate resources to withstand the battle that will take place should the leader retaliate. Sustainability is necessary to stretch the leader's capability to respond. The challenger should understand that the entrenched player-will fight hard and long. The challenger should have the will and resources to engage the market leader in long battle for market supremacy.

(ii) **Flanking attack:** Flanking attack involves attacking unguarded or weakly guarded grounds. It means attacking geographical areas or market segments where the defender is poorly represented. The market does not consider the segment lucrative and allows the initial incursion. The attack by Japanese companies in the US car market was a flanking attack. The Japanese attacked the small car segment, from which they expanded into other segments. Mars attacked Unilever's Wall's ice cream by launching a range of premium brands. Unilever's response was to launch a range of premium brands themselves and to defend their shop vigorously. Unilever entered into exclusivity deals with retailers which prevented competitors from selling their products in shops which sold Wall's ice creams, and freezer exclusivity prevented competition from placing their ice cream in Unilever supplied freezer cabinets.

The advantage of a flanking attack is that it does not provoke the same kind of response as a head on confrontation. Since defender is not challenged In its main market segment, there is chance that it will ignore the challenger's-lnlttaf success. If the defender dallies too long, the flank segment can be used as a beach head from which to attack the defender in its major markets.

(iii) **Encirclement attack:** Encirclement attack involves attacking the defender from all sides. Every market segment is hit with every combination of product features and prices to completely encircle the defender. An example is Seiko which produces over 1900 designs of watches for market worldwide. They cover everything the customer might want in terms offashion and features. A variant ofthis approach is to cut off supplie to the defender, by acquiring major supply companies.

(iv) **Bypass attack:** This attack involves circumventing the defender's position. The attacker changes the rules of the game, usually through technologicalleap-frogging. The company can revert to making a simpler product with very low prices or it can incorporate a new technology in its product which enhances the value of the product by a big margin. A bypass attack can also be accomplished through diversification. The attacker can bypass a defender by seeking growth in new markets with new products.

(v) **Guerilla attack:** The attacker hurts the defender by pin-pricks rather than blows. Underdogs can make life uncomfortable for its stronger rivals. Unpredictable price discounts, sales promotions. or heavy advertising in a few segments and regions are some tactics that attackers can use.

Guerilla tactics may be the only feasible option for a small company facing a larger' competitor. Such tactics allow the small company to make its presence felt without the dangers of a full frontal attack. By being unpredictable, the guerilla attack is difficult to defend against. But such tactics run the risk of incurring the wrath of the defender who may choose to retaliate with full frontal attack if sufficiently provoked.

1. *Mergers or acquisitions:* Build objectives can be achieved by merging with, or acquiring competitors. By joining forces, costly marketing battles can be avoided and synergies may be gained in various departments such as purchasing, production. financial, marketing and R&D. A merger can facilitate scale of operations that may be required by the firm to operate as an international force in the market. Mergers and acquisitions give an immediate sales boost and when the players operate in the same market, an increase in market share.

Mergers are risky especially when they involve parties from different countries. Differences in culture, language, business practices and problems associated with restructuring may cause terminal- strains.

2. *Forming strategic alliance:* A company can build through strategic alliances. The aim is to create a long term competitive advantage for the partners, often on a global scale. The partners can collaborate by means of a joint venture (a jointly owned company), licensing agreements, long term purchasing and supply arrangements, or joint R&D programs. Strategic alliances maintain a degree of flexibility not apparent with merger or acquisition. By strategic alliances, partners can share the product development costs and risks.

Through strategic alliances access to new markets and distribution channels can be achieved, time to market reduced, product gaps filled and product lines widened. A strategic, alliance can be the initial stage to a merger or acquisition, allowing each party to assess their abilities to work together effectively.

There should be desire and ability to learn from alliance partners. The risk in any form of strategic alliance is that the alliance can leak technological and core capabilities to the partner, thereby giving away important competitive information. Thus one way transfer of skills should be avoided by building barriers to capability seepage. Core competencies should be protected at all costs. This is easier when a company has few alliances, or when only a limited part of organization is involved in the alliance, or when relationships built up in the alliance are stable.

- ***Hold Objective***

Hold objectives involve defending a company's current position against imminent competition. The principles of defensive warfare are relevant, i.e. strong competitive moves should always be blocked.

- ***Attractive Conditions***

The classic situation where a hold objective makes strategic sense is for a market leader in a mature or declining market. This is the standard cash cow position. By holding on to market leadership, a product should generate positive cash flows which can be used elsewhere in the company to build other products. Holding on to market leadership makes sense because brand leaders enjoy the marketing benefits of bargaining power with distribution channel members and brand image, as well as enjoying experience curve effects that reduce costs. In a declining market, maintaining market leadership may result in the company becoming a virtual monopolist as weaker competitors withdraw. A second situation where the costs of attempting to build sales and market share outweigh the benefits are when there are aggressive rivals who would respond strongly if attacked. It may then be prudent to be content with the status quo and avoid actions that are likely to provoke competition.

- ***Strategic Focus***

A hold objective may be achieved by monitoring competition or by confronting the competition.

1. *Monitoring the competition:* When there is cornpeutive stability, everyone is playing the good competitor's game, content with what they have and no one is willing to destabilize the industry structure. Monitoring is necessary to check that there are no significant changes in competitor behaviour but beyond that no change in strategy is required.
2. *Confronting the competition:* Rivalry is more pronounced among existing players since the product is in the maturity or the decline stage. Strategic action may be required to defend sales and market share from aggre sive challenges.

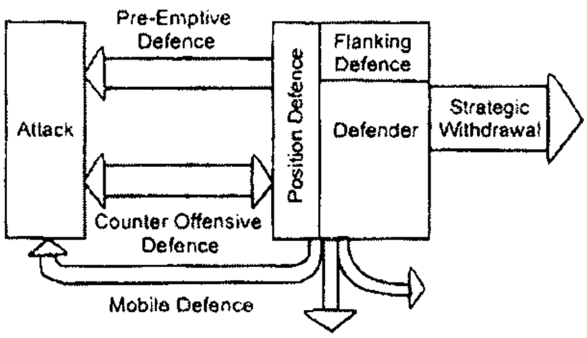


Fig. 10.3 : Defence Strategies

(i) **Position defence:** Position defence involves building fortification around one's existing territory, which translates into building fortification around existing products. The company has a good product which is priced competitively and promoted effectively. This will work if products have differential advantage that are not easily copied, for instance, through patent protection. Brand and reputation may provide strong defence. But this strategy can be dangerous. The customers' needs or the underlying technologies of the product may have changed but the company may refuse to change track fearing that it will damage its current positioning and reputation.

(ii) **Flanking defence:** Flanking defence is defending a hitherto unprotected market segment, because it will provide a beach head for new entrants to gain experience in the market and attack the main market later. It makes sense for a defender to compete by launching a suitable offering in a segment that is unattractive in the short run, if it helps to avoid or slow down competitive inroads. But if this effort is hall hearted, it will not help. Failure to defend an emerging market segment may be dangerous later as competitors will entrench themselves in the unprotected segment.

(iii) **Preemptive defence:** Preemptive defence involves taking proactive steps to project one's they from the imminent attack of a competitor.

Attack first: This involves continuous innovation and new product development. The defender operatively defends its turfby adopting such measures. This may dissuade a would-be attacker.

(iv) **Counter offensive defence:** In head on counterattacks, a defender matches or exceeds what the attacker has done. This may involve heavy price cutting or promotion expenditure. This may be costly but may be justified to deter a persistent attacker. A counterattack may be based on innovation. Hitting the attacker's cash cow strikes at the attacker's resource supply line.

Encircle the attacker: The defender launches brands to compete directly against attacker's brands.

(v) **Mobile defence:** When a company's major market is under threat, a mobile defence makes strategic sense. The two options in a mobile defence are diversification and market broadening. Diversification involves attempts to serve a different market with a different product. The company will have to check if it has the competencies to serve the new market effectively. Market broadening involves broadening the business definition. In the face of declining cinema audiences. film companies redefined their business as entertainment providers rather than film makers and moved into TV, magazines, gambling, theme parks etc.

(vi) **Strategic withdrawal:** The defender defmes its strengths and weaknesses, and then hold on to its strengths while divesting its weak businesses. The company therefore concentrates on its core business. A strategic withdrawal allows a company to focus on its core competencies. This is often required when diversification has resulted in too wide a spread of activities away from what it does well.

- ***Niche Objective***

The company may pursue a small market or even a segment within a segment. Such a strategy may avoid competition with companies which are serving the major market segments. But ifthe niche is successful, large competitors are attracted into the segment

- ***Attractive Conditions***

Niching may be the only feasible objective for companies with small budgets and where strong competitors are dominating the main segment. But there should be pockets within the market that provide the opportunity for profitable operations, and in which competitive advantage can be created. These conditions apply when major players are underserving a particular group of customers as they attempt to meet the needs of majority of customers, and where market niche is too small to be of interest to them.

- ***Strategic Focus***

Strategic Focus A strategic tool for nichers is market segmentation. They should search for underserved segments that may provide profitable opportunities. The choice of the segment will depend upon the attractiveness of the niche and the capability of company to serve it. Focused R&D expenditure gives a small company a chance to make effective use of limited resources. 12 The emphasis should be on creating and sustaining a differential advantage through intimately understanding the needs of the customer group and focusing attention on satisfying those needs better than competition. Niche operators should be wary of pursuing growth strategies by broadening their customer base. This will lead to the blurring of differential advantage upon which their success has been built. Niche companies trade on exclusivity, and to broaden their market base would run the risk of diluting their differential advantage. Nichers consciously think small, eschewing unsustainable growth in favour of profitability. The emphasis is on high margins not pigh volume.

- ***Harvest strategy***

Harvest strategy attempts to improve unit profit margins even if the result is falling sales. Although sales are falling, the aim is to make the company or product extremely profitable in the short term generating large positive cash flows that can be used elsewhere in business.

- ***Attractive Condition***

Also-ran products or companies i,-mature or declining markets are the prime targets for harvest strategies, since they lose money or earn very little and take up valuable management time and resources. Harvesting can move them to a profitable stance, and reduce management attention to minimum. In growth markets harvesting makes sense where the costs of building or holding exceeds the benefits, The problem children or products that have little long term potential can be harvested. Harvesting is attractive if a core of loyal customers exist, which means that sales decline to a stable level. A final attractive condition is where future breadwinners exist in the company and they need resources which will come from harvesting products or businesses within the company. But harvesting a one product company is likely to lead to its demise.

- ***Strategic Focus***

Harvesting involves eliminating R&D and marketing expenditure. Only the very essential expenditures are incurred. The only product change that will be contemplated is reformulation that reduces raw materials and manufacturing costs. Rationalization of product line to one or a few top sellers cuts costs by eliminating expensive product variants. Marketing support is reduced by slashing advertising and promotional budgets while every opportunity is taken to increase price.

Continued harvesting will make the business very weak and eventually unviable. The company has to make a decision as to when it should stop harvesting and sell the business.

CADBURY'S *STRATEGIES OF A MARKET LEADER: -A CASE STUDY*

Being the market leader in chocolates with a 70 *per cent share, Cadbury India has attempted to stretch the boundaries within chocolate confectionery. It has also been adventurous in unleashing a brand new category within chocolate early this year. Introducing the concept of sweet snacking, it launched Cad bury Bytes with the positioning 'Snacking ke meetn"funda.' The product Is a crunchy wafer pillow with a choco-cream centre.*

While the company is sure of its core competencies, there was needfor innovation to deliver double-digit growth. It found out that it was under-represented in the area of snacking on the go *and that there was a needfor a light crunchy snack. While entry into salted snacks was ruled out, sweet snacks were the obvious choice, and Bytes is unique to the chocolate major's Indian portfolio.*

*Getling the right product and packaging was a challenge for the company. It has sub-contracted the product to get the volumes. This was thefirst category anywhere in the world that Cadbury was entering and it did not have the required expertise.*So *the best way was to test-market the product, and has already bagged five per cent of the chocolate market. The company has no apprehensions about cannibalization of its chocolate brands. It believes that while its chocolates are more of Indulgence products, Bytes is about snacking when one is hungry and can be treated as a snack in between meals. Cadbury Bytes is adjacent to chocolates and in the markets that there has been launched, there has been no cannibalization. In the past when Cadbury tried out a biscuit brand, Chocobix, there was fear about some amount of cannibalization. After all, it was simply a biscuit coated In chocolate, and was perceived to be another chocolate brand In Cad bury's portfolio.*

Another thrust area Cadbury has been re-evaluatlng is confectionery. While growth rates in this segment are healthier compared to chocolates, it has always been a difficult market to crack. Cadbury's own experiences have led it to withdraw certain brands. In April 1903, Cadbury India's foreign parent acquired Pfizer's interests in the confectionery business. That included the Warner- Lambert product portfolio, known bestfor Halls, Clorets and Chiclets. The acquisition Is now poised to become a growth area for Cadbury India, whose confectionery brands include Eclairs and Googly. But instead ofselling confectionery through its existing chocolate network, Cad bury has set up an entirely new network. While Halls has been revived with new packaging, there has been no change In the status of its other brands. Chiclets had been discontinued long before it belonged to Cad bury, and Clorets continues to sell with a small franchise. But now Cad bury is looking closely at Warner Lambert's gums portfolio, which is one of the world's largest gum manufacturers. and is considering its viabilityfor the Indian market. Sugarless gum brands such as Dentyne Ice and Trident White have been knownfor their functional benefits worldwide, but steep pricing may be a deterrent to their entry into India. The gum market has not done well in India. But gum has functional properties and Is not merely a breath freshener. The company is now evaluating whether there is a market for them In India.

The confectionery market may be huge in volumes but making money on it remains a tough task with its low margins. Governed by price points, one can sell at only at a Re 1 or 50 paise unit price. The issue is not of garnering volumes but making money out of those volumes. The offer should be one which can get the company both revenues and profits. Having shifted focus from Google, Cad bury been successful with its age-old Edaus which continue to bag almost 50 per cent of the market, and is growing. At the same time the sugar confectionery market is highly competitive and it is all aboutfinding the right consumer proposition and a business model that can deliver both revenues and profit growth.

In spite of the new categories being explored by Cadbury, its star brand remains Cadbury Dairy Milk which continues to corner almost 30 per cent of the chocolate *market. It isfollowed by brands such as 5-star, Perk and Gems. Each of these has been revamped over the years to generate excitement for the category. For instance, recently Perk was rejuvenated as a crunchier wafer while Cad bury Dairy Milk came up as a 'white-and-brown variant in the market. The chocolates category thrives on excitement. The consumer has to given choice and taste which they enjoy. For instance, in beverages, in spite of its maltedfood brand Bournvita, Cad bury decided to introduce a milk additive brand such as Delite, just to give its consumers the real taste of chocolate. Delite has added flavors such as strawberry and mango, and* is *not expected to encroach upon Bournvita's shares. There is still a large section of people who do not add anything to milk. The brands are targeted at children for whom milk is a problem and having an additive will make it a pleasurable experience.*

Making changes In its distribution network, Cadbury split Its sales and marketing team between its mass (confectionery) and core brands. Chocolates needed to get retailed at larger and better outlets while all the products below Rs 3 *needed a different distribution network. Today Cadbury's distribution network reaches out to six lakh outlets eachfor its confectionery and chocolate brands.*

With the worms episode behind it, there are other issues bothering the company, especially that of the rising input costs of cocoa, sugar and milk. Although Cadbury has been able to maintain prices, it is still grappling with the upward trend in prices for its basic raw materials. But its challenge remains that of growing the chocolate market in spite of the odds.

It is never a good idea to persist harvesting for such a long time that no buyer finds anything worthwhile left in the business.

Divest Objectives

A company may decide to divest itself from a SBU or a product. It stems the flow of cash to poorly performing area of its business. Divestment is a decision that is often considered to be the last option by a company. However, the decision to divest must be made carefully, while not only assessing the particular business, but also analyzing its impact on other businesses of the company, and its portfolio.

Attractive Conditions

Divestment is associated with loss making products or businesses that are a drain on both financial and managerial resources, or it is judged that costs of turnaround exceed benefits. Also-tans in the growth phase may be divested sometimes after harvesting has run its full course. But care must be taken to examine interrelationships within corporate portfolios. For instance, if a product is making a loss, it would still be worthwhile supporting, if its removal would adversely affect sales of other products in the company as the less profitable product complements the more profitable product. In some industrial markets, customers expect a supplier to provide a full range of products. Therefore, even though some products may not be profitable, sales ofthe whole range may be affected if the loss making products are dropped.

Strategic Focus

Because of a drain on profits and cash flows, focus should be to get out quickly so as to minimize costs. If a buyer can be found then some return may be realized. If not, the product will be withdrawn.

A company may continue to harvest one of its businesses and sap all vitality from it. Such a business will not be attractive to buyers and will not fetch a good price. A company

10.6 COMPETITIVE STRATEGIES

Competitive strategies are the method by which one can achieve a competitive advantage in the market. There are typically three types of competitive strategies that can be implemented. They are cost leadership, differentiation and a focus strategy. A mixture of two or more of these strategies is also possible depending on your business' objectives and current market position.

Cost leadership

The aim of this strategy is to be a low-cost producer relative to your competitors and is particularly useful in markets where price is a deciding factor. Cost leadership is often achieved by carefully selecting suppliers and production techniques to minimise production, distribution and marketing costs. However you need to be aware of any serious loss in quality that may render low cost ineffective.

Differentiation

A differentiation strategy seeks to develop a competitive advantage through supplying and marketing a product that is in some way different to what the competition is doing. If developed successfully, this strategy can potentially reduce price sensitivity and improve brand loyalty from customers.

Focus strategy

This strategy recognises that marketing to a homogenous customer group may not be that effective a strategy for the product the business is selling. Instead the business focuses its marketing efforts on a different selected market segments. That is, identify the needs, wants and interests of the particular market segments and customise marketing techniques to reflect those characteristics.

10.7 STRATEGIES FOR MARKET LEADERS

In today's world, there is a rise in both, the number of products and the number of competitors in the market. Naturally everyone wants to be ahead of the competition. But is everyone successful? Definitely not. Any market will have one single market leader and not several market leaders. So what is it that market leaders do correctly to ward off their competitors? We look at some strategies which are common for every market leader

1) Covering the market globally and locally – Look at companies like Coca Cola, Microsoft, LG and others which are market leaders in their respective categories. You will find that each one of these companies have products which are widespread and are known across the world. However, the marketing strategy of each one of these products is customized according to the market that they are serving.

Thus if you have a business which has numerous competitors, it is important that you look at market expansion along with localization. Don't stay back from the global market, but more importantly, while serving the global market, do not forget your home ground. The simple supporting statistic for this statement is that each and every developing country, after exploring the global markets, is now looking at their own rural markets which will provide the maximum growth opportunities.

2) Expand Smartly – Expanding just for the sake of growth can become disastrous. All strategists know that keeping an eye on the cash flow of the business is the most important thing for the growth of the organization. If your working capital is being used for expansion, this will affect even the business units which are actually showing growth thereby causing you to cut back on essential plans.

Expansion is necessary for good business but it should not come on the cost of a skewed working capital or cash flow as both can affect your survival.

3) Control costs – Look closely at the accounts of any good company and you will find ways being implemented to manage costs. There is one basic equation for profits. Income less Expenses is equal to profit, Income-expenses = profit. Thus, if you cut down your costs, your expenses automatically come down thereby increasing the overall profit. The important thing here is to know what are the major components in your costing. For example in a product based company, Transportation, Rentals, Labour, distribution margins, etc are some expenses which are costlier even than the raw materials which will be used in making a product. Hence knowing each and every component of costing is crucial.

A perfect example of the importance of cost control can be seen during an economic downturn. Whenever a company faces a tough economic environment, it needs to know where it can control the costs thereby curtailing expenditure. It can be done by basic changes in raw materials, tying up with low cost transporters, transporting in bulk quantity, cutting down on labor and finally cutting down on skilled manpower. These are some methods used by companies to control costs during bad times. However, if proper methods are implemented during good times, the company will have more margins and deeper pockets to phase off the bad times instead of taking drastic measures.

4) Implement good marketing plans – The crux of beating your competitors is to have your own unique position in the mind of the consumers. This position should be highly attractive and profitable. Only then you will gain advantages over time. There needs to be a proper implementation of marketing plans. What should be the message of the company? How to change the message over time to bring more and more customers to your brand? How to alter the marketing so as to expand and gain more market share? What should be the vehicles of marketing communications? How and in which order does the plan need to be implemented? These are some questions which your marketing plan should answer thoroughly.

At this point of time it is very important to take the competitors as a frame of reference and to have a marketing plan which is better than the competitors and helps you in achieving the numbers that you are targeting. The best way to implement a good marketing plan is to do a proper competitive analysis and see where you stand in the curent market. You may not challenge the top competitor in the start. But you can definitely get rid of each competitor one by one by implementing a strong marketing plan and sticking to this strategy. In this case, proper implementation of the marketing plan is the key to marketing success.

5) Get the right people and retain them – In the services industry, you are as good as the talent you have on board. Many software companies keep a part of their margin aside so that they don't have to lose software engineers when one project is complete. These engineers are transferred to another project when the work is complete. A customer service manager would never like to lose their best employee. A CEO will never like to lose his best performing managers. Any company would not like to let go of efficient employees. Your employees and stakeholders are your assets.

There needs to be regular action taken to keep your employees and stakeholders motivated and loyal. Take any company which has a low attrition rate and you will see a company which spends a lot in training and development of its employees. This is because when employees leave a company, they take along a part of the knowledge and experience which they have gained in that company. This knowledge and experience needs to be inculcated in the other employee over time. Thus a lot of time is wasted in training and developing new employees. This is why, the smart companies save time by retaining and motivating their best employees. And this is why they stay ahead of the competition

6) **Focus on your customers** – Several companies, while making profits, forget that the prime reason they are still working is because the customers like their products. The day a company forgets this principal, it is bound to fail. And hence, you need to be the best in this area. Know your customers in and out. Do regular market studies and consumer buying behavior analysis to determine the mindset of the customer. A new technology which was being underestimated by you, but has been implemented by a competitor, can attract your customers attention and take away even your most loyal customers.

Take an example of Facebook and Google (orkut). Google did not even catch up when facebook rapidly expanded to be such a large social network. And by the time google had implemented its own product (google plus), it was too late. The audience was no longer there to notice it. The product too was poor in its implementation. Thus at all times, know what your customers want and also know how the environment is changing and where you are losing your customers. Do not fear to experiment with your product portfolio. You are bound to fail with some products. But as long as you implement strategies with your customers in mind, you will be ahead of the competition.

7) **Be informed** – One of the basics of selling against competition is to know your competitors. Consider the consumer durables segment. There would be 10 different competitors in television and refrigerators segment. Furthermore, each of the competitors will have ten different product lines. They would have high end refrigerators and televisions for the Sec A customers and low end and lesser priced models for the price conscious segment. You need to know your competitors and their product lines to launch product variants of your own. On the other hand, you need to know all the products of all your competitors to launch a product which is unique in the market and has the first mover advantage. Thus information is important.

Let's take the consumer durables example even further. Consumer durables works on a channel sales basis. Thus your channel too needs to be informed of the features of your product. There needs to be regular training to keep the channel in loop of the latest strategy being implemented by the company. Imagine if you were to launch a new product and you are advertising that product through ATL and BTL activities. And if your channel dealers do not have information of the product and they do not have the machine available for immediate delivery. This will cause a huge loss of sales along with expenses incurred due to absence of information and proper communications.

Thus in essence, when customers visit your channel showrooms, your marketing activities are not in sync. Even though you are advertising the products, the products are not available in the market or your channel partners are not capable of selling it. Thus you lose out on sales and the initial rush. On the other hand, your competitor might be smarter and might have implemented a completely new product with altogether different features. Now your product completely fails in the market. This is why information and its dissemination is crucial to beat your competitors.

All the above strategies will be present in top companies across the world. But even if the company is new, and it is planning on expanding your product, these seven factors need to be taken as a reference point to form a successful company.

10.8 MICHAEL PORTER'S FIVE FORCES MODEL

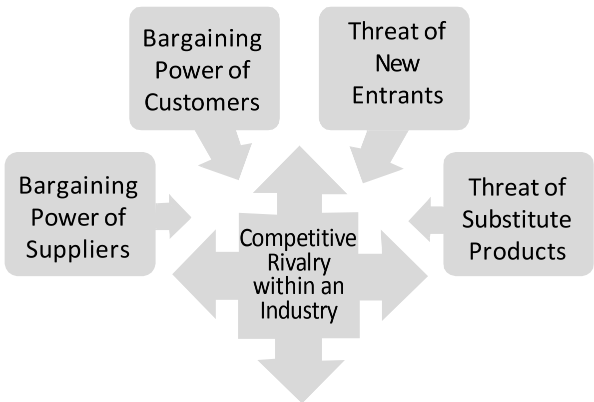


Figure 10.4: A graphical representation of Michael Porter's Five Forces

Michael Porter's five forces analysis is a framework for industry analysis and business strategy development. It draws upon industrial organization (IO) economics to derive five forces that determine the competitive intensity and therefore attractiveness of a market. Attractiveness in this context refers to the overall industry profitability. An "unattractive" industry is one in which the combination of these five forces acts to drive down overall profitability. A very unattractive industry would be one approaching "pure competition", in which available profits for all firms are driven to normal profit. Three of Porter's five forces refer to competition from external sources. The rest two forces are internal threats.

Michael Porter's five forces include - three forces from 'horizontal' competition: the threat of substitute products or services, the threat of established rivals, and the threat of new entrants; and two forces from 'vertical' competition: the bargaining power of suppliers and the bargaining power of customers.

This five forces analysis, is just one part of the complete Porter strategic models. The other elements are the value chain and the generic strategies.

Michael Porter developed his five forces analysis in reaction to the then popular SWOT analysis. Michael Porter's five forces model is based on the Structure-Conduct-Performance paradigm in industrial organizational economics. It has been applied to a diverse range of problems, from helping businesses become more profitable to helping governments stabilize industries.

Michael Porter's famous five forces of competitive position model provides a simple perspective for assessing and analysing the competitive strength and position of a corporation or business organization. Michael Porter's Five Forces model can be used to good analytical effect alongside other models such as the SWOT and PEST analysis tools.

Michael Porter's five forces model provides suggested points under each main heading, by which you can develop a broad and sophisticated analysis of competitive position, as might be used then creating strategy, plans, or making investment decisions about a business or organization.

Michael Porter's five forces

1. Existing competitive rivalry between suppliers
2. Threat of new market entrants
3. Bargaining power of buyers
4. Power of suppliers
5. Threat of substitute products (including technology change)

Intensity of competitive rivalry

For most industries, the intensity of competitive rivalry is the major determinant of the competitiveness of the industry.

1. Sustainable competitive advantage through innovation
2. Competition between online and offline companies
3. Level of advertising expense
4. Powerful competitive strategy
5. Firm concentration ratio

Threat of new entrants

Profitable markets that yield high returns will attract new firms. This results in many new entrants, which eventually will decrease profitability for all firms in the industry. Unless the entry of new firms can be blocked by incumbents, the abnormal profit rate will trend towards zero (perfect competition).

1. The existence of barriers to entry (patents, rights, etc.) The most attractive segment is one in which entry barriers are high and exit barriers are low. Few new firms can enter and non-performing firms can exit easily.
2. Economies of product differences
3. Brand equity

4. Switching costs or sunk costs
5. Capital requirements
6. Access to distribution
7. Customer loyalty to established brands
8. Absolute cost
9. Industry profitability; the more profitable the industry the more attractive it will be to new competitors.

Threat of substitute products or services

The existence of products outside of the realm of the common product boundaries increases the propensity of customers to switch to alternatives. For example, tap water might be considered a substitute for Coke, whereas Pepsi is a competitor's similar product. Increased marketing for drinking tap water might "shrink the pie" for both Coke and Pepsi, whereas increased Pepsi advertising would likely "grow the pie" (increase consumption of all soft drinks), albeit while giving Pepsi a larger slice at Coke's expense. Another example is the substitute of traditional phone with VoIP phone.

1. Buyer propensity to substitute
2. Relative price performance of substitute
3. Buyer switching costs
4. Perceived level of product differentiation
5. Number of substitute products available in the market
6. Ease of substitution. Information-based products are more prone to substitution, as online product can easily replace material product.
7. Substandard product
8. Quality depreciation

Bargaining power of customers (buyers)

The bargaining power of customers is also described as the market of outputs: the ability of customers to put the firm under pressure, which also affects the customer's sensitivity to price changes.

1. Buyer concentration to firm concentration ratio
2. Degree of dependency upon existing channels of distribution
3. Bargaining leverage, particularly in industries with high fixed costs
4. Buyer switching costs relative to firm switching costs
5. Buyer information availability
6. Availability of existing substitute products
7. Buyer price sensitivity
8. Differential advantage (uniqueness) of industry products
9. RFM Analysis

Bargaining power of suppliers

The bargaining power of suppliers is also described as the market of inputs. Suppliers of raw materials, components, labor, and services (such as expertise) to the firm can be a source of power over the firm, when there are few substitutes. Suppliers may refuse to work with the firm, or, e.g., charge excessively high prices for unique resources.

1. Supplier switching costs relative to firm switching costs
2. Degree of differentiation of inputs
3. Impact of inputs on cost or differentiation
4. Presence of substitute inputs
5. Strength of distribution channel
6. Supplier concentration to firm concentration ratio
7. Employee solidarity (e.g. labor unions)
8. Supplier competition - ability to forward vertically integrate and cut out the BUYER

Ex.: If you are making biscuits and there is only one person who sells flour, you have no alternative but to buy it from him.

10.8.1 Usage

Strategy consultants occasionally use Michael Porter's five forces framework when making a qualitative evaluation of a firm's strategic position. However, for most consultants, the framework is only a starting point or "checklist." They might use "Value Chain" afterward. Like all general frameworks, an analysis that uses it to the exclusion of specifics about a particular situation is considered naive.

According to Michael Porter, the five forces model should be used at the line-of-business industry level; it is not designed to be used at the industry group or industry sector level. An industry is defined at a lower, more basic level: a market in which similar or closely related products and/or services are sold to buyers. A firm that competes in a single industry should develop, at a minimum, one five forces analysis for its industry. Porter makes clear that for diversified companies, the first fundamental issue in corporate strategy is the selection of industries (lines of business) in which the company should compete; and each line of business should develop its own, industry-specific, five forces analysis. The average Global 1,000 company competes in approximately 52 industries (lines of business).

Michael Porter is also known for his simple identification of five generic descriptions of industries:

1. Fragmented (eg, shoe repairs, gift shops)
2. Emerging (eg, space travel)
3. Mature (eg, automotive)
4. Declining (eg, solid fuels)
5. Global (eg, micro-processors)

And Porter is also particularly recognised for his competitive 'diamond' model, used for assessing relative competitive strength of nations, and by implication their industries:

1. Factor Conditions: production factors required for a given industry, eg., skilled labour, logistics and infrastructure.

2. Demand Conditions: extent and nature of demand within the nation concerned for the product or service.

3. Related Industries: the existence, extent and international competitive strength of other industries in the nation concerned that support or assist the industry in question.

4. Corporate Strategy, Structure and Rivalry: the conditions in the home market that affect how corporations are created, managed and grown; the idea being that firms that have to fight hard in their home market are more likely to be able to succeed in international markets.

10.8.2 Criticisms

Michael Porter's framework has been challenged by other academics and strategists such as Stewart Neill. Similarly, the likes of ABC, Kevin P. Coyne and Somu Subramaniam have stated that three dubious assumptions underlie the five forces:

1. That buyers, competitors, and suppliers are unrelated and do not interact and collude.

2. That the source of value is structural advantage (creating barriers to entry).

3. That uncertainty is low, allowing participants in a market to plan for and respond to competitive behavior.

Porter indirectly rebutted the assertions of other forces, by referring to innovation, government, and complementary products and services as "factors" that affect the five forces Michael Porter's five forces model.

10.9 SUMMARY

Competitive marketing strategies are strongest either when they position a firm's strengths against competitors' weaknesses or choose positions that pose no threat to competitors. As such, they require that the strategist be as knowledgeable about competitors' strengths and weaknesses as about customers' needs or the firm's own capabilities. This chapter is designed to assist the strategist understand how to gather and analyze information about competitors that is useful in the strategy development process. It discusses the objectives of competitor analysis and proceeds through the processes involved in identifying important competitors and information needs, gathering necessary information, and interpreting this information.

Michael Porter referred to these forces as the micro environment, to contrast it with the more general term macro environment. They consist of those forces close to a company that affect its ability to serve its customers and make a profit. A change in any of the forces normally requires a business unit to re-assess the marketplace given the overall change in industry information. The overall industry attractiveness does not imply that every firm in the industry will return the same profitability. Firms are able to apply their core competencies, business model or network to achieve a profit above the industry average. A clear example of this is the airline industry. As an industry, profitability is low and yet individual companies, by applying unique business models, have been able to make a return in excess of the industry average.

10.10 GLOSSARY

Brand: A kind or variety of something distinguished by some distinctive characteristic; a mark made to identify a kind or variety of something distinguished by some distinctive characteristic

Brand Equity: It refers to the marketing effects or outcomes that increase a product with its brand name compared with those that would accrue if the same product did not have the brand name

Brand Loyalty: A consumer's commitment to repurchase the brand and can be demonstrated by repeated buying of a product or service or other positive behaviors such as word of mouth

Branding: The sum total of a company's value, including products, services, people, advertising, positioning, and culture

SWOT Analysis: A strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or business.

Marketing Strategy: The set of objectives which an organisation allocates to its marketing function in order to support the overall corporate strategy, together with the broad methods chosen to achieve these objectives.

Strategic Marketing: The process of pleasing customers by discovering what they want and making sure you meet their needs.

Target Market: A group of individuals whom collectively are intended recipients of an advertiser's message. It is the particular segment of a total population on which the retailer focuses its merchandising expertise to satisfy that sub market in order to accomplish its profit objectives.

Technology: The purposeful application of scientific knowledge; an environmental force that consists of inventions and innovations from applied scientific and engineering research

Target market identification: The process of using income, demographic, and life style characteristics of a market and census information for small areas to identify the most favorable locations to market a product or service.

Unique Selling Proposition: The unique product benefit that a competitor's product or service can't claim when offered to the prospective customer in an exchange transaction.

Positioning: The creation of an image for a product or service in the minds of customers, both specifically to that item and in relation to competitive offerings.

Potential Market: Set of users who profess some level of interest in a designed market offer.

10.11 SELF ASSESSMENT QUESTIONS

Q1. What do you understand by competitor analysis? How is it done?

____

____

____

Q2. What are the several methods of market entry?

____

____

____

10.12 LESSON END EXERCISE

Fill in the Blanks:

1. The five Force model is given by ___________
2. The full form of SWOT is________________

10.13 SUGGESTED READINGS

- Strategic Marketing (McGraw-Hill/Irwin Series in Marketing) by David Cravins
- Competitive Strategy: Techniques for Analyzing Industries and Competitors by Michael Porter
- Strategic Management and Business Policy. by Azhar Kazmi

PRODUCT DECISIONS, DIFFERENTIATIONS, PACKAGING AND LABELLING

STRUCTURE

11.1 INTRODUCTION

Decisions regarding the product, price, promotion and distribution channels are decisions on the elements of the "marketing mix". It can be mentioned that product decisions are probably the most crucial as the product is the very epitome of marketing planning. Errors in product decisions are legion. These can include the imposition of a global standardised product where it is inapplicable, for example large horsepower tractors may be totally unsuitable for areas where small scale farming exists and where incomes are low; devolving decisions to affiliated countries which may let quality slip; and the attempt to sell products into a country without cognisance of cultural adaptation needs. The decision whether to sell globally standardised or adapted products is too simplistic for today's market place. Many product decisions lie between these two extremes. Cognisance has also to be taken of the stage in the international life cycle, the organisation's own product portfolio, its strengths and weaknesses and its global objectives. Unfortunately, most developing countries are in no position to compete on the world stage with many manufactured value-added products. Quality, or lack of it, is often the major letdown. As indicated earlier, most developing countries are likely to be exporting raw materials or basic and high value agricultural produce for some time to come.

11.2 OBJECTIVES

After reading this unit, you should be able to:

1. **examine** the basic concepts of "the product" and the importance of this concept in marketing
2. **give an understanding** of the features of product design and the factors which shape the "standardization" versus "adaptation" decisions
3. **describe** the production process and how value can be added in the process
4. **describe** the major product strategies.

11.3 MEANING OF PRODUCT

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. As cited earlier, an avocado pear is similar the world over in terms of physical characteristics, but once the label CARMEL, for example, is put on it, the product's physical properties are enhanced by the image CARMEL creates. In "post modernisation" it is increasingly important that the product fulfills the image which the producer is wishing to project. This may involve organisations producing symbolic offerings represented by meaning laden products that chase stimulation-loving consumers who seek experience - producing situations. So, for example, selling mineral water may not be enough. It may have to be "Antarctic" in source, and flavoured. This opens up a wealth of new marketing opportunities for producers.

A product's physical properties are characterised the same the world over. They can be convenience or shopping goods or durables and nondurables; however, one can classify products according to their degree of potential for global marketing:

i) **Local products** - seen as only suitable in one single market.

ii) **International products** - seen as having extension potential into other markets.

iii) **Multinational products** - products adapted to the perceived unique characteristics of national markets.

iv) **Global products** - products designed to meet global segments.

Quality, method of operation or use and maintenance (if necessary) are catchwords in international marketing. A failure to maintain these will lead to consumer dissatisfaction. This is typified by agricultural machinery where the lack of spares and/or foreign exchange can lead to lengthy downtimes. It is becoming increasingly important to maintain quality products based on the ISO 9000 standard, as a prerequisite to export marketing.

Consumer beliefs or perceptions also affect the "world brand" concept. World brands are based on the same strategic principles, same positioning and same marketing mix but there may be changes in message or other image. World brands in agriculture are legion. In fertilizers, brands like Norsk Hydro are universal; in tractors, Massey Ferguson; in soups, Heinz; in tobacco, BAT; in chemicals, Bayer. These world brand names have been built up over the years with great investments in marketing and production. Few world brands, however, have originated from developing countries. This is hardly surprising given the lack of resources. In some markets product saturation has been reached, yet surprisingly the same product may not have reached saturation in other similar markets. Whilst France has long been saturated by avocadoes, the UK market is not yet, hence raising the opportunity to enter deeper into this market.

11.4 PRODUCT DESIGN

Changes in design are largely dictated by whether they would improve the prospects of greater sales, and this, over the accompanying costs. Changes in design are also subject to cultural pressures. The more culture-bound the product is, for example food, the more adaptation is necessary. Most products fall in between the spectrum of "standardisation" to "adaptation" extremes. The application the product is put to also affect the design. In the UK, railway engines were designed from the outset to be sophisticated because of the degree of competition, but in the US this was not the case. In order to burn the abundant wood and move the prairie debris, large smoke stacks and cowcatchers were necessary. In agricultural implements a mechanised cultivator may be a convenience item in a UK garden, but in India and Africa it may be essential equipment. As stated earlier "perceptions" of the product's benefits may also dictate the design. A refrigerator in Africa is a very necessary and functional item, kept in the kitchen or the bar. In Mexico, the same item is a status symbol and, therefore, kept in the living room.

1. Factors encouraging standardisation are:
   i) economies of scale in production and marketing
   ii) consumer mobility - the more consumers travel the more is the demand
   iii) technology
   iv) Image, for example "Japanese", "made in".

The latter can be a factor both to aid or to hinder global marketing development.

Nagashima (1877) found the "made in USA" image has lost ground to the "made in Japan" image. In some cases "foreign made" gives advantage over domestic products. In Zimbabwe one sees many advertisements for "imported", which gives the product advertised a perceived advantage over domestic products. Often a price premium is charged to reinforce the "imported means quality" image. If the foreign source is negative in effect, attempts are made to disguise or hide the fact through, say, packaging or labelling. Mexicans are loathe to take products from Brazil. By putting a "made in elsewhere" label on the product this can be overcome, provided the products are manufactured elsewhere even though its company maybe Brazilian.

2. Factors encouraging adaptation are:

i) **Differing usage conditions** - These may be due to climate, skills, level of literacy, culture or physical conditions. Maize, for example, would never sell in Europe rolled and milled as in Africa. It is only eaten whole, on or off the cob. In Zimbabwe, kapenta fish can be used as a relish, but wilt always be eaten as a "starter" to a meal in the developed countries.

ii) **General market factors** - incomes, tastes etc. Canned asparagus may be very affordable in the developed world, but may not sell well in the developing world.

iii) **Government** - taxation, import quotas, non tariff barriers, labelling, health requirements. Non tariff barriers are an attempt, despite their supposed impartiality, at restricting or eliminating competition. A good example of this is the Florida tomato growers, cited earlier, who successfully got the US Department of Agriculture to issue regulations establishing a minimum size of tomatoes marketed in the United States. The effect of this was to eliminate the Mexican tomato industry which grew a tomato that fell under the minimum size specified. Some non-tariff barriers may be legitimate attempts to protect the consumer, for example the ever stricter restrictions on horticultural produce insecticides and pesticides use may cause African growers a headache, but they are deemed to be for the public good.

iv) **History** - Sometimes, as a result of colonialism, production facilities have been established overseas. Eastern and Southern Africa is littered with examples. In Kenya, the tea industry is a colonial legacy, as is the sugar industry of Zimbabwe and the coffee industry of Malawi. These facilities have long been adapted to local conditions.

v) **Financial considerations -** In order to maximise sales or profits the organisation may have no choice but to adapt its products to local conditions.

vi) **Pressure**- Sometimes, as in the case of the EU, suppliers are forced to adapt to the rules and regulations imposed on them if they wish to enter into the market.

11.5 PRODUCTION DECISIONS

In decisions on producing or providing products and services in the international market it is essential that the production of the product or service is well planned and coordinated, both within and with other functional area of the firm, particularly marketing. For example, in horticulture, it is essential that any supplier or any of his "out grower" (sub-contractor)

Existing sources of supply	**Recommendations for new suppliers, or increased supply**
• Current important suppliers? • Seasonality of supply, start of season, peak season and end of season? • Packaging specifications, weight of produce per packaging unit, type of packaging? • Grading and quality standards? • Prices obtained and net profit returned to farmer, average price, maximum and minimum prices, effect of different quality standards on price? • Problems with existing suppliers and produce? • Volumes sold daily, monthly, annually?	• Best period of supply? • Type and size of packaging material? • Grading and quality standards: *acceptable size ranges? *whether different sized produce should be packed separately or jumble-packed? *state of ripeness and should produce of the same ripeness be packed together? *acceptable level of blemishes? *important appearance characteristics such as colour, variety, shape, presence of stalks, bunch size?

• Popularity trend? • Types of buyers and consumers? • Use of crop? • Factors affecting sales, e.g. weather, special festivals, day of arrival in market? • Is the crop stored; if so where and by whom?	• Budget gross and net prices? • Volumes required? • Frequency of shipment, best day and arrival time on market? • Transport arrangements, e.g. whose responsibility is it to arrange transport? • Storage arrangements, if any? Potential and techniques for developing sales?

Table 11.1

can supply what he says he can. This is especially vital when contracts for supply are finalised, as failure to supply could incur large penalties. The main elements to consider are the production process itself, specifications, culture, the physical product, packaging, labelling, branding, warranty and service.

The key question is, can we ensure continuity of supply? In manufactured products this may include decisions on the type of manufacturing process - artisanal, job, batch, flow line or group technology. However in many agricultural commodities factors like seasonality, perishability and supply and demand have to be taken into consideration. Table 11.1 gives a checklist of questions on product requirements for horticultural products as an example

Table 1 Checklist of questions on product requirements by market

Quantity and quality of horticultural crops are affected by a number of things. These include input supplies (or lack of them), finance and credit availability, variety (choice), sowing dates, product range and investment advice. Many of these items will be catered for in the contract of supply.

1. Specification : Specification is very important in agricultural products. Some markets

will not take produce unless it is within their specification. Specifications are often set by the customer, but agents, standard authorities (like the EU or ITC Geneva) and trade associations can be useful sources. Quality requirements often vary considerably. In the Middle East, red apples are preferred over green apples. In one example French red apples, well boxed, are sold at 55 dinars per box, whilst not so attractive Iranian greens are sold for 28 dinars per box. In export the quality standards are set by the importer. In Africa, Maritim (1891)[2], found, generally, that there are no consistent standards for product quality and grading, making it difficult to do international trade regionally.

2. Culture : Product packaging, labeling, physical characteristics and marketing have to adapt to the cultural requirements when necessary. Religion, values, aesthetics, language and material culture all affect production decisions. Effects of culture on production decisions have been dealt with already in chapter three.

3· Physical product : The physical product is made up of a variety of elements. These elements include the physical product and the subjective image of the product. Consumers are looking for benefits and these must be conveyed in the total product package. Physical characteristics include range, shape, size, color, quality, quantity and compatibility. Subjective attributes are determined by advertising, self image, labelling and packaging. In manufacturing or selling produce, cognisance has to be taken of cost and country legal requirements.

Again a number of these characteristics is governed by the customer or agent. For example, in beef products sold to the EU there are very strict quality requirements to be observed. In fish products, the Japanese demand more "exotic" types than, say, would be sold in the UK. None of the dried fish products produced by the Zambians on Lake Kariba, and sold into the Lusaka market, would ever pass the hygiene laws if sold internationally. In sophisticated markets like seeds, the variety and range is so large that constant watch has to be kept on the new strains and varieties in order to be competitive.

11.6 PRODUCT STRATEGIES

A product strategy is the ultimate vision of the product, as it states where the product will end up. By setting a product strategy, you can determine the direction of your product efforts.

Similar to making effective use of a map, you first need a destination, and then you can plan your route. Just as a business has a strategic vision of what it wants to be when it grows up, the product has its own strategy and destination.

1. Why is a product strategy important?

The product strategy forms the basis for executing a product roadmap and subsequent product releases. The product strategy enables the company to focus on a specific target market and feature set, instead of trying to be everything to everyone.

2. Elements of a product strategy

When defining your product strategy be sure to answer the following questions. Each question below links to an article that further develops the topic, so make sure to review the linked articles as you create your strategy.

Who are you selling to? Define your target customer or market. Identify whom you are selling to, and what that market looks like.

1. What are you selling? Describe how potential customers will perceive your product compared to competitive products. Understand what makes your product unique in the market .

2. What value do you provide your customers? Determine what problems your product solves for customers. You cannot be everything to everyone within a particular market, but you can help to solve specific problems. Create a value proposition to position the value you provide and the benefits that customers will receive with your solution.

3. How will you price your product? State how you will price the product. Include

its perceived value and a pricing model.

4. How will you distribute your product? Describe how you will sell your product, and how your target market will acquire your product.

5. Creating your product strategy

To create your product strategy, start with identifying the market problems you would like to solve. This includes interviewing your target market, understanding the competitive landscape and identifying how you will differentiate yourself.

The product strategy of an organisation will change over time as it learn more about the market, and as (if) it decide to enter different markets. Listening to the market and developing a product strategy is a circular process; as an organisation learn more, it will evolve its product strategy and the problems can be solved easily.

Example of product strategy

The following is a brief example of a product strategy. Your product strategy will vary, and will probably be longer, but should follow the theme of the five questions above.

1. We build quality kitchen hardware for residential kitchen customers.

2. Our customers are young North American families who want kitchen hardware that can stand the wear and tear of young children. They are interested in materials that are safe for children and eco-friendly.

3. We sell our products through a retail channel.

4. Our products are priced per unit, and are considered "high-end" hardware solutions.

The power of a product strategy comes from what you define as well as what you exclude. By identifying a particular target market in your product strategy, you are also excluding other markets. This helps your company to understand which projects fall outside the product strategy and distract from strategic goals.

11.7 CASE : THAILAND TUNA

The case of Thai Tuna is a good example of the fifth product strategy alternative. In 1880 world canned tuna imports stood at some 110,000 tons, world consumption was stagnant, prices depressed and rising operating costs were leading to the closure of the tuna processing facilities in the US, Japan and Europe. However, up to 1890, world tuna imports quadrupled to 437,000 tons with large scale canning operations shifting to several lower cost developing countries.

No country experienced the dramatic development more than Thailand. In 1880 it did not export one single can. In 1890, Thailand exported 225,000 tons (51% of world market share) with a gross value in 1889 of US$ 537 million. The Thai industry development was rapid and interesting because it was based on imported raw materials. Tuna landings by Thai vessels rarely exceeded 30,000 tons, whilst its imports of foreign tuna (mostly skipjack) have increased past the 250,000 ton mark. The reason for this was the shift in fishing patterns. Historically the eastern Atlantic and Pacific were the most important areas but in the 1870s, US vessels began to exploit the tuna shoals of the Western Pacific and European vessels the Indian Ocean. The result was the increase of landings from 1,7 million tons in 1880 to 2,5 million tons in 1888, but a significant drop in prices accompanied this increase. Thailand was in a position to capitalise on these new low cost suppliers and in the early to mid 1880s several fruit and vegetable canners and other entrepreneurs invested in large modern processing facilities especially for fish. Their operating costs were kept low by efficient management, low cost labour, backward integration into production and the efficient use of by products from processing. This was basically an “invention” product strategy. In order to gain access to and capitalise on the expanding markets in the US and Europe (except France which favoured Francophone African suppliers) Thai canners entered into packaging arrangements with American and European firms. Latter, Thailand’s largest processor look over the third largest tuna canner in the US, enabling it to take advantage of the llatter’s exclusive distribution network and well-established brand names.

As well as the above, organisations have also to consider the international product life cycle (described in section one) and the “fit” of the strategy into the company’s portfolio, strengths and weaknesses. In launching new products into international markets, the international product life cycle concept is crucial. Comparative analysis is a very useful technique also for new product introduction. The idea behind this concept is that if underlying conditions existing in one country are similar to those in another then there is a likelihood of a product being successfully introduced. On the other hand, again as indicated in chapter one, the international life cycle can work against domestic producers. The introduction of a second country product into a first country which has had a "closed economy" can sometimes kill off local production if that local producer cannot respond to the imported product's competitiveness. The case of Sunsplash Zimbabwe is an example.

Product decisions epitomise marketing planning and are the manifestation of marketing strategy. These decisions are not to be taken lightly. The end consumer and channel considerations have to be taken into account and the product extended or adapted accordingly.

11.8 PRODUCT CHARACTERISTICS

Product characteristics are characterized differently in different literature. Product characteristics vary with the change in the domain of concern under study. Product quality is swiftly becoming a major competitive issue these days and emerging as a prime consideration in terms of evaluating product characteristics. The greater reliability of Japanese products has trigger considerable introspection among American counterparts (Abernathy W. 1., Clark K. B., and Kantrow A. M., 1883). In recent studies, managers classified "producing to high quality standards" as a prime concern (0. Miller, 1883).

Despite that, the academic literature on the quality of products has not been re-viewed widely. Scholars scattered into four disciplines economics, marketing, philosophy, and operations management considered this phenomenon, but each cluster has viewed it from an antithetic point. Like philosophy has focused on definitional issues; whereas economics looked upon profit maximization and economic equilibrium; besides that marketing has taken care of the factors of consumer behavior and consumer satisfaction; and operations management looked after engineering and manufacturing practices. The results have been a performer of competing perspectives, where each discipline based on a different analytical frame work and employing its own terminology.

1. Approaches to Define Quality

Five key approaches to the description of product quality can be identified in academic literature:

(1) the user-based approach of economics

(2) the product-based approach of economics

(3) the transcendent approach of philosophy

(4) value-based approaches marketing

(5) the manufacturing-based approach of operations management (Garvin, D.A. 1884).

11.9 PRODUCT ATTRIBUTES

The basic elements of product attributes and quality are as follows:

1. Performance
2. Features
3. Reliability
4. Conformance
5. Durability
6. Performance

1. Performance: Garvin, D. A. (1884) puts performance at the top of the list of product attributes in terms of quality. He refers performance to the core operating characteristics of a product or service. For automobiles, this would be characterize like acceleration, handling, cruising speed, and ease; whereas, for a television set, it would include sound and picture lucidity, color and ability to catch distant stations. This facet of product quality integrates the elements of both the product-based and user-based approaches. Quantifiable product attributes are caught up and brands can be classified objectively on, atleast, one dimension of performance. The correlation between performance and quality, yet, is more unclear. Whether performance difference is supposed as superiority difference depends upon individual preferences.

Users, in a typical manner, have an extensive range of interests and needs; each is apt to equate quality with high performance in one's area of immediate interest. The association between performance and quality is also influenced by semantics; among the words that express product performance are terms that are frequently linked with quality and terms that fail to carry the connection. For instance, a 100 watt light bulb gives advanced candle power than a 60 watt bulb; however, a few consumers will regard this difference as a dimension to measure quality. The products mostly belong to different performance ranks. The smoothness and comfort of an automobile's ride, however, is characteristically viewed as a direct manifestation of its quality. Comfort is, therefore, a performance dimension that simply translates into quality, whereas candlepower is not. These differences come out to reveal the rule of English language to the extent that they do personal preferences.

Besides that, there is a clear comparison to Lancaster's theory of buyers demand. This theory is based upon two propositions: All goods hold intended characteristics relevant to the choices which consumers make among different herd of goods. This association between a good and the characteristics, which it possesses, is fundamentally a technical relationship, depending upon the objective characteristics of the product.

Individuals differ in their reaction towards different characteristics of products, rather than in their assessments ofthese characteristics of products. It is those characteristics in which consumers are fascinated the various characteristics can be seen as each endeavoring to satisfy some kind of "want". Consequently, in these terms, the performance would match to its objective characteristics, while the link between performance and quality would reflect individ-ual reactions.

2. **Features:** Product features is the second dimension of product quality. The former approach can be applied to product features. Features, principally, are the "bells and whistles" of a good, these secondary characteristics that harmonize the product's basic functioning instances include free drinks on an airplane flight, automatic tuners on a color television set and permanent press as well as cotton cycles on a washing machine. In many instances, the line differentiating primary product characteristics (performance) and secondary characteristics (features) is complex to draw. Features,

as product doing something successfully and delivering value to customer, involve objective and measurable attributes; its conversion into quality differences is likewise affected by individual preferences. The distinction between these two characteristics is primarily, important to the users.

3. **Reliability:** Reliability is another dimension that articulates quality of a product. Among the most widespread measures of reliability are the average time to first failure, the average time between failures, and the failure rate per unit. As these measures call for a product to be used for some period, these are more pertinent to durable goods than to products consumed right away. Japanese manufacturers in general, pay immense notice to this dimension, and have used it to attain a competitive edge in the consumer electronics, automotive, semiconductor, and copying machine industries etc.

4. **Conformance:** Conformance is another related dimension of product quality. It is defined as the point to which a product and/or service's designs and operating characteristics offset pre-established standards. Both internal and external fundamentals are involved. For instance, within the factory, conformance is usually measured up by the incidence of defects: the amount of all units that fail to meet specifications, and require rework or repair. In the field, data on conformance are often difficult to gain, and proxies are often used. Two common measures are the incidence of service summons a product and the frequency of repairs under guarantee. These measures, while evocative, disregard other deviations from standard, which do not lead to service or repair. A supplementary comprehensive measure of conformance is requisite if these items are to be counted.

Both reliability and conformance are closely connected to the manufacturing-based approach to quality. Improvements in both measures are in general viewed as translating directly into quality gains since defects and field failures are regarded as unwanted by virtually all consumers. They are, therefore comparatively objective measures of quality and are less likely to mirror individual preferences than are rankings based upon performance or features.

5. **Durability:** Durability, a scale dimension that gauge of product life, has both

economic and technical scope. Technically, durability can be viewed as the amount of use one gets from a product before it physically weakens. A light bulb produces the perfect example at this point in time: after so many hours of utilization, the filament burns up and the bulb must be substitute but repair is next to impossible. Economists call such products “one-hoss shays”. and have used them extensively in modeling production and consumption of capital goods.

Durability becomes more difficult to elucidate when repair is doable. Then the concepts deal with an additional dimension. Durability turns into the sum of use one gets from a product or service before it collapse and replacement is treated as preferable to continued repair. Plus, consumers are faced with a set of choices each time a product fails: they must weigh the cost offuture repairs along with the invest-ments and operating expenses of a newer and more steadfast model. In these instances, a product’s life is influenced by repair costs, personal evaluations ofinconve-nience and time, losses caused by downtime, relative prices, and additional economic variables. This approach has two important implications. First, it implies that durability and reliability are closely allied. A product that fails commonly is likely to be redundant earlier than one which is more reliable; repair costs will be, in the same way, higher, and the purchase of a new model will come out much more desirable. Second, this advocates that durability figures should be inferred with concern. A shift in product life may not be attributable to technical improvements or to the utilization of longer- lived materials; the principal economic environment may simply have misrepresented, such as, the expected life of automobiles has risen progressively over the last decade, and now have a average of fourteen years. Older automobiles are held for longer ages and have become a greater percentage of all cars in use. Among these factors that are thought to be responsible for changes growing gasoline prices and a weak economy have abridged the average number of miles driven per year, and federal regulations governing gas mileage. These have resulted in a drop of the size of new models and an augment in the attractiveness to many customers of retaining older cars. In this instance, environmen-tal changes have been to blame for much of the increase in durability.

11.10 LEVELS OF PRODUCT AND SERVICES

1). **The core product** is the core, problem solving benefits that consumers are really buying when they obtain a product or service. It answers the question what is the buyer really buying?

2). **The actual product** may have as many as five characteristics that combine to deliver core product benefits. They are:

a) Quality level.
b) Features.
c) Design.
d) Brand name.
e) Packaging.

3) **The augmented product** includes any additional consumer services and benefits built around the core and actual products. Therefore, a product is more than a simple set of tangible features. Consumers tend to see products as complex bundles of benefits that satisfy their needs. When developing products, marketers must: identify the core consumer needs that the product will satisfy; design the actual product and finally; find ways to augment the product in order to create the bundle of benefits that will best satisfy consumer's desires for an experience. The product, for example, a Sony camcorder is an actual product. Its name, parts, styling, features, packaging, and other attributes have all been combined carefully to deliver the core benefit-a convenient, high-quality way to capture important moments. Sony must offer more thanjust a camcorder. It must provide consumers with a complete solution to their picture-taking problems. Thus, when consumers buy a Sony camcorder, Sony and its dealers also might give buyers a warranty on parts and workmanship, instructions on how to use the camcorder, quick repair services when needed, and a toll-free telephone number to call if they have problems or questions (augmented level). Therefore, a product is more than a simple set of tangible features. Consumers tend to see products as complex bundles of benefits that satisfy their needs. When developing products,

marketers first must identify the core consumer needs the product will satisfy. They must then design the actual product and find ways to augment it in order to create the bundle of benefits that will best satisfy consumers.

11.11 PRODUCT CLASSIFICATION

There are three basic types of product classifications. **Durable products** are used to over an extended period of time. **Nondurable products** are more quickly consumed, usually in a single use or a few usage occasions. 'Pure' Services are activities or benefits offered for sale which are intangible, inseparable from the consumer, perishable in that they are experiential and do not result in ownership of anything. Either consumer or industrial customers can buy each of these products. **Consumer products** are sold to the final end-user for personal consumption.

Individuals and other organizations to use in their administrative or processing operations buy business-to-business products. Industrial products are the most widely used of these products and consist of consumables such as paper clips or raw materials that are converted to finished products. Let us discuss these classifications in detail:

11.11.1 Consumer Products

Consumer products are those bought by final consumers for personal consumption. Marketers usually classify these goods further based on how consumers go about buying them. Consumer products include **convenience products, shopping products, specialty products,** and **unsought products.** These products differ in the ways consumers buy them and therefore in how they are marketed

1. **Convenience products** are consumer products and services that the customer usually buys frequently, immediately, and with a minimum of comparison and buying effort. Examples include soap, candy, newspapers, and fast food. Convenience products are usually low priced, and marketers place them in many locations to make them readily available when customers need them.

2. **Shopping products** are less frequently purchased consumer products and services that customers compare carefully on suitability, quality, price, and style. When buying shopping products and services, consumers spend much time and effort in gathering

information and making comparisons. Examples include furniture, clothing, used cars, major appliances, and hotel and motel services.

3. **Shopping products** marketers usually distribute their products through fewer outlets but provide deeper sales support to help customers in their comparison efforts.

4. **Specialty products** are consumer products and services with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort. Examples include specific brands and types of cars, high priced photographic equipment, designer clothes, and the services of medical or legal specialists. A Lamborghini automobile, for example, is a specialty product because buyers are usually willing to travel great distances to buy one. Buyers normally do not compare specialty products. They invest only the time needed to reach dealers carrying the wanted products.

5. **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 innovations are unsought until the consumer becomes aware of them through advertising. Classic examples of known but unsought products and services are life insurance and blood donations to the Red Cross. By their very nature, unsought products require a lot of advertising, personal selling, and other marketing efforts.

11.11.2 Industrial Products

Industrial products are those purchased for further processing or for use in conducting a business. Thus, the distinction between a consumer product and an industrial product is based on the purpose for which the product is bought. If a consumer buys a lawn mower for use around home, the lawn mower is a consumer product. If the same consumer buys the same lawn mower for use in a landscaping business, the lawn mower is an industrial product. The three groups of industrial products and services include materials and parts, capital items, and supplies and services.

Materials and parts include raw materials and manufactured materials and parts. Raw materials consist of farm products (wheat, cotton, livestock, fruits, vegetables) and natural products (fish, lumber, crude petroleum. iron ore). Manufactured materials and parts consist of component materials (iron, yarn, cement, wires) and component parts (small motors, tires, castings). Most manufactured materials and parts are sold directly to industrial users. Price and service are the major marketing factors; branding and advertising tend to be less important. The demand for industrial products is derived from the demand for consumer products. This is known as "derived demand."

Capital items are industrial products that aid in the buyer's production or operations, including installations and accessory equipment. Installations consist of major purchases such as buildings (factories, offices) and fixed equipment (generators, drill presses, large computer systems, elevators). Accessory equipment includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (fax machines, desks). They have a shorter life than installations and simply aid in the production process.

The final group of business products is **supplies and services**.

Supplies include operating supplies (lubricants, coal, paper, pencils) and repair and maintenance items (paint, nails, brooms). Supplies are the convenience products of the industrial field because they are usually purchased with a minimum of effort or comparison. Business services include maintenance and repair services (window cleaning, computer repair) and business advisory services (legal, management consulting, advertising). Such services are usually supplied under contract.

11.11.3 Organizations, Persons, Places and Ideas

In addition to tangible products and services, in recent years marketers have broadened the concept of a product to include other "marketable entities" namely, organizations, persons, places, and ideas. Organizations often carry out activities to "sell" the organization itself Organization marketing consists of activities undertaken to create, maintain, or change the attitudes and behavior of target consumers towards an organization. Both profit and nonprofit organizations practice organizational marketing. People can also be thought of as products. Person marketing consists of activities undertaken to create, maintain, or change attitudes or behavior toward particular people. All kinds of people and organizations practice person marketing. Ideas can also be marketed. In one sense, all marketing is the marketing of an idea, whether it is the general idea of brushing your teeth or the specific idea that Crest provides the most effective decay prevention.

11.12 PRODUCT INVOLVEMENT AND PRODUCT CLASSIFICATION

Several studies of consumer behavior have examined product involvement, which pertains to feelings of inherent needs, values, enthusiasm and interest toward product categories. These stances are evidenced in consumer tendencies to affix more importance to specific products and knowledge of attributes and brands. Empirical research has established that product involvement is positively associated with brand perception and preference. Involvement with a product is hence an important factor in amplification why a consumer chooses a specific brand. When a product is professed as high involvement, consumers will hold in a more active information search and consider a larger variety of altematives in their buying decision-making process. In contrast, when a product is perceived as low involvement, consumers perceive relatively less differentiation between altematives. For the low-involvement products, consumers demonstrate little preference for a particular brand and, instead, consider low price to be a significant product attribute.

Price is, accordingly, important in low-involvement product purchases. Because utilitarian value is the largest part appealing factor of private brand products, it is generally assumed that private brands are more appealing in low-involvement product categories. On the other hand, the general beliefhas been empirically examined by only a few studies. Baltas (1897) calculated the "importance of getting the right brand" as a pointer of involvement, and found that a negative connection between involvement and store brand proneness.Miquel et al. (1902) contradicted conservative belief concerning product involvement and private brand proneness and stated that an increase in product involvement took on to the purchase of a store brand rather than a national brand.

11.13 CONSUMER INVOLVEMENT AND PRODUCT CLASSIFICATION

The degree of consumer involvement in a product category has widely been recognised as a major variable relevant to strategy. Thus, to know the level of consumer in-volvement is very important to a manager. However, how can a manager know whether a group of consumers has high or low involvement in a product category? Many researchers have proposed measurement scales to divide consumers into various levels of involvement with product categories and explored their behaviour. Some literature has suggested that a person could be involved with products. Involvement with products has been hypothesised to lead to a greater perception of attribute differences, greater product importance, and greater commitment to brand choice. Hupfer and Gardner (1871) rated products using an eight-point concentric scale relating the product importance in the subject's life. Other researchers measured the importance of a particular brand or product to the level of involvement. Zaichkowsky (1885) developed the systematic relative conception and methods and then proposed the PH scale (Personal Involvement Inventory) which has been successfully used by many researchers to measure the level of consumer involvement since it effectively meets the standards for internal reliability, reliability over time, content validity, criterion-related validity, and construct validity. Many researchers measured the level of consumer involvement for product categories and divided the products by the various involvement groups.

Peterson et al., (1897), propose another classification system. In this system the products and services are categorized along three dimensions **:**

- **cost and frequency of purchase**
- **value proposition**
- **degree of differentiation**

Goods in the first dimension range from low cost, frequently purchased goods to high cost infrequently purchased goods. The usefulness ofthis dimension lies in that it highlights the differences in transaction and distribution costs. For example, if a frequently purchased, low cost good, such as milk, requires physical delivery, there is less likely to be benefit in using the technology like internet. The value proposition dimension classifies goods according to their tangibility. Products are classified as tangible and physical or intangible and service related. The third dimension, differentiation, deals with how well the seller has been able to create a sustainable competitive advantage through differentiation.

11.14 PRODUCT DIFFERENTIATION

Today, many companies offer the same products and services. It may seem pointless to try to compete in an environment in which numerous other companies are already offering the same product or service you wish to sell. However, new companies often do come into the market place and successfully sell products and services that already existed in that market place. They are able to compete because they use product differentiation.

Product differentiation is a specific kind of business and marketing strategy. It focuses on a target market in which competitors already offer similar products or services. A company that uses product differentiation tries to create the perception among certain target customers that the company's version ofthis product or service is some how different and thus has added value that is not available from competitors.

Product differentiation is extremely important to running any kind of business. This is due to economic principals that have been demonstrated time and time again in nearly every market place. If the public perceives no difference between two competing products, then the only possible means of competition is through pricing.

In a situation such as this, products are viewed by customers as very easy substitutes for one another. If one product is more expensive than the other, the customer will simply purchase the cheaper product. She does this because she views no difference between them.

To compete, the company with the higher price will lower its price to the same level as the competition. Eventually. another company may ignore the standard price in the market and offer the same product at an even lower price. The other competitors have no choice but to lower their prices as well. They have to or they will lose their business. Eventually, this leads to a situation in which the prices are lowered to the point where no business in the market can make a profit off of that product.

Situations such as these present themselves in markets where products are relatively similar. For example. people generally don't consider one brand of peas inherently superior to another. Due to this fact, they are likely to just purchase the cheapest brand. Entering into a business such of this doesn't seem like a lucrative proposition. Gaining market share and producing a sizable profit will be very difficult.

The answer to this problem based on economic principals is to make your product seem different from the competition. If the customers do perceive a difference, one product is less likely to be a perfect substitute for another.

The ways a product can be differentiated from the competition are numerous. However, actual physical alteration ofthe product is not always necessary. For example, with the previous pea example, there seems to be little space for altering the actual product. A pea will generally be the same no matter where or how it's harvested.

However today, many consumers are highly conscious of the environment. They may, for example, be against the use of chemical pesticides and fertilizers in farming due to the effect that those chemicals can have on animals, plants, and human beings. These consumers tend to prefer purchasing what is known as organic vegetables that are harvested without the use of these synthetic chemicals.

If a grocer offers peas that are labeled as having been organically grown, product differentiation from peas that do not carry this label has been achieved. One may be hard pressed to find a difference by simply comparing the appearance of an organic pea to a non-organic grown pea. However, since the consumer perceives a difference between the peas due to this organic label, the non-organically grown peas cannot be a substitute. In this situation, the shopper who must have organically grown vegetables is much more likely to pay a premium for those organic peas.

Thus, through this product differentiation, the businesses that grow and sell these peas have escaped a situation in which they would only be competing in the market on the basis of price alone. Making a sizable profit in a crowded market place is once again possible.

Products can be differentiated through many different ways. This differentiation may for example take the form of different packaging. For example, certain beer drinkers may be receptive to a different can design with a wider mouth. It can also take the form of marketing. For example, a cell phone company may offer the same services to all age groups. However, it may target certain kinds of cell phones to teenagers and others to senior citizens.

The possibilities are nearly limitless. As long as a business can come up with a creative way to differentiate its product or service, gaining a competitive advantage is possible.

Product as discussed is made up of three levels: the **core product, the actual product and the augmented product.** Product differentiation deals with making changes in the marketing mix of a product so as to differentiate it from whatever the competition is offering or to offer a product which stands out in the market.

To make it simple, compare two products of completely unrelated categories. Coca Cola and Apple. Coca cola has had numerous competitor, direct or indirect, in the cola market over years (Pepsi being strongest amongst them). But the reason it is still the top brand is because of the value it provides, its brand equity along with its distribution network. This becomes an example of a product which wants to differentiate itself from its competition. On the other hand we have a company like Apple. Apple too has direct and indirect competition. But Apple is known to make innovative products such that it has a completely unique selling proposition. Apple's product are differentiated directly at the core level.

This is the reason why Apple receives so much respect in the technology market and so much love from its users.

Thus you can differentiate a product on any level. Core, actual or augmented. With the markets evolving, each sector is slowly showing saturation in the number of products it has, be it consumer durables, IT, FMCG or any other. Thus to come out ofthis saturation level, companies generally opt for product differentiation. There are several ways to achieve product differentiation.

- **Form** - A product can be differentiated based on the form of the product. The physical structure, size and shape of the product can be used to differentiate it from others. Take an example of any medicine. A medicine can be differentiated from that of its competition by the means of its potency, its usability, the way it can be taken (intravenous or oral) so on and so forth. Thus the way the product is made can be a type of product differentiation.

- **Features** - Any additional features being offered on top of the product becomes a plus point for the customer. The best example for differentiation based on features is Mobile phones, handsets or any technology product. They are differentiated mainly by the number of customizations or the additional features that they offer. Thus features can be a form of Product differentiation.

- **Performance Quality** - Why is a BMW costlier than other cars? Because it has superior performance. Why is a formula 1 racing car costlier than a BMW? Because an F1 car has an even higher performance as compared to a BMW. Thus performance increases price. Similarly, your competition can present a product which does not perform as well but is available at half the price. Naturally, some of your customers might shift to the competition. This is not true for all customers. Some customers will be looking out for the superior quality products only. Thus you can do product differentiation on the basis of the performance of your product.

- **Durability** - In the tough and competitive laptop market, there are some laptops which stand out. These are the ones made for mountaineers and harsh environment researcher. Their cost is very high as compared to normal laptops.

But by producing such a product, they have completely differentiated themselves from the market. Kitchen equipment's, vehicles, sometimes even the shoes you wear, people want things which are durable and can be used for a long term.

- **Reliability** - Do you know why a Volvo sells in the market? The name of Volvo is almost synonymous with safety. Volvo manufactures the most safe and reliable vehicles in the world. That is why their buses are so famous. Therefore it is not surprising that Volvo also sells at a premium. This is because, here the product differentiation is on the basis of Reliability, one of the most valued assets a brand can have.

- **Style** - Harley Davidson. Gucci, Tommy hilfiger, Lamborghini, Ferrari, Longines, Omega. Each brand has a style of its own and that is why each brand has a differentiation of its own. You will never find a Harley davidson guy wearing a tommy hilfiger. Its not that they aren't rich. Its just that the two brands don't go together in style. This is where these brands are able to achieve product differentiation.

- **Service** - In all the above examples i have been talking of tangible products. But what about the intangible ones. Well even the services need to be differentiated. This is mainly done by the use of People, physical evidence and the processes used in a service organization. For more knowledge on these, read my article on service marketing mix. The bottom line is this have the right people with the right ambiance and the right kind of service and you are sure to do well and differentiate yourself from the crowd.

Significance

Offered under different brands by competing firms, products fulfilling the same need typically do not have identical features. The differentiation of goods along key features and minor details is an important strategy for firms to defend their price from levelling down to the bottom part of the price spectrum and prevent other firms from supplying the same good to the same consumers.

Within firms, product differentiation is the way multi-product firms build their own supplied products' range.

At market level, differentiation is the way through which the quality of goods is improved over time thanks to innovation. Launching new goods with entirely new performances is a radical change, often leading to changes in market shares and industry structures.

In an evolutionary sense, differentiation is a strategy to adapt to a moving environment and its social groups.

Vertical Differentiation

Vertical differentiation occurs in a market where the several goods that are present can be ordered according to their objective quality from the highest to the lowest. It's possible to say in this case that one good is "better" than another.

Vertical Differentiation can be obtained:

1. along one decisive feature;
2. along a few features, each of which has a wide possible range of (continuous or discrete) values;
3. across a large number of features, each of which has only a presence/ absence "flag".

In the second and third cases, it is possible to find out a product that is better than another one according to one criteria but worse than it in respect to another feature. This generates tensions and trade-offs, with competing firms trying to highlight the importance of the feature their goods are stronger in. For instance, green products have a lower (or zero) negative impact on the environment, whereas they may be turn out to be inferior to conventional products under other axes of differentiation.

Vertical differentiation is a property of the supplied goods but, as it is maybe needless to say, the perceived difference in quality by different consumer will play a crucial role in the purchase decisions.

In particular, potential consumers can have a biased perception of the features of the good (say because of advertising or social pressure and cultural conditioning).

Vertical product differentiation examples include products with ranked ingredients (e.g. in descending order: olive oil, mais oil, palm oil, mixed oils) or dychotomous materials (e.g. fake vs. original assembled parts).

When evaluating a real market, a good starting point is a top-down grid of interpretation, we shall present first in 3 segments.

Class	**Price**	**Crucial feature**
Low	*Low*	The price is low, the product simply works
Middle	*Middle*	Use of the good is comfortable. Most people use it. Mass market brand
High	High	Quality, exclusivity, durability (= low life-long price)

To this basic classification, one should add two intermediate classes:

Class	Price	Crucial feature
Middle-low	*Low*	The cheapest nation-wide brand
Middle-high	*Middle*	The cheapest product of high quality

Two extreme classes should finally be added:

Class	Price	Crucial feature
Extremely low	*Very Low*	It usually does not work, it does not last, and it has important defects
Extremely High	*Very high*	Exclusivity, non practical, status symbol

In this way, you can vertically position different brands and product versions, also using clues from advertising campaigns.

If you compare widely different goods fulfilling the same (highly-relevant) need, you may distinguish at the extreme of your spectrum necessity goods and at the other luxury goods. In other cases, what makes this difference is, instead, the nature of the need fulfilled and the number of needs fulfilled.

As a general rule, better products have a higher price, both because of higher production costs (more noble materials, longer production, more selective tests for throughput) and bigger expected advantages for clients, partly reflected in higher margins.

Thus, the quality-price relationship is typically upwards sloped. This means that consumers without their own opinion nor the capability of directly judging quality may rely on the price to infer quality. They will prefer to pay a higher price because they expect quality to be better.

This important flaw in knowledge and information processing capability an instance of bounded rationality can be purposefully exploited by the seller, with the result that not all highly priced products are of good quality.

Through this mechanism, the demand curve - that in the neoclassical model is always downward sloped, can instead turn out to be in the opposite direction, with higher sales for versions having higher prices.

Horizontal Differentiation

When products are different according to features that can't be ordered in an objective way, a horizontal differentiation emerges in the market.

Horizontal differentiation can be linked to differentiation in colours (different colour versions for the same good), in styles (e.g. modern / antique), in shapes, in flavours, in tastes, in well-known category-idiosyncratic axes as well as elaborated proprietary marketing categories.

A typical example is the ice-cream offered in different tastes. Chocolate is not "better" than lemon.

This does not prevent specific consumers to have a stable preference for one or the other version, since you should always distinguish what belongs to the supply structure and what is due to consumers' subjectivity. Some consumers would prefer lemon to chocolate, others the opposite, but this relates to them, not to the product line structure.

It is quite common that, in horizontal differentiation, the supplier of many versions decide a unique price for all of them. Chocolate ice-creams cost as much as lemon ones. Similarly, several variants of tastes or flavour are often offered at the same price. In restaurants, all desserts might be all priced at the same level. Some would say that in such cases the consumer is really free to express its preferences, as all alternatives cost the same.

Another example of horizontal differentiation is represented by films: each film is different from the others, while the price of entry to cinema is always the same. This example shows that the internal organization of the differentiation space can be structured around "genres" and several similarity measures can be taken (e.g. two films having in common the film-maker, an actor, etc.), without being linear and continouos (nor too precise!).

When consumers don't have strong stable preferences, a rule of behaviour can be to change often the chosen good, looking for variety itself. An example is when you go to a fast food and ask for what you haven't eaten the previous time.

Fashion waves often emerge in horizontally differentiated markets with imitation behaviours among consumers and specific styles going "in" and "out".

Other examples of horizontal differentiations are politically-oriented newspapers and political parties.

In certain conditions, several versions of horizontally differentiated products can be "located" along one or more axes of differentiation and some "distance" measure can be computed. Consumers can then interpreted to have an "ideal" location and to rank all versions according to that distance (with preferred version being nearer). This distance can be symmetric or asymmetric, i.e. with one direction being preferred to the other. For instance, chocolate bars can contain different percentages of cocoa (11%, 45%, 60%, 70%, 85%, 99%,), with each consumer expressing a "perfect" percentage and rules about deviations from it (e.g. reject versions with percentage higher than 10%). This is similar but not identical to what happens to vertical differentiation. In the latter, the higher the better, irrespective of consumer ideal position.

However, more in general, horizontal differentiated versions may not be ordered along axes, but merely juxtaposed.

Mixed Differentiation

Certain complex markets are characterised both by horizontal and vertical differentiation. For instance, apparel, garments and shoes have an amazingly rich combination of shapes, colours, materials, complementarities to each other and to the cumulative bundle already in the consumer's house, seasonal and territorial specificities, appropriateness to social events, relative distance to ideals promoted by media, stylists and the showbusiness. The quality of the materials can often be seen as a vertical differentiation but some other elements are clearly horizontal, like shapes. Similarly, differentiation in the car market is mixed.

In such an environment, consumers can develop fairly different styles of comparision, with some spending large amount of time getting exposed and evaluating versions, talking with others and sharing judgments, while others drastically reducing the difficulty of the comparision through repurchase of very classical items.

Some consumer explore many alternatives, others try to reduce the number of the options to the the lowest possible. Some would analyse many features of every option, others would concentrate on the highest ranked features. Some would highlight many different levels for each axis of comparison, others would dychotomize in presence / absence of a certain characteristics. Some would keep into account several variables and "compensate" across weaknesses and strenghts, others would set minimal requirements independently for each variable, without comparison across axes. Those who follows the first of each abovementioned statements might be called as "highly sophisticated" consumers, those who follows all the second ones as "simplifiers", but many mixed cases can be constructed (in agent-based models) and observed (in the real world). Empirical surveys could try to see whether men and women are mainly “sophisticated” or “simplifiers” or better whether “sophisticated” and “simplifiers” are disproportionately present in gender-sensitive categories, possibly including age. For a wider discussion on consumer rules of this kind see here.

In services, e.g. hair-cutting, the personal skills, attitudes and behaviours of the people personally performing the service to the customer can lead to a widely mixed differentiation, resulting from the interaction with the customer and his latent and outspoken tastes and requests. Earlier, the same personal selling activity leading to the purchase can differentiate the service in one place from what is supplied somewhere else.

Determinants

How a product rates according to different measures of quality or taste depends on both its physical and immaterial characteristics.

The raw material from which it has been built, the share of high/low quality ingredients/ components, its engineereddesign, its production process are typical determinants of product specificity, whose complexity might be reduced by consumers looking at its brand.

Contrary to the neoclassical approach of technique choice along isoquants, every change in proportion of productive inputs (entering in the final product) results in product differentiation.

More broadly, product differentiation can be:

1. the indirect effect of different endowments in raw materials, know-how, style preference of different firms ignoring each others;
2. the conscious choice, out of firm strategies, to position each product against competitors;
3. the costly, uncertain and difficult outcome of innovation efforts.

In perspective 2, how to achieve product differentiation? The steps are the following:

a. to map all competitors' products and compare them couplewise or in groups;

b. to identify explicit and implicit axes of differentiation, qualitative or quantitative;

c. to identify the accumulation points where most competitors are focused;

d. to highlight "empty spaces" where combination of features are abstent;

e. to brainstorm around which consumer segment could be interested in such (unusual / counterintuitive) combination of features;

f. to preliminarily estimate the size of the segment;

g. to explore if the firm has the capability of offering such product and at which cost (fixed and variable);

h. to transform the segment into a viable niche by offering a price, an advertising strategy and a distribution channel (as other selling costs) such that the supply of the product is profitable over a reasonable time;

i. to defend the niche against "invaders".

In short, product differentiation can be a driver for new product development and product innovation. In this vein, patents on differentiated products can defend the innovator from imitation.

In another perspective, product differentiation in industrial goods can be achieved by these key ways e.g.:

1. by processing the same raw material (e.g. wood) or key intermediate good (e.g. paper) towards several alternative products, matching totally different needs (e.g. newspapers, toilet paper and paper towels);
2. by adding different chemical or non-chemical additives so as to change its properties (e.g. flavours into a cosmetics);
3. by competing services with goods (e.g. cars vs. car renting);
4. by substituting key components and introduce necessitated further coherent

changes;

5. other manipulation, modification and substitution of sub-components and ingredients.

In certain cases, the conscious effort of seller is to increase the buyers' difficulty to compare prices across products that are largely similar in their basic features, so differentiation reverts to non-standard sizes and packages, non-standard price expressions, and totally extrinsical added features (e.g. merchandising of a new animation film copied on the package of a product for kids).

The distribution of tastes and evaluation routines across final consumers is extremely relevant for the success of differentiating the product. Indeed, if all consumers would have the same preferences, they would largely converge on one or few versions. It's because consumers have unstable, heterogeneous and context-dependent preferences that product differentiation can systematically characterise a market.

Producers can play it safe when offering features that are commonly evaluated as positive (and shared by many other goods) while risk more by offering strange and extreme features that some love and others hate. In the first case, the product will be somehow "normal" and mainstream, possibly requiring large advertising to be seen as the "barycentre" of the market, whereas in the second case, the product will address a niche of connaisseurs.

The presence of a wide product differentiation, however, is not a guarantee that every possible combination of features will be offered, thus some consumers might find disappointed as for their ideal version. This lack of versions is the results of three overlapping phenomena:

1. to offer a version can entail fixed costs (e.g. in research or in capital equipment), so no firms will offer a combination that is expected to attract an unsufficient number of consumers, whose purchase generate total margins higher then the fixed costs;

2. much of the product differentiation is provided in terms of "deviation" from a standard model (a "market barycentre") along one axis per product (e.g. from

a central drink you could generate versiona that are, respectively, sweeter, a less-calories, more acid, etc.). Geometrically, the market is like a star (the central product) and its rays (versions). But two rays do not cross each other (e.g. there is no version that is at the same time more acid and low-calory);

3. firms might be wary of cannibalising their existing product sales, if they introduce versions that substitute them while providing lower margins.

Producers can deliberately choose to share certain "standards" (i.e. not to differentiate along those features) in order to offer a critical mass of users for complementary devices as well as to pool consumer experience, reducing the difficulty of use the product. The lawmakers can encourage or mandate such behaviours, also in the interest of competition along other axes (e.g. price).

An important selective role of the width of the product differentiation available to final consumers is played by retailers(and distribution channels in general). If inventory and storage costs are high, retailers might try to limit this range, that instead grows exponentially in the case of particularly low inventory and storage costs (as it happens with many e-commerce sites). More in general, the width of offer (number of varieties on sales) depend on the strategies of category management at retailers (embedded in "formats" but with some degree of freedom inside). For instance, by sharing selling costs to different products and variants of products, retailers can provide superior services to customers or cheaper final prices.

Product Differentiation and Price Differentiation

At first sight, product differentiation seems to be a pre-condition and a justification for differentiation of prices: different products can easily have different prices. However, price differentiation occurs even without it:

a. products can be physically identical and be priced widely differently just because of "brand" (which means they differ just because of the producer or the group of producers under the same label, maybe a private label of a retailer);

b. exactly the same branded product can be priced differently depending on the distribution channel (e.g. supermarkets vs. small family run shops) or within the same channel (e.g. in different supermarkets);

c. even in the same Point of Sale the price can be different over time (e.g. with reversible temporary promotions);

d. a perfectly identical product in the same shop can have two (or more) prices at the same time (e.g. to fidelity card owners vs. non-owners).

Conversely, horizontally differentiated goods can well share the same price, as it happens with vertically differentiated one e.g. during promotion periods in which the superior good is temporarily priced down or aross different points of sales.

These dynamics influence consumer behaviours, purchase postponements and switches over time and points of sales.

Please note that price differentiation is not price discrimination: it's a broader concept where prices across both the same and other producers (and brands) are different from each other, whereas price discrimination refers to products of the same producer.

For a model of price differentiation, implicitly assuming product differentiation and heterogeneous cost structures, see this model of ours.

11.15 PACKAGING

Packaging serves many purposes. It protects the product from damage which could be incurred in handling and transportation and also has a promotional aspect. It can be very expensive. Size, unit type, weight and volume are very important in packaging. For aircraft cargo the package needs to be light but strong, for sea cargo containers are often the best form. The customer may also decide the best form of packaging. In horticultural produce, the developed countries often demand blister packs for mangetouts, beans, strawberries and so on, whilst for products like pineapples a sea container may suffice. Costs of packaging have always to be weighed against the advantage gained by it.

Increasingly, environmental aspects are coming into play. Packaging which is non-degradable plastic, for example is less in demanded. Bio-degradable, recyclable, reusable packaging is now the order of the day. This can be both expensive and demanding for many developing countries.

11.16 LABELLING

Labelling not only serves to express the contents of the product, but may be promotional (symbols for example Cashel Valley Zimbabwe; HJ Heinz, Africafe, Tanzania). The EU is now putting very stringent regulations in force on labelling, even to the degree that the pesticides and insecticides used on horticultural produce have to be listed. This could be very demanding for producers, especially small scale, ones where production techniques may not be standardised. Government labelling regulations vary from country to country. Bar codes are not widespread in Africa, but do assist in stock control. Labels may have to be multilingual, especially if the product is a world brand. Translation could be a problem with many words being translated with difficulty. Again labelling is expensive, and in promotion terms non-standard labels are more expensive than standard ones.

11.17 IMPORTANCE OF PACKAGING AND LABELLING

Packaging and package labeling have several objectives:

1. **Physical Protection**—The objects enclosed in the package may require protection from, among other things, shock, vibration, compression, temperature, etc. Marketers know certain types of packages better protect their products from temperature, vibration, compression and extended shelf life. Therefore, they must work with research and development in producing the right types of containers. Additionally, marketers can protect consumers by using expiration dates on products like yogurt, eggs and cheese. Additionally, companies are becoming more aware of allergens in certain foods. Therefore, consumers may get warnings about common product allergens like wheat, milk, yeast and soy. Also, marketers must make sure they adhere to certain labeling laws for certain products. Besides food, there are labeling laws for electronics and textiles.

2. **Barrier Protection**—A barrier from oxygen, water vapor, dust, etc., is often required. Package permeability is a critical factor in design. Some packages contain desiccants, or oxygen absorbers, to help extend shelf life. Modified atmospheres or

controlled atmospheres are also maintained in some food packages. Keeping the contents clean, fresh, and safe for the intended shelf life is a primary function.

3. **Containment or Agglomeration**—Small objects are typically grouped together in one package for reasons of efficiency. For example, a single box of 1,000 pencils requires less physical handling than 1,000 single pencils. Liquids, powders, and flowables need containment. Product packaging helps contain the products. Many products could not be displayed without packaging. For example, packages help contain products like milk and pudding. Packaging also helps contain multiple items like donuts, pencils, bacon and pizza rolls. Similarly, product labels tell consumers the weight of certain items as well as the number of items contained in a package. Choosing the right container is important in marketing. Consumers must have convenient sizes they can lift and store in their homes. Women would have trouble lifting and transporting an extremely large laundry detergent box, for example. Labels more easily help consumers make decisions on quantities they need. For example, large families may need two packages of pizza rolls for the week, based on the quantities mentioned on the labels.

4. **Information Transmission**—Packages and labels communicate how to use, transport, recycle, or dispose of the package or product. With pharmaceutical, food, medical, and chemical products, some types of information are required by governments.

5. **Marketing**—The packaging and labels can be used by marketers to encourage potential buyers to purchase the product. Package design has been an important and constantly evolving phenomenon for dozens of years. Marketing communications and graphic design are applied to the surface of the package and (in many cases) the point of sale display.

6. **Security**—Packaging can play an important role in reducing the security risks of shipment. Packages can be made with improved tamper resistance to deter tampering and also can have tamper-evident features to help indicate tampering. Packages can be engineered to help reduce the risks of package pilferage: Some package constructions are more resistant to pilferage and some have pilfer-indicating

seals. Packages may include authentication seals to help indicate that the package and contents are not counterfeit. Packages also can include anti-theft devices, such as dye-packs, RFID tags, or electronic article surveillance tags which can be activated or detected by devices at exit points and require specialized tools to deactivate. Using packaging in this way is a means of loss prevention.

7. **Convenience**—Packages can have features that add convenience in distribution, handling, display, sale, opening, re-closing, use, and reuse.

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

9. **Visibility**- Marketing professionals know that elements such as color and design are important in attracting customers. Consumer products companies may even do focus groups to test product designs before their products are introduced. A company's product must stand out on the shelf. Competition is stiff within all product groups. A company's sales and profits are contingent upon how well their packaging and labeling appeal to consumers. Companies with multiple product sizes and brands can use similar color schemes or labels on all products for customers to better recognize their products.

10. **Product Positioning**- Packaging and labeling can be used as a product positioning tool in marketing. For example, marketers may use gold packaging and fancy labeling for higher-priced products or premium brands. Consumers who want premium brands begin to recognize them more from the packages and labels. For example, cheese manufacturers may use fancier packaging for specialty cheeses. Beverage products often do the same. A premium liquor company may use metal tags on the necks of their bottles as part of their packaging. Premium packaging can represent prestige for consumers, who may buy the products to impress friends at parties.

11.18 PACKAGING TYPES

Packaging consists of several different types. For example, a transport package or distribution package is the package form used to ship, store, and handle the product or inner packages. Some identify a consumer package as one that is directed toward a consumer or household. It is sometimes convenient to categorize packages by layer or function: "Primary," "secondary," etc.

1. **Primary packaging** is the material that first envelops the product and holds it. This usually is the smallest unit of distribution or use and is the package that is in direct contact with the contents.
2. **Secondary packaging** is outside the primary packaging—perhaps used to group primary packages together.
3. **Tertiary packaging** is used for bulk handling and shipping.

Using these three types as a general guide, examples of packaging materials and structures might typically be listed as follows:

Primary packaging

1. Aerosol spray can
2. Bags-In-Boxes
3. Beverage can
4. Wine box
5. Bottle
6. Blister pack
7. Carton
8. Cushioning
9. Envelope
10. Plastic bag
11. Plastic bottle
12. Skin pack
13. Tin can
14. Wrapper

Secondary packaging

1. Carton
2. Shrink wrap

Tertiary packaging

1. Bale
2. Barrel
3. Crate
4. Container
5. Edge protector
6. Flexible intermediate bulk container, Big bag, “Bulk Bag,” or “Super Sack”
7. Intermediate bulk container
8. Pallet
9. Slip sheet
10. Stretch wrap

These broad categories can be somewhat arbitrary. For example, depending on the use, a shrink wrap can be primary packaging when applied directly to the product, secondary packaging when combining smaller packages, and tertiary packaging on some distribution packs.

11.19 SYMBOLS USED ON PACKAGES AND LABELS

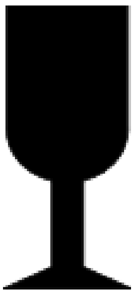
Many types of symbols for package labeling are nationally and internationally standardized. For consumer packaging, symbols exist for product certifications, trademarks, proof of purchase, etc. Some requirements and symbols exist to communicate aspects of consumer use and safety.

Recycling directions, resin identification code (below), and package environmental claims have special codes and symbols.

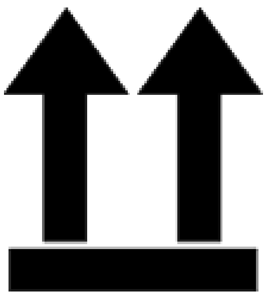
Bar codes (below), universal product codes, and RFID labels are common to allow automated information management.

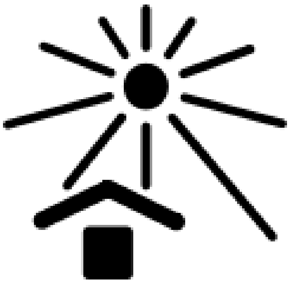
Shipments of hazardous materials or dangerous goods have special information and symbols as required by the UN, the country, and specific carriers. Two examples are below:

With transport packages, standardized symbols are also used to aid in handling. Some common ones are shown below while others are listed in ASTM D5445 "Standard Practice for Pictorial Markings for Handling of Goods" and ISO 780 "Pictorial marking for handling of goods."


Fragile

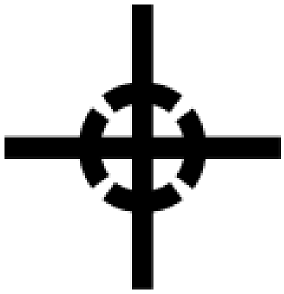

Use no hand hooks


This way up

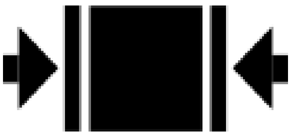


Keep away from sunlight

Keep away from water



Centre of gravity



Clamp as indicated

Do not clamp as indicated

11.20 PACKAGE DEVELOPMENT CONSIDERATIONS

Package design and development are often thought of as an integral part of the new product development process. Alternatively, development of a package (or component) can be a separate process, but must be linked closely with the product to be packaged. Package design starts with the identification of all the requirements: Structural design, marketing, shelf life, quality assurance, logistics, legal, regulatory, graphic design, end-use, environmental, etc. The design criteria, time targets, resources, and cost constraints need to be established and agreed upon.

Transport packaging needs to be matched to its logistics system. Packages designed for controlled shipments of uniform pallet loads may not be suited to mixed shipments with express carriers.

An example of how package design is affected by other factors is its relationship to logistics. When the distribution system includes individual shipments by a small parcel carrier, the sorting, handling, and mixed stacking make severe demands on the strength and protective ability of the transport package. If the logistics system is for uniform pallet loads that are unitized, the structural design of the package can be designed to those specific needs: Vertical stacking, perhaps for a longer time frame. A package designed for one mode of shipment may not be suited for another.

Sometimes the objectives of package development seem contradictory. For example, packaging for an over-the-counter drug might require tamper resistance and child-resistant features. These intentionally make the package difficult to open. The intended consumer, however, might be handicapped or elderly and be unable to readily open the package.

Package design may take place within a company or with various degrees of external packaging engineering: Contract engineers, consultants, vendor evaluations, independent laboratories, contract packagers, total outsourcing, etc. Some sort of formal project planning and project management methodology is required for all but the simplest package design and development programs.

Package development involves considerations for sustainability, environmental responsibility, and applicable environmental and recycling regulations. It may involve a life-cycle assessment, which considers the material and energy inputs and outputs to the package, the packaged product (contents), the packaging process, the logistics system, waste management, etc. It is necessary to know the relevant regulatory requirements for point of manufacture, sale, and use.

The traditional "three R's" of Reduce, Reuse, and Recycle are part of a waste hierarchy which may be considered in product and package development.

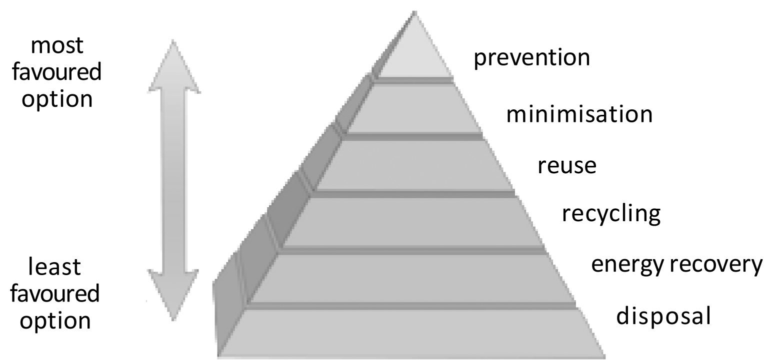


Fig. 11.1

The waste hierarchy:

1. Prevention—Waste prevention is a primary goal. Packaging should be used only where needed. Proper packaging can also help prevent waste. Packaging plays an important part in preventing loss or damage to the packaged product (contents). Usually, the energy content and material usage of the product being packaged are much greater than that of the package. A vital function of the package is to protect the product for its intended use: If the product is damaged or degraded, its entire energy and material content may be lost.

2. Minimization (also "source reduction")—The mass and volume of packaging (per unit of contents) can be measured and used as one of the criteria for minimization during the package design process. Usually "reduced" packaging also helps minimize costs. Packaging engineers continue to work toward reduced packaging.

3. Reuse—The reuse of a package or component for other purposes is encouraged. Returnable packaging has long been useful (and economically viable) for closed-loop logistics systems. Inspection, cleaning, repair, and recouperage are often needed.

4. Recycling—Recycling is the reprocessing of materials (pre- and post-consumer) into new products. Emphasis is focused on recycling the largest primary components of a package: Steel, aluminum, papers, plastics, etc. Small components can be chosen which are not difficult to separate and do not contaminate recycling operations.

5. Energy recovery—Waste-to-energy and refuse-derived fuel in approved facilities are able to make use of the heat available from the packaging components.

6. Disposal—Incineration, and placement in a sanitary landfill are needed for some materials. Material content should be checked for potential hazards to emissions and ash from incineration and leachate from landfill. Packages should not become litter.

11.21 SUMMARY

The marketing mix, which is the means by which an organisation reaches its target market, is made up of product, pricing, distribution, promotion and people decisions. These are usually shortened to the acronym "5P's". Product decisions revolve around decisions regarding the physical product (size, style, specification, etc.) and product line management.

Product decisions are based on how much the organisation has to adjust the product on the standardisation - adaptation continuum to differing market conditions. This results in the evolution of five basic strategic alternatives - extension; extension, adaptation; adaptation, extension; adaptation and invention. Extension is the nearest to a standardised product, communications strategy and Invention at the other end of the continuum, that is, an adaptation strategy. The more adaptive the policy the more costly it will be for the organisation.

Product classification, as stated above, is already in a very advanced stage. Manufacturers can now work with what has been classified. The first product files based on product classification (the Installation Classification Structure) are already available. This clears the way for a completely transparent communication between all parties within the logistics chain." Product classification offers great advantages for all parties concerned.

Knowing your product classification will help you:

1. Identify foreign markets where similar products are currently being exported
2. Gather relevant demographic and economic information about potential markets
3. Obtain valuable information about shipments of similar products such as
4. Where Products Are Being Imported From
5. Where Products Are Being Exported To
6. How Much Product Is Being Shipped
7. Product Trade History

8. Look up tariff rates
9. Obtain an export license if required

If you still have doubts about introducing it into your own organisation, within a few years you might be surprised by a rapidly changing world of standardised product information and electronic data exchange. Product classification is certainly no longer a just theory: it made the leap from drawing board to practice a long time ago!

Also, Salespeople can differentiate their products in three different ways: quality, service or price. Most companies will choose to focus on one or two of the three product aspects, as it's impossible to provide all three and stay solvent. Emphasizing quality and service means spending more money on parts and employees, making it impossible to beat your competitors' prices. Unless you are in a position to dictate company policy, your options will be somewhat restricted by the company's decision as to which areas to emphasize. However, most salespeople will find that they do have some leeway. For example, many sales managers allow salespeople to offer a discounted rate to a promising prospect, which allows the salesperson to differentiate on price.

11.22 GLOSSARY

Product – all things a buyer receives in an exchange, good and bad, intended and unintended

Adaptation - To change/make suitable for; is making fit for a specific use or situation.

Consumer Decision - making the approach that a consumer employs in arriving at a purchase decision

Marketing - The conceptualization and delivery of customer satisfaction

Marketing Management - the process allocating the resources of the organization toward marketing activities

Marketing Mix - The marketing mix is a business tool used in marketing and by marketing professionals. The marketing mix is often crucial when determining a product or brand's offering, and is often synonymous with the four Ps: price, product, promotion, and place.

Convenience products are consumer products and services that the customer usually buys frequently, immediately, and with a minimum of comparison and buying effort. Examples include soap, candy, newspapers, and fast food. Convenience products are usually low priced, and marketers place them in many locations to make them readily available when customers need them.

Shopping Products are less frequently purchased consumer products and services that customers compare carefully on suitability, quality, price, and style.

Shopping Products marketers usually distribute their products through fewer outlets but provide deeper sales support to help customers in their comparison efforts.

Specialty Products are consumer products and services with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort.

Adaptation - To change/make suitable for; is making fit for a specific use or situation.

Behaviourist (or intended use) Dimension –used for market segmentation, this dimension relates to benefits sought and expected use by the customer

Buying Center – the group of individuals who play a role in the process of acquisition of goods and services for the organization

11.23 SELF ASSESSMENT QUESTIONS

1. What do you understand by a product? Explain the role of its design in product's success in the market.

   ____

   ____

   ____

2. What are the various product related decisions, a production manager has to deal with?

3. Explain and differentiate between various product and production related decisions.

4. Discuss in detail the various product strategies with the help of a real case example.

5. What are the various dimensions explained under the characteristics of a product?

6. What are the levels at which various products can be classified?

7. Differentiate between various types of product categories

8. What do you understand by packaging and labelling?

____
____
____

9. How does the role of packaging and labelling impact the important product related decisions?

____
____
____

10. Explain the various types of packaging.

____
____
____

11. Explain the various labelling symbols used in the real market.

____
____
____

12. What are the various package development considerations for a manager before letting the product out in the market?

____
____
____

11.24 LESSON END EXERCISES

Fill in the blanks

1. Marketing mix is a ___________tool used in marketing.
2. Products designed to meet global segments are called __________ products.

3. Products can be classified into two distinctive types ______ versus _______ on the basis of related attributes or benefits.

4. ___________ are industrial products that aid in the buyer's production or operations, including installations and accessory equipment

5. __________ is the reprocessing of materials (pre- and post-consumer) into new products.

True or False

1. Primary packaging is the material that first envelops the product and holds it. This usually is the smallest unit of distribution or use and is the package that is in direct contact with the contents **(True/False)**

11.25 SUGGESTED READINGS

- Strategic Marketing (McGraw-Hill/Irwin Series in Marketing) by David Cravins
- Strategic Management and Business Policy. by Azhar Kazmi

PRODUCT & PRICE - MIX DECISIONS

Lesson No. 12	**Unit-III**
Semester-II	**M.Com-C254**

PRODUCT LIFE CYCLE (PLC)

STRUCTURE

12.1 INTRODUCTION

A product life cycle is the length of time from a product first being introduced to consumers until it is removed from the market. A product's life cycle is usually broken down into four stages; introduction, growth, maturity and decline.Product life cycles are used by management and marketing professionals to help determine advertising schedules, price points, expansion to new product markets, packaging redesigns, and more. These strategic methods of supporting a product are known as product life cycle management. They can also help determine when newer products are ready to push older ones from the market.There are four stages in a product's life cycle introduction, growth, maturity and decline but before this a product needs to go through design, research and development. Once a product is found to be feasible and potentially profitable it can be produced, promoted and sent out to the market. It is at this point that the product life cycle begins.The various stages of a product's life cycle determine how it is marketed to consumers. Successfully introducing a product to the market should see a rise in demand and popularity, pushing older products from the market. As the new product becomes established, the marketing efforts lessen and the associated costs of marketing and production drop. As the product moves from maturity to decline, so demand wanes and the product can be removed from the market, possibly to be replaced by a newer alternative.Managing the four stages of the life cycle can help increase profitability and maximise returns, while a failure to do so could see a product fail to meet its potential and reduce its shelf life.Writing in the Harvard Business Review in 1965, marketing professor Theodore Levitt declared that the innovator had the most to lose as many new products fail at the introductory stage of the product life cycle. These failures are particularly costly as they come after investment has already been made in research, development and production. Because of this, many businesses avoid genuine innovation in favour of waiting for someone else to develop a successful product before cloning it.

12.2 OBJECTIVES

1. To comprehend the concept of Product Life Cycle (PLC) and its stages.

2. To grasp the marketing strategies of all the phases of PLC
3. To understand the uses/benefits of PLC and critically assess the PLC
4. To decipher the pioneer advantage and new product development

12.3 PRODUCT LIFE CYCLE (PLC)

Product Life Cycle (PLC) management is how the goods are handled in their lifecycle. Here are some of the different fundamentals of the business concept. The term 'product life cycle' was first used in 1965 by American economist Theodore Levitt. In one of his articles, he used the management concept to explain to product managers and brand leaders how to successfully apply it to their business processes. In his article, Levitt discussed what the product life cycle is and how the concept can be used to gain a competitive advantage. The American-German professor also mentioned how the concept could reap benefits for businesses when applied correctly.

How have brands like Coca Cola, Apple and Pepsi Co remained relevant for decades? It's because they have adapted the product life cycle concept into their business ideation and analysis process successfully. Understanding the meaning of the product life cycle becomes easier if you trace these brands' journeys and understand how they tackled crises by applying this management concept.So, what is the product life cycle? It traces the time from which the product is introduced in the market to when it is removed from there. It is a management tool that marketing managers and brand leaders mostly use to analyse a product's behaviour from its inception to end.Furthermore, analyzing the product life cycle helps to determine and implement effective marketing and advertising strategies, competitive price, packaging redesign, and more. Therefore, the process of analyzing the product life cycle is called product life cycle management.

Product life cycle management (PLM) summarizes the process of managing a product's life cycle from its inception to the end. From design to pricing, everything comes under PLM. The process is carried out with the help of software, which makes it easy for PLM managers to track progress and changes.

Besides analyzing and managing a product, PLM also plays a critical role in the ideation and development of new products that offer a competitive advantage. Interestingly, many businesses undertake a product management life cycle to stay ahead of their competition and bring new innovations into their existing products to increase brand loyalty. Products, like people, have life cycles. The life cycle of a product is broken into four stages introduction, growth, maturity and decline.A product begins with an idea, and within the confines of modern business, it isn't likely to go further until it undergoes research and development (R&D) and is found to be feasible and potentially profitable. At that point, the product is produced, marketed, and rolled out. Some product life cycle models include product development as a stage, though at this point, the product has not yet been brought introduced to customers.

As mentioned above, there are four generally accepted stages in the life cycle of a product—introduction, growth, maturity, and decline.

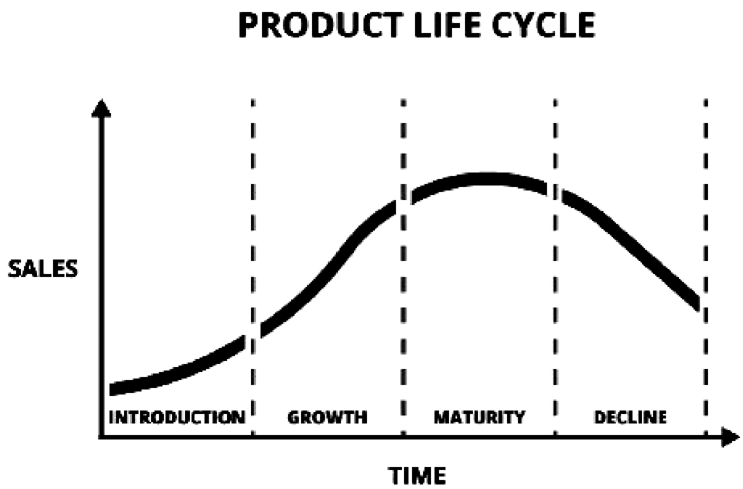


Figure 12.1: Stages of Product Life Cycle

Introduction Stage

The introduction phase is the first-time customers are introduced to the new product. A company must generally include a substantial investment in advertising and a marketing campaign focused on making consumers aware of the product and its benefits, especially if it broadly unknown what the good will do.During the introduction stage, there is often little to no competition for a product as other competitors may be getting a first look at rival products. However, companies still often experience negative financial results at this stage as sales tend to be lower, promotional pricing may be low to drive customer engagement, and the sales strategy is still being evaluated.

Growth Stage

If the product is successful, it then moves to the growth stage. This is characterized by growing demand, an increase in production, and expansion in its availability. The amount of time spent in the introduction phase before a company's product experiences strong growth will vary from between industries and products.During the growth phase, the product becomes more popular and recognizable. A company may still choose to invest heavily in advertising if the product faces heavy competition. However, marketing campaigns will likely be geared towards differentiating their product from others as opposed to introducing their goods to the market. A company may also refine their product by improving functionality based on customer feedback.Financially, the growth period of the product life cycle results in increased sales and higher revenue. As competition begins to offer rival products, competition increases, potentially forcing the company to decrease prices and experience lower margins.In this phase, the product has gained maximum traction and is growing leaps and bounds with each passing day. Product managers concentrate on attracting more customers and increasing their market share, ensuring that the demand for the product is at an all-time high or at least better than the introduction phase.

Maturity Stage

The maturity stage of the product life cycle is the most profitable stage, while the costs of producing and marketing decline. With the market saturated with the product, competition now higher than at other stages, and profit margins starting to shrink, some analysts refer to the maturity stage as when sales volume is "maxed out".Depending on the good, a company may begin deciding how to innovate their product or introduce new ways to capture a larger market presence. This includes getting more feedback from customers, their demographics, and their needs.During the maturity stage, competition is now the highest. Rival companies have had enough time to introduce competing and improved products, and competition for customers is usually highest. Sales levels stabilize, and a company strives to have their product exist in this maturity stage for as long as possible.

The start of the maturity phase is marked by the decline in the sale, which increases gradually. This stage is the longest as well as the most prosperous phase in a product's life cycle. Product managers, in this stage, concentrate on maximizing profits and ensuring that the maturity phase lasts long enough to reap its benefits. In this phase, profits and customer loyalty, engagement and satisfaction will be at an all-time high.

Decline Stage

As the product takes on increased competition as other companies emulate its success, the product may lose market share and begin its decline. Product sales begin to decline due to market saturation and alternative products, and the company may choose to not pursue additional marketing efforts as customers may already have determined themselves loyal to the company's products or not.Should a product be entirely retired, the company will stop generating support for the good and entirely phase out marketing endeavours. Alternatively, the company may decide to revamp the product or introduce it with a next generation, completely overhauled item. If the upgrade is substantial enough, the company may choose to re-enter the product life cycle by introducing the new version to the market.The stage of a product's life cycle impacts the way in which it is marketed to consumers. A new product needs to be explained, while a mature product needs to be differentiated from its competitors.

Every product becomes redundant with time, and it is inevitable. However, this phase can be delayed with the right marketing strategies. There could be multiple reasons for the decline of a product. Here are some reasons why a product decline gradually:

1. Technological advancement
2. Product innovation
3. Change in habits and attitudes of the customers

The start of this phase is marked by a decline in sales figures, which then reduces to nil. Product managers play a pivotal role in this phase, and they help businesses make a turnaround strategy. Additionally, they pivot the product to a new segment or develop a new product in the same segment.

12.4 PRODUCT LIFE CYCLE STRATEGY AND MANAGEMENT

Having a properly managed product life cycle strategy can help extend the life cycle of your product in the market. The strategy begins right at the market introduction stage with setting of pricing. Options include 'price skimming,' where the initial price is set high and then lowered in order to 'skim' consumer groups as the market grows. Alternatively, you can opt for price penetration, setting the price low to reach as much of the market as quickly as possible before increasing the price once established.

Product advertising and packaging are equally important in order to appeal to the target market. In addition, it is important to market your product to new demographics in order to grow your revenue stream.Products may also become redundant or need to be pivoted to meet changing demands. An example of this is Netflix, who moved from a DVD rental delivery model to subscription streaming.Understanding the product life cycle allows you to keep reinventing and innovating with an existing product (like the iPhone) to reinvigorate demand and elongate the product's market life.

Examples

Many products or brands have gone into decline as consumer needs change or new innovations are introduced. Some industries operate in several stages of the product life cycle simultaneously, such as with televisual entertainment, where flat screen TVs are at the mature phase, on-demand programming is in the growth stage, DVDs are in decline and video cassettes are now largely redundant. Many of the most successful products in the world stay at the mature stage for as long as possible, with small updates and redesigns along with renewed marketing to keep them in the thoughts of consumers, such as with the Apple iPhone.

Here are a few well-known examples of products that have passed or are passing through the product life cycle:

1. **Typewriters**

The typewriter was hugely popular following its introduction in the late 19th century due to the way it made writing easier and more efficient. Quickly moving through market growth to maturity, the typewriter began to go into decline with the advent of the electronic word processor and then computers, laptops and smartphones. While there are still typewriters available, the product is now at the end of its decline phase with few sales and little demand. Meanwhile, desktop computers, laptops, smartphones and tablets are all experiencing the growth or maturity phases of the product lifecycle.

2. **Video Cassette Recorders (VCRs)**

Having first appeared as a relatively expensive product, VCRs experienced large-scale product growth as prices reduced leading to market maturation when they could be found in many homes. However, the creation of DVDs and then more recently streaming services, VCRs are now effectively obsolete. Once a ground-breaking product VCRs are now deep in a decline stage from which it seems unlikely, they will ever recover.

3. **Electric Vehicles**

Electric vehicles are experiencing a growth stage in their product life cycle as companies work to push them into the marketplace with continued design improvements. Although electric vehicles are not new, the consistent innovation in the market and the improving sales potential means that they are still growing and not yet into the mature phase.

4. **AI Products**

Like electric vehicles, artificial intelligence (AI) has been in development and use for years, but due to the continued developments in AI, there are many products that are still in the market introduction stage of the product life cycle. These include innovations that are still being developed, such as autonomous vehicles, which are yet to be adopted by consumers.

12.5 MARKETING STRATEGIES FOR INTRODUCTION STAGE

Introduction stage is marked with slow growth in sales and a very little or no profit. Note that product has been newly introduced, and a sales volume is limited; product and distribution are not given more emphasis. Basic constituents of marketing strategies for the stage include price and promotion. Price, promotion or both may be kept high or low depending upon market situation and management approach. Observe figure 12.2.

		Promotion	
		High	Low
Price	High	Rapid Skimming Strategy	Slow Skimming Strategy
	Low	Rapid Penetration Strategy	Slow Penetration Strategy

Figure 3: Marketing Strategies for Introduction Stage

Figure 12.2: Marketing Strategy for Introduction Phase

Marketing strategies used in the introduction stages include:

1. **Rapid Skimming -** launching the product at a high price and high promotional level
2. **Slow Skimming -** launching the product at a high price and low promotional level
3. **Rapid Penetration** - launching the product at a low price with significant promotion
4. **Slow Penetration** - launching the product at a low price and minimal promotion

During the introduction stage, an organisation should aim to:

1. establish a clear brand identity
2. connect with the right partners to promote your product
3. set up consumer tests, or provide samples or trials to key target markets
4. price the product or service as high as you believe you can sell it, and to reflect the quality level you are providing

5. You could also try to limit the product or service to a specific type of consumer - being selective can boost demand.

Rapid Skimming Strategy:

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

This strategy makes a sense in following assumptions:

(a) Major part of market is not aware of the product.

(b) Customers are ready to pay the asking price.

(c) There possibility of competition and the firm wants to build up the brand preference.

(d) Market is limited in size.

Slow Skimming Strategy:

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

This strategy can be used under following assumptions:

(a) Market is limited in size.

(b) Most of consumers are aware of product.

(c) Consumers are ready to pay high price.

(d) There is less possibility of competition.

Rapid Penetration:

The strategy consists of launching the product at a low price and high promotion. The purpose is the faster market penetration to get larger market share. Marketer tries to expand market by increasing the number of buyers.

It is based on following assumptions:

(a) Market is large.

(b) Most buyers are price-sensitive. They prefer the low-priced products.

(c) There is strong potential for competition.

(d) Market is not much aware of the product. They need to be informed and convinced.

(e) Per unit cost can be reduced due to more production, and possibly more profits at low price.

Slow Penetration:

The strategy consists of introducing a product with low price and low-level promotion. Low price will encourage product acceptance, and low promotion can help realization of more profits, even at a low price.

Assumptions of this strategy:

(a) Market is large.

(b) Market is aware of product.

(c) Possibility of competition is low.

(d) Buyers are price-sensitive or price-elastic, and not promotion-elastic.

What does pioneer advantage mean?

Pioneers enjoy several advantages, as it is the first to hit the market when there are no challenges from competitors. Pioneers enjoy long-lived market share and probably the market leaders in their product segments, according to several market studies.

However, this is not the scenario for every product. Some products enter the market and exit in the same year. For instance, the Coca Cola C2 failed to capture the market and died in the same year of its launch that is in 2004.

Some are routine decisions while some can be crucial for the survival of your business. Choosing the right strategy is one of the most important decisions a manager has to make and to make sure it is implemented correctly. There are different strategies to choose from, but when it comes to innovations, a manager can choose to be a pioneer rather than a follower. If organisation is up for challenge, aren't afraid of taking risks and find pleasure in being the first, then the market pioneer strategy is the right choice.

Once it is decided to become a pioneer, managers have to further refine their strategy and choose whether they want to focus on creating a new product or service, a new process, or a new market. The first two are considered as technological pioneering and are a great source of growth. Whichever option an organisation choose for innovation process have in mind that it's usually the differentiation strategy which follows the pioneer strategy, whereas the followers opt for a lower-cost strategy.

The benefits of successfully implementing this strategy are great. Besides getting the reputation of a pioneer, organisations are in control of the new technology and the supply and distribution channels which lead to lowering the overall costs. They also have the possibility of creating a loyalty-strengthen relationship with your customers and, in most cases, have the biggest market share. Being a pioneer can bring the leader position and provide a great defence mechanism from the competition. High profits are often linked to high barriers that organisations are able to create as a pioneer. The barriers can be in the form of controlling resources, technology, human capital and so on. The resource-based view of the firm provides advantage of exploiting and controlling valuable, scarce and hard to imitate resources.

Being a radical innovator and a pioneer also comes with first-mover disadvantages. It can cause a free-ride effect and provide the followers with free use of achievement/ innovation/ know-how/technology. This will make it easier for them to create their own version of organisational innovation, and make it more superior, affordable and more attractive for the customers. It is important to continuously work on improvement and make sure to be up-to-date with customers' needs and wants. Sometimes it is better to be open-minded for emerging technologies that the competition might be developing instead of solely and blindly focusing on original innovation. That is the only way an organisation can make sure not to be blind-sided and kicked out of the market/game.

Being a pioneer calls for a true innovator spirit and not many are up for the challenge. The uncertainty of idea being developed and later on accepted is high and accompanied by a lot of risk along the way. Give organisation the benefit of the doubt and start innovation journey into the unknown.

12.6 MARKETING STRATEGIES FOR GROWTH STAGE

This is the stage of rapid market acceptance. The strategies are aimed at sustaining market growth as long as possible. Here, the aim is not to increases awareness, but to get trial of the product. Company tries to enter the new segments. Competitors have entered the market. The company tries to strengthen competitive position in the market. It may forgo maximum current profits to earn still greater profits in the future.

Several possible strategies for the stage are as under:

1. Product qualities and features improvement

2. Adding new models and improving styling

3. Entering new market segments

4. Designing, improving and widening distribution network

5. Shifting advertising and other promotional efforts from increasing product awareness to product conviction

6. Reducing price at the right time to attract price-sensitive consumers

7. Preventing competitors to enter the market by low price and high promotional efforts

Marketing strategies used in the growth stage mainly aim to increase profits. Some of the common strategies to try are:

1. improving product quality
2. adding new product features or support services to grow your market share
3. entering new markets segments
4. keeping pricing as high as is reasonable to keep demand and profits high
5. increasing distribution channels to cope with growing demand
6. shifting marketing messages from product awareness to product preference
7. skimming product prices if your profits are too low

The growth stage is when you should see rapidly rising sales, profits and your market share. Your strategies should seek to maximise these opportunities.

12.7 MARKETING STRATEGIES FOR MATURITY STAGE

In this stage, competitors have entered the market. There is severe fight among them for more market share. The company adopts offensive/aggressive marketing strategies to defeat the competitors.

When the sales peak, the product will enter the maturity stage. This often means that the market will be saturated and you may find that you need to change your marketing tactics to prolong the life cycle of your product. Common strategies that can help during this stage fall under one of two categories:

1. Market Modification - this includes entering new market segments, redefining target markets, winning over competitor's customers, converting non-users
2. Product Modification - for example, adjusting or improving your product's features, quality, pricing and differentiating it from other products in the marking

Following possible strategies are also followed:

1. To Do Nothing:

To do nothing can be an effective marketing strategy in the maturity stage. New strategies are not formulated. Company believes it is advisable to do nothing. Earlier or later, the decline in the sales is certain. Marketer tries to conserve money, which can be later on invested in new profitable products. It continues only routine efforts, and starts planning for new products.

2. Market Modification:

This strategy is aimed at increasing sales by raising the number of brand users and the usage rate per user. Sales volume is the product (or outcome) of number of users and usage rate per users. So, sales can be increased either by increasing the number of users or by increasing the usage rate per user or by both. Number of users can be increased by variety of ways.

There are three ways to expand the number of users:

i. Convert non-users into users by convincing them regarding uses of products

ii. Entering new market segments

iii. Winning competitors' consumers

Sales volume can also be increased by increasing the usage rate per user.

This is possible by following ways:

i. More frequent use of product

ii. More usage per occasion

New and more varied uses of product

3. Product Modification:

Product modification involves improving product qualities and modifying product characteristics to attract new users and/or more usage rate per user.

Product modification can take several forms:

i. Strategy for Quality Improvement:

Quality improvement includes improving safety, efficiency, reliability, durability, speed, taste, and other qualities. Quality improvement can offer more satisfaction.

ii. Strategy for Feature Improvement:

This includes improving features, such as size, colour, weight, accessories, form, get-up, materials, and so forth. Feature improvement leads to convenience, versatility, and attractiveness. Many firms opt for product improvement to sustain maturity stage.

Product improvement is beneficial in several ways like:

(1) It builds company's image as progressiveness, dynamic, and leadership,

(2) Product modification can be made at very little expense,

(3) It can win loyalty of certain segments of the market,

(4) It is also a source of free publicity, and

(5) It encourages sales force and distributors.

4. Marketing Mix Modification:

This is the last optional strategy for the maturity stage. Modification of marketing mix involves changing the elements of marketing mix. This may stimulate sales. Company should reasonably modify one or more elements of marketing mix (4P's) to attract buyers and to fight with competitors. Marketing mix modification should be made carefully as it is easily imitated.

12.8 MARKETING STRATEGIES FOR DECLINING STAGE

Company formulates various strategies to manage the decline stage. The first important task is to detect the poor products. After detecting the poor products, a company should decide whether poor products should be dropped. Some companies formulate a special committee for the task known as Product Review Committee. The committee collects data from internal and external sources and evaluates products. On the basis the report submitted by the committee, suitable decisions are taken.

During the end stages of the product, organisation will see declining sales and profits. This can be caused by changes in consumer preferences, technological advances and alternatives on the market. At this stage, it is needed to decide what strategies to take. If organisation wants to save money, you can:

1. reduce promotional expenditure on the products
2. reduce the number of distribution outlets that sell them
3. implement price cuts to get the customers to buy the product
4. find another use for the product
5. maintain the product and wait for competitors to withdraw from the market first
6. harvest the product or service before discontinuing it

Another option for the business is to discontinue the product from offering. Organisation may choose to:

1. sell the brand to another business
2. significantly reduce the price to get rid of all the inventory
3. Many businesses find that the best strategy is to modify their product in the maturity stage to avoid entering the decline stage.

Company can also follow any of the following strategies:

1. Continue with the Original Products:

This strategy is followed with the expectations that competitors will leave the market. Selling and promotional costs are reduced. Many times, a company continues its products only in effective segments and from remaining segments they are dropped. Such products are continued as long as they are profitable.

2. Continue Products with Improvements:

Qualities and features are improved to accelerate sales. Products undergo minor changes to attract buyers.

3. Drop the Product:

When it is not possible to continue the products either in original form or with improvement, the company finally decides to drop the products.

Product may be dropped in following ways:

i. Sell the production and sales to other companies

ii. Stop production gradually to divert resources to other products

iii. Drop product immediately.

Identifying Features	Stages			
	Introduction	Growth	Maturity	Decline
Sales	Low	High	High	Low
Investment Cost	Very High	High(Lower than Intro stage)	Low	Low
Competition	Low or no competition	High	Very High	Low
Advertising	Very High	High	High	Low
Profit	Low	High	High	Low

Figure: 12.3 Snapshot of Marketing Strategies in Different phases

12.10 PROS AND CONS OF PRODUCT LIFE CYCLE

Advantages of PLC

The product life cycle better allows marketers and business developers to better understand how each product or brand sits with a company's portfolio. This enables the company to internally shift resources to specific products based on those products positioning within the product life cycle.

For example, a company may decide to reallocate market staff time to products entering the introduction or growth stages. Alternative, it may need to invest more cost of labour in engineers or customer service technicians as the product matures.

The product life cycle naturally tends to have a positive impact on economic growth as it promotes innovation and discourages supporting outdated products. As products move through the life cycle stages, companies that use the product life cycle can realize the need to make their products more effective, safer, efficient, faster, cheaper, or conform better to client needs.

Companies often run into trouble when they don't understand the introduction stage of their product's life cycle, especially when customers do not respond well to the initial product (either because of pricing or the inherent value or usefulness of the product).

It is important to examine product advertising and packaging in addition to pricing. Is the product meeting the demands and needs of its target market? If sales are stale, many companies consider shifting their marketing strategy and focus on marketing to new demographics to help introduce their product to a different segment of the consumer market.

Conducting PLC analysis can help companies learn when they need to reinvent their product or pivot it in a new direction. For example, online streaming service Netflix pivoted their product by transitioning away from their DVD-delivery service and toward streaming movies and television series directly online, which was met with great success.By examining where their product is in the product life cycle, companies can continue innovating to keep up with new technology, diversify their offerings, keep up with the competition, and potentially elongate their product's lifespan in the market.

Disadvantages of PLC

Unfortunately, the product life cycle doesn't pertain to every industry, and it doesn't pertain consistently across all products. Consider popular beverage lines whose primary products have been in the maturity stage for decades, while spin-off or variations of these drinks from the same company fail.The product life cycle may be artificial in industries with legal or trademark restrictions. Consider the new patent term of 20 years from which the application for the patent was filed in the United States.Though a drug may be just entering their growth stage, it may be adversely impacted by competition when its patent ends regardless of which stage it is in.Another unfortunate side effect of the product life cycle is prospective planned obsolescence. When a product enters the maturity stage, a company may be tempted to begin planning its replacement. This may be the case even if the existing product still holds many benefits for customers and still has a long shelf life. For producers who tend to introduce new products every few years, this may lead to product waste and inefficient use of product development resources.

The product life cycle is too clean a picture. Sometimes a product's sales might never rise beyond the introduction stage, or it may enter into a decline just before going into a subsequent rise. Consequently, this can cause managers to be too rigid in their strategies, as they expect the sales volumes of their products to follow a script written in stone.Product life cycles can be self-fulfilling. Each stage has a set of recommended actions. Consequently, when a product begins to behave as if it is in a decline, managers might decide to discontinue that product, because that is the protocol. Meanwhile, it could be that the product was merely dipping in sales, as a result of economic externalizations, which will eventually lift.

12.10 NEW PRODUCT DEVELOPMENT

In today's competitive market, the ability to offer products that meet customers' needs and expectations has never been more important.Customer requirements and behaviours, technology and competition are changing rapidly, and businesses cannot rely on existing products to stay ahead of the market. They need to innovate, and that means to develop and successfully launch new products.New Product Development (NPD) refers to the complete process of bringing a new product to market. This can apply to developing an entirely new product, improving an existing one to keep it attractive and competitive, or introducing an old product to a new market.

The emergence of new product development can be attributed to the needs of companies to maintain a competitive advantage in the market by introducing new products or innovating existing ones. While regular product development refers to building a product that already has a proof of concept, new product development focuses on developing an entirely new idea from idea generation to development to launch.

The 7 stages of new product development

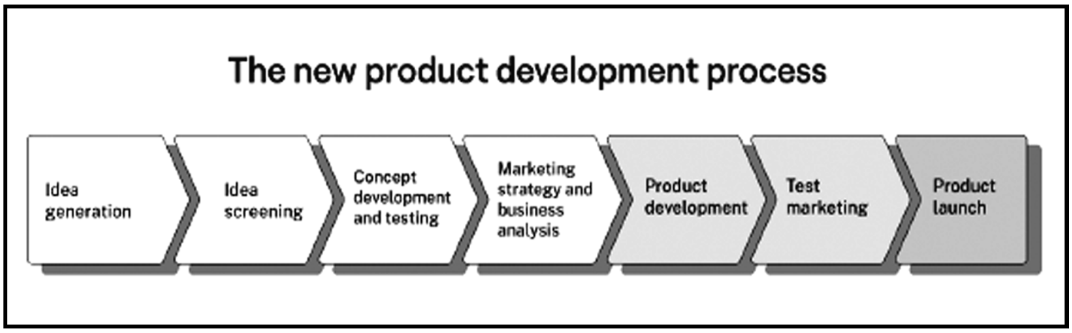


Figure 12. 4 New product Development Process

1. Idea Generation

Idea generation involves brainstorming for new product ideas or ways to improve an existing product. During product discovery, companies examine market trends, conduct research, and dig deep into users' wants and needs to identify a problem and propose innovative solutions.A SWOT Analysis is a framework for evaluating your Strengths, Weaknesses, Opportunities, and Threats. It can be a very effective way to identify the problematic areas of your product and understand where the greatest opportunities lie.There are two primary sources of generating new ideas. Internal ideas come from different areas within the company—such as marketing, customer support, the sales team, or the technical department. External ideas come from outside sources, such as studying your competitors and, most importantly, feedback from your target audience.

Some methods used are:

1. Conducting market analysis
2. Working with product marketing and sales to check if your product's value is being positioned correctly
3. Collecting user feedback with interviews, focus groups, surveys, and data analytics

4. Running user tests to see how people are using your product and identify gaps and room for improvement

Ultimately, the goal of the idea generation stage is to come up with as many ideas as possible while focusing on delivering value to your customers.

2. Idea Screening

This second step of new product development revolves around screening all your generated ideas and picking only the ones with the highest chance of success. Deciding which ideas to pursue and discard depends on many factors, including the expected benefits to your consumers, product improvements most needed, technical feasibility, or marketing potential.

The idea screening stage is best carried out within the company. Experts from different teams can help you check aspects such as the technical requirements, resources needed, and marketability of your idea.

3. Concept Development and Testing

All ideas passing the screening stage are developed into concepts. A product concept is a detailed description or blueprint of your idea. It should indicate the target market for your product, the features and benefits of your solution that may appeal to your customers, and the proposed price for the product. A concept should also contain the estimated cost of designing, developing, and launching the product.Developing alternative product concepts will help you determine how attractive each concept is to customers and select the one that would provide them the highest value.

Once the concepts are developed, testing each of them with a select group of consumers is required. Concept testing is a great way to validate product ideas with users before investing time and resources into building them.

Concepts are also often used for market validation. Before committing to developing a new product, share your concept with your prospective buyers to collect insights and gauge how viable the product idea would be in the target market.

4. Marketing Strategy and Business Analysis

Now since the concept is selected, it's time to put together an initial marketing strategy to introduce the product to the market and analyse the value of solution from a business perspective.

The marketing strategy serves to guide the positioning, pricing, and promotion of new product. Once the marketing strategy is planned, product management can evaluate the business attractiveness of the product idea.

The business analysis comprises a review of the sales forecasts, expected costs, and profit projections. If they satisfy the company's objectives, the product can move to the product development stage.

5. Product Development

The product development stage consists of developing the product concept into a finished, marketable product. The product development process and the stages the company will go through will depend on the company's preference for development, whether it's agile product development, waterfall, or another viable alternative.

This stage usually involves creating the prototype and testing it with users to see how they interact with it and collect feedback. Prototype testing allows product teams to validate design decisions and uncover any flaws or usability issues before handing the designs to the development team.

6. Test Marketing

Test marketing involves releasing the finished product to a sample market to evaluate its performance under the predetermined marketing strategy.

There are two testing methods you can employ:

1. **Alpha testing** is software testing used to identify bugs before releasing the product to the public
2. **Beta testing** is an opportunity for actual users to use the product and give their feedback about it

The goal of the test marketing stage is to validate the entire concept behind the new product and get ready to launch the product.

7. Product Launch

At this point, you're ready to introduce your new product to the market. Ensure that the product, marketing, sales and customer support teams are in place to guarantee a successful launch and monitor its performance.

Customers: Understand who will be making the final purchasing decisions and why they will be purchasing your product. Create buyer personas and identify their roles, objectives, and pain points.

Value proposition: Identify what makes your organisation/product different from the competition and why people should choose to buy your product

Messaging: Determine how the communication channel of product's value to potential customers

Channels: Pick the right marketing channels to promote products, such as email marketing, social media, SEO, and more.

12.11 MAGGI AND PLC ANALYSIS

Popular in many countries like Australia, New Zealand, South Africa, India, Nestle wanting to explore the potential for such instant food/noodle brand in India, launched Maggi in the year 1982. It took several years and lot of money for Nestle to establish its noodles brand in India.

Introduction Stage and Maggi

When Maggi noodles was launched in India it had segmented the based-on age and urban families targeting kids, youth and office goers positioning itself as fast to cook, 2-minute noodles, with the tagline of "taste bhi, Health bhi". Positioning however was not an issue, as no instant noodle had been launched in India, Maggi was the first one.

In the initial stages, Maggi had high failure rates, frequent product modifications(to adjust to Indian consumer), high marketing and product cost as they were trying to build product awareness. With a lot of ups and downs and high failure rates, Maggi survived the introductory stage.

Growth Stage in Product Life Cycle of Maggi

Around 1985, the demand for Maggi had increased tremendously in India recovering their developmental costs and increasing the sales rate. Maggi remained the monopoly in the Indian Market till 1990, after which Top Ramen entered the market reducing the market share of Maggi a little.

10 years back Maggi had 50% of the market, in order to increase its sales again, Maggi introduced a new flavour in 1997 which wasn't well accepted by the consumer, thus in 1999, Nestle re-launched its old flavour of Maggi, getting back on track in terms of sales.

Over the years, Nestle has also introduced many products under the Maggi brand, like the ketchups, soup, oats, pasta, more noodle flavours etc.

Maturity Stage in Product Life Cycle of Maggi

During its maturity stage, Maggi's sales were at peak, production costs were low and profits were high. In 2003, Hindustan Unilever Limited (HUL) was all set to take on Nestle's Maggi by launching a new category of liquid snacks under its food brand Knorr Annapurna.

Priced aggressively at 5Rs, the new product called Knorr Annapurna Soupy Snax was made available in 4 varieties. Like Maggi, it had a similar target market and positioned it in a similar manner.

Also, Maggi faced tough competition from Top Ramen. That led to decline in sales, signifying that Maggi had entered the maturity stage.Maggi reaching the peak and seeing the sales rate declining launched a series of new products. While keeping price aggressive at 5 Rs and made the distribution channel more intensive to encourage their product over the competitor.

Decline Stage in Product Life Cycle of Maggi

There were certain hiccups in the way- like the banning of Maggi. Due to high lead content almost led us to believe that our favourite noodle brand is now off the shelf. And may be reached its last phase, i.e., the decline stage.

But Nestle invested more in the research of Maggi and took corrective actions. For example, Internal employee engagement, increased campaign, more activities on social media, and revived back from the near disaster.

Talking about the current scenario, After the world was hit by the Corona Virus Pandemic In the year 2019, Maggi sales shot up by 25% as consumers stayed home and stockpiled instant noodles.With increase in total and domestic sales by 8.1% and 8.5%, respectively, Maggi's revenue in the year 2020 and 2021 is continuing to increase. Maggi therefore escaped its death and climbed back from the decline stage and recovered well.These were the most important stages in the product life cycle of Maggi!

Conclusion

This was my take on the product life cycle of Maggi. In this article we talked about What are the 5 stages of product life cycle? Namely, the Development, Introduction, growth, maturity and decline stages.

We also discussed in detail the Product life cycle of Maggi. The Introductory, growth, maturity and decline stages in product life cycle of Maggi.Maggi even today is the most liked and valuable instant noodle brand. And now has expanded its reach into other diverse flavours and products.

12.12 SUMMARY

The classic graph for the product lifecycle is a sales curve that progresses through stages:

A sharp rise from the x-axis as a product transition from Introduction to the Growth phase;a sustained, rounded peak in Maturity;and a gradual Decline that portends its withdrawal from the market.Each stage of the product lifecycle has implications for marketing. The goal of product lifecycle marketing is not to match the curve but to outline what may work best now and plan for the future.Skilled product marketers shape the curve: speeding through the Introduction, increasing the slope of the Growth phase, extending the length of Maturity, and easing the pace of the Decline.

Pioneering advertising campaigns are launched early a product's life cycle-often while it's still in development through orchestrated leaks—and will always begin prior to a product's official release date. A good pioneering campaign combines focused advertising with a structured PR strategy to cement a new product in the public's imagination.

The purpose of a pioneering advertising campaign is to introduce potential customers to a new concept and create a buzz around the launch of a new product that's unique in the marketplace. A well-constructed pioneering advertising campaign seeks to convince consumers that their lives will be fundamentally enhanced by purchasing a new product. Advertisers launching a new product category don't have to focus on how their product compares to the competition, so they can concentrate on explaining how their new concept works and what it means for the consumer.

12.13 GLOSSARY

1. **Product Life Cycle:** Different phases through which product passes during its entire lifetime.

2. **Decline Phase:** the last stage of product life cycle when the sales of the company decline due to change in preference of consumer.

3. **Slow Skimming:** A strategy under which low prices are being charged at introductory phase.

4. **Rapid Skimming:** A strategy under which high prices are being charges at introductory phase.

5. **Rapid Penetration Strategy:** A strategy under which the objective of firm is to gain market share and profit maximization.

12.14 SELF-ASSESSMENT QUESTIONS

Q1 Write a short note on: -

a) Product Life Cycle
b) Maturity Phase
c) Rapid Penetration Strategy
d) Slow skimming

12.15 LESSON END EXERCISE

Q1 Elaborate the different stages of product life cycle.

Q2 Explain the concept of Product Life Cycle with the help of an example.

Q3 What are the different marketing strategies for growth stage?

Q4 What are the short comings of the concept Product Life Cycle?

Q5 What are the benefits of using the product life cycle as a tool in pursuits of marketing?

Q6 Examine the relevance of introduction phase for determining the success of product in marketplace.

12.16 SUGGESTED READING

- Kotler,P. Marketing Management. Eleventh Edition. Pearson Education.
- Saxena, R. Marketing Management. Third Edition. McGraw Hill companies.
- Kumar, A and Meenakshi, N. Marketing Management. Vikas Publishing House Pvt Ltd.

PRODUCT & PRICE - MIX DECISIONS

Lesson No. 13 | **Unit-III**

Semester-II | **M.Com-C254**

PRICING STRATEGIES - UNDERSTANDING PRICING

STRUCTURE

13.1 INTRODUCTION

Pricing is a process to determine what manufactures receive in exchange of the product. Pricing depends on various factors like manufacturing cost, raw material cost, profit margin etc.Pricing method is exercised to adjust the cost of the producer's offerings suitable to both the manufacturer and the customer. The pricing depends on the company's average prices, and the buyer's perceived value of an item, as compared to the perceived value of competitors product.

Every businessperson starts a business with a motive and intention of earning profits. This ambition can be acquired by the pricing method of a firm. While fixing the cost of a product and services the following point should be considered:

1. The identity of the goods and services
2. The cost of similar goods and services in the market
3. The target audience for whom the goods and services are produces
4. The total cost of production (raw material, labour cost, machinery cost, transit, inventory cost etc)
5. External elements like government rules and regulations, policies, economy, etc.

13.2 OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the objectives of pricing
2. Differentiate between different pricing techniques
3. Identify the situations where different pricing strategies are applicable.
4. Appreciate why pricing is important in marketing management

13.3 UNDERSTANDING PRICE

Pricing the product or service is one of the most important business decisions an organisation will make. It must offer products for a price that the target market is willing to pay and one that produces a profit for the company or else it won't be in business for long.

According to **Prof. K.C. Kite**, Pricing is a managerial task that involves establishing pricing objectives, identifying the factors governing the price, ascertaining their relevance and significance, determining the product value in monetary terms and formulation of price policies and the strategies, implementing them and controlling them for the best results".

Pricing is not an end in itself but a means to achieve marketing objectives of the firm.Therefore, the pricing strategy of a firm should be designed to achieve specific objectives. Like other operating objectives, the objectives of pricing are derived from the overall objectives of the firm. The basic objectives of a firm are survival and growth.

Pricing the product or service is one of the most important business decisions you will make. You must offer your products for a price your target market is willing to pay and one that produces a profit for your company or you won't be in business for long. There are many approaches to pricing, included scientific and unscientific. Here is one framework for making pricing decisions that takes into account your costs, the effects of competition and the customer's perception of value.

(i) Cost is the total of the fixed and variable expenses (costs to you) to manufacturer or offers your product or service.

(ii) Price is the selling price per unit that customers pay for product or service.

(iii) So, the price set by the organisation is the cost to the customer. Ideally, it should be higher than the costs incurred in producing the product.

(iv) Think of cost as the surface of the ocean. An organisation must set its price above the surface to cover costs or will quickly drown. Of course, there will be times when it decides to set prices at or below cost for a temporary, specific purpose, such as gaining market entrance or clearing inventory.

(v) How the customer perceives the value of the product determines the maximum price customers will pay. This is sometimes described as "the price the market will bear." Perceived value is created by an established reputation, marketing messages, packaging, and sales environments. An obvious and important component of perceived value is the comparison customers and prospects make between organisation and its competitors.

(vi) Somewhere between cost and the price "the market will bear" is the right price for your product or service a price that enables company to make a fair profit and seems fair to its customers. Consequently, once it understands costs and maximum price, it can make an informed decision about how to price product or service.

(vii) However, while costs are important in setting prices, don't limit thinking only to cost-based pricing. Value-based pricing makes company think about its business from the customer's perspective. If the customer doesn't perceive value worth paying for at a price that offers a fair profit, it may need to re-think your game-plan.

But there are several other key costs that customers may incur in using a service:

(i) Physical efforts may be required to obtain some services, especially if the customer must come to the service factory and delivery entails self-service.

(ii) Sensory costs may include putting up with noise, unpleasant smells, drafts, excessive heat or cold, uncomfortable seating, visually unappealing environments, and even unpleasant tastes (one of the reasons that many children dislike health care).

(iii) For customers, there is an opportunity cost to the time spent in pursuit of service, since that time could, perhaps, be spent in other ways.

(iv) Psychic costs are sometimes attached to the use of a particular service-mental effort, feelings of inadequacy, or even fear.

In short, as the bundle of benefits presented by the product must be traded off against the bundle of costs associated with using it. In any given situation, customers are making judgment about what they get in return for what they give.

13.4 MEANING OF PRICE AND PRICING

Right price is one of the important determinants of business success. Right price, however doesn't mean a low price. What is the right price? It depends upon a number of factors like the nature of other elements of marketing-mix, nature of market, including demand and competition.

A price policy is a guideline set by the top management to bring about optimum product market integration. It is that sharp weapon by which the marketer can encourage or discourage competition, satisfy or dissatisfy the consumers, helps or hinder the army of salesman in effective selling. Price policies and strategies are important for all the members of channel of distribution.

A price is the amount one pays for a good or a service or an idea. Price is the amount for which a product, a service or an idea is exchanged, or offered for sale regardless of its worth or value, to the potential purchaser. Without price there is no marketing, in the society. To a manufacturer, price represents quantity of money (or goods and services in a barter trade) received by the firm or seller. To a customer, it represents sacrifice and hence his perception of the value of the product.The term 'price' needs not be confused with the term 'pricing'. Pricing is the art of translating into quantitative terms (say rupees or dollars) the value of the product or a unit of a service to customers at a point in time.

According to Prof. K.C. Kite, "Pricing is a managerial task that involves establishing pricing objectives, identifying the factors governing the price, ascertaining their relevance and significance, determining the product value in monetary terms and formulation of price policies and the strategies, implementing them and controlling them for the best results".

Thus, pricing refers to the value determination process for a good or service, and encompasses the determination of interest rates for loans, charges for rentals, fees for service, and prices for goods.

Pricing: Buyers' and Sellers' View

In general terms price is a component of an exchange or transaction that takes place between two parties and refers to what must be given up by one party (i.e. buyer) in order to obtain something offered by another party (i.e. seller).

Yet this view of price provides a somewhat limited explanation of what price means to participants in the transaction.In fact, price means different things to different participants in an exchange:

1. Buyers' View:

For those making a purchase, such as final customers, price refers to what must be given up to obtain benefits. In most cases what is given up is financial consideration (e.g., money) in exchange for acquiring access to a good or service. But financial consideration is not always what the buyer gives up.Sometimes in a barter situation a buyer may acquire a product by giving up their own product. For instance – two farmers may exchange cattle for crops. Also, as we will discuss below, buyers may also give up other things to acquire the benefits of a product that are not direct financial payments (e.g., time to learn to use the product).

2. Sellers' View:

To sellers in a transaction, price reflects the revenue generated for each product sold and, thus, is an important factor in determining profit. For marketing organizations price also serves as a marketing tool and is a key element in marketing promotions. For example – most retailers highlight product pricing in their advertising campaigns.

13.5 OBJECTIVES OF PRICING

Pricing is not an end in itself but a means to achieve marketing objectives of the firm. Therefore, the pricing strategy of a firm should be designed to achieve specific objectives. Like other operating objectives, the objectives of pricing are derived from the overall objectives of the firm. The basic objectives of a firm are survival and growth.The objectives of pricing should be clearly defined because without clear cut objectives a sound price structure cannot be developed. In practice very few firms define their pricing objectives in unambiguous terms. The specific objectives of pricing may vary from firm to firm and even for the same firm at different points of time. Most firms have multiple pricing objectives.

The main objectives of pricing followed by different firms are as follows:

1. To achieve target rate of return on investment;
2. To stabilize prices;
3. To maintain or improve share of the market;
4. To meet or prevent competition;
5. To maximize profits; and
6. To improve public image.

Objective 1. Target Rate of Return:

Firms following this objective design their pricing strategy in such a way that will yield desired return on total investment (ROI). Rate of return refers to the amount of net profits divided by investment or capital employed. This goal often leads to cost plus pricing. The price of a product or service is determined by adding the expected margin of profit to the cost of production and distribution.

In order to fix the price, the firm estimates the amount of total profit required to earn the expected rate of return. The figure of total profit divided by the average sales volume gives profit margin per unit. Suppose, for instance, that a company wants to earn a return of 20 per cent (before taxes) on its total investment of Rs.50 lakhs. The annual sales volume on an average is anticipated to be 50,000 units and the total cost per unit is Rs.80.

		Rs.
Total Cost of 50,000 units @ Rs. 80 per unit	=	40,00,000
20% before tax return on Rs. 50 lakhs investment	=	10,00,000
Total volume of sales		50,00,000

$$\text{Price per unit} = \frac{50,00,000}{50,000} = \text{Rs. } 100.$$

Target rate of return is an important pricing objective and an increasing number of firms follow this goal due to several reasons. Firstly, it ensures a reasonable return to the investors. Secondly, it does not lead to public criticism. Thirdly, the rate of return can be used to evaluate and compare the performance of different products of the firm. Fourthly, it provides a measure of restraint and a guideline for judging improvement in a new product line.

However, target return pricing may not be feasible in all conditions. This goal can be achieved by firms which are industry leaders or which sell in protected markets. Some firms may attempt to achieve target return on sales during the short run. They set a percentage mark-up on sales which is sufficient to cover operating costs and the desired profit.

In such cases, the rate of profit would remain the same, but the amount of profits would vary with the number of units sold. The target rate of return differs from firm to firm depending upon the cost of capital and the actual market conditions in the industry.

Objective 2.Price Stabilization:

This goal is adopted in industries having a few firms. In an oligopolistic situation where one firm is very big and all others are small, the big firm acts as the price leader and other firms follow it. All the firms try to avoid price wars. No firm is willing to cut its prices for fear of retaliation by other firms.In order to avoid fluctuations in prices, they may even forgo maximizing profits during the period of scarce supply or prosperity. This objective is followed in case of products which are vulnerable to price wars or which are advertised at the national level. Price stability helps in planned and regular production in the long run. However, it may create rigidity in pricing.

Objective 3. Target Share of the Market:

In an expanding market, market share is a better indicator of a firm's success than the target rate of return. When the market has a potential for growth, a firm earning the target rate of return may, in fact, be decaying if its share of the market is decreasing. Therefore, maintenance or improvement in the market share is a more worthwhile objective in growing markets. Market share measures a firm's sales vis-a-vis the sales of its competitors.

Objective 4. Facing Competition:

Under conditions of intense competition, a firm may seek to meet or prevent competition. It may fix prices at a very low level (even below cost) to eliminate its competitors or to prevent the entry of new firms in the market. Some firms follow this practice while introducing a new product. This goal is not very popular and cannot be adopted on a regular basis. In the long run, a firm cannot survive if it continues to charge less than the cost of the product or service.

Objective 5. Profit Maximization:

Traditionally, profit maximization is considered to be the objective of pricing. The classical economic theory suggests the fixation of prices in such a way that the marginal cost is equal to marginal revenue where profits are maximized. Even today some firms are not very conscious of social responsibilities and try to maximize profits. But in recent years there has been a change in the philosophy of business and profit maximization is not considered rational business behaviour. In practice, no firm states explicitly that profit maximization is its pricing objective due to the fear of public criticism and government regulation.

Objective 6. Improving Public Image:

Another objective of pricing may be to enhance the firm's public image. The firm may launch a premium product at a high price for this purpose. Alternatively, it may offer the new product at a low price to appeal to the common buyer. The pricing policy should be consistent with the established reputation of the firm.

In addition to the foregoing, business firms may design their pricing policy to achieve the goals of full capacity utilization, market exploration, diversification, etc.

Pricing objectives may be classified into three categories:

(i) Sales volume objectives including sales maximization and improvement in market share.

(ii) Profitability objectives consisting of profit maximization and target rate of return.

(iii) Status quo objectives comprising price stabilization, maintaining market share, facing competition and covering costs.

Typical Pricing Objectives:

1. Growth in Sales:

A low price can achieve the objective of increase in sales volume. A low price is not always necessary. Competitive price, if used wisely, can secure faster increase in sales than any other marketing weapon.

2. Market Share:

Price is typically one of those factors that carry the heaviest responsibility for improving or maintaining market share — a sensitive indicator of customer and trade acceptance.

3. Pre-Determined Profit Level:

Return on Investment, say 20 to 25 per cent is a common decision in marketing. Pricing for profit is the most logical of all pricing objectives.

4. Counter Competition:

Many firms follow a flexible pricing policy to counter competition. Prices are to be varied depending upon market condition.

5. Control Cash-flow:

A principal pricing objective is to return cash as much as possible (the funds invested) within a given period. Investment in research and development, market development, promotion, etc., should pay back within a specified period. Capital expenditure on any project must be recovered within 5 to 10 years. Pay-back or cash-flow objectives fit in easily with other corporate objectives.

While determining objectives of a pricing policy, marketers must take into account reactions of number parties such as customers, competition, resellers or dealers, Government, public opinion, and so on. For instance, there may be a conflict between sales maximisation objective and a return on investment or profit objective. However, it should be noted that maximum market penetration in the short-run (in the early phase of the product life-cycle) is the key to maximum ROI in the long run.

6. To Penetrate the Market:

Many firms enter the market by charging a very low price for the product. Example- Low-price Chinese toys have flooded the market.

7. Meet or Follow Competition:

Many firms desire the stabilisation of price levels and operating margins as more important than the maintenance of a certain level of short-run profits. The price leader maintains stable prices in the industry. Follow the leader.

13.6 IMPORTANCE OF PRICING

When marketers talk about what they do as part of their responsibilities for marketing products, the tasks associated with setting price are often not at the top of the list.Marketers are much more likely to discuss their activities related to promotion, product development, market research and other tasks that are viewed as the more interesting and exciting parts of the job.

Some reasons of pricing include:

1. Most Flexible Marketing Mix Variable:

For marketers' price is the most adjustable of all marketing decisions. Unlike product and distribution decisions, which can take months or years to change, or some forms of promotion which can be time consuming to alter (e.g., television advertisement), price can be changed very rapidly.The flexibility of pricing decisions is particularly important in times when the marketer seeks to quickly stimulate demand or respond to competitor price actions. For instance, a marketer can agree to a field salesperson's request to lower price for a potential prospect during a phone conversation. Likewise, a marketer in charge of online operations can raise prices on hot selling products with the click of a few website buttons.

2. Setting the Right Price:

Pricing decisions made hastily without sufficient research, analysis, and strategic evaluation can lead to the marketing organization losing revenue. Prices set too low may mean the company is missing out on additional profits that could be earned if the target market is willing to spend more to acquire the product.

Additionally, attempts to raise an initially low priced product to a higher price may be met to customer resistance as they may feel the marketer is attempting to take advantage of their customers.Prices set too high can also impact revenue as it prevents interested customers from purchasing the product. Setting the right price level often takes considerable market knowledge and, especially with new products, testing of different pricing options.

3. Trigger of First Impressions:

Often times customers' perception of a product is formed as soon as they learn the price, such as when a product is first seen when walking down the aisle of a store. While the final decision to make a purchase may be based on the value offered by the entire marketing offering (i.e., entire product), it is possible the customer will not evaluate a marketer's product at all based on price alone.

It is important for marketers to know if customers are more likely to dismiss a product when all they know is its price. If so, pricing may become the most important of all marketing decisions if it can be shown that customers are avoiding learning more about the product because of the price.

4. Important Part of Sales Promotion:

Many times price adjustments are part of sales promotions that lower price for a short term to stimulate interest in the product. However, marketers must guard against the temptation to adjust prices too frequently since continually increasing and decreasing price can lead customers to be conditioned to anticipate price reductions and, consequently, withhold purchase until the price reduction occurs again.

13.7 FACTORS INFLUENCING PRICING

The factors influencing the price can be divided into two heads – **Internal Factors and External Factors.**

1. Internal Factors

Talking about the internal factors means the factors that work from within the organization.The factors are:

2. Organizational Factors:

Two management levels decide the pricing policy, one is the price range and the policies are decided by the top-level managers while the distinct price is fixed by the lower-level staff.

3. Marketing Mix:

For implementing a price, the marketing mix needs to be in sync, without matching the marketing mix, consumers will not be attracted to the price. The marketing mix should be decisive for the price range fixed, meaning the marketing mix needs to maintain the standard of the price of the product.

4. Product Differentiation:

In today's market, it is uncommon to find a unique product, hence the differentiation lies in the nature, feature and characteristic of the product. The added features like quality, size, colour, packaging, and its utility all these factors force the customers to pay more price regarding other products.

5. Cost of the Product:

Cost and Price are closely related. With the cost of the product, the firm decides its price. The firm makes sure that the price does not fall below the cost lese they will run on losses. Cost of the price includes the input cost that a company spends on raw materials, wages for labourers, advertisement cost, promotion cost and salaries for the employees

6. External Factors

External factors are not under the control of the firm. These factors affect the whole industry group uniformly. Yet, a company tries to estimate any upcoming problems in the external environment and also makes up a backup plan in advance. This is done by forecasting the market trend.The factors are:

7. Demand:

The market demand of a product has an impact on the price of the product, if the demand is inelastic then a higher price can be fixed, if the demand is highly elastic then less price is to be fixed. When the demand for the goods is more and the supply of the goods is constant, the price of the goods can be increased and if the demand for the goods decreases the price of the goods should be decreased to survive in the market.

8. Competition:

The prices are required to be competitive without any compromise on the quality of the product. While in a monopolistic market, the prices are fixed irrespective of the competition. Thus, the manufacturer tries to estimate the price of his competitor. When the price of the supplementary goods is high, the customers will buy the manufacturer's product.

9. Supplies:

If the supplies condition, the easy availing option of the raw materials are available, then the price of the product can be moderate. Once, the raw materials supply price heightens then the price also rises.In the period of recession, price is lowered so that easy purchase is guaranteed. While in boom periods, prices shoot up high as now they can earn profit.

Determinants of Price in Marketing

The main determinants that affect the price are:

1. Product Cost
2. The Utility and Demand

3. The extent of Competition in the market
4. Government and Legal Regulations
5. Pricing Objectives
6. Marketing Methods used

These are the particulars of pricing methods justified in the business world.

13.8 SUMMARY

Pricing in marketing is a process by which businesses decide on a specific price for their products and services. The price for products and services takes into account many different factors in order to accurately reflect accurate market value. Pricing is an extremely integral part of marketing.Pricing should be considered as an integral part of the marketing mix management. Price, cost and volume are intricately inter-related with each other and all these affect profit. Price should be based on marketing or cost consideration.

It is wise to determine price after striking a healthy balance between both marketing and cost considerations.Pricing policy based on marketing considerations tend to be for short and medium-run and usually prevalent in a buyer's market where there is intensive competition. In such a situation, a marketer tends to fix his price based on market share. For determining the pricing policy, following items need to be considered.

(i) The principles of supply and demand in the competitive market.

(ii) The application of marginal analysis to the project maximising firm.

In other words, no firm can be earning maximum profits unless its marginal revenues are at least equal. Often, marketing considerations tend to dominate over others in determining prices of products or services.

13.9 GLOSSARY

Normative price – A price that is considered 'fair' by an individual or group

Positive price – The present cost or marked price of a product

Prestige pricing – The process of setting a price based on the perceived exclusivity or reputation of the company name or brand name of the product or service

Price elasticity of demand – The relative change in demand that occurs in response to a relative change in price

13.10 SELF ASSESSMENT QUESTIONS

1. What are the various factors that affect the price setting decisions? How can a manager forecast such factors?

   ____
   ____
   ____

2. How various types of competitors in the market affect the price decisions of a manager?

   ____
   ____
   ____

3. Explain in detail the various price adjustment strategies.

   ____
   ____
   ____

4. Differentiate among and explain the importance of various pricing strategies adopted by the managers in a perfect competition.

   ____
   ____
   ____

13.11 LESSON END EXERCISE

Fill in the blanks

1. When sellers combine several of their products and offer the bundle at a reduced price, its is called ______________
2. Full form of FOB is ______________

13.11 SUGGESTED READINGS

- Strategic Marketing (McGraw-Hill/Irwin Series in Marketing) by David Cravins
- Strategic Management and Business Policy by Azhar Kazmi

PRODUCT & PRICE - MIX DECISIONS

Lesson No. 14 | **Unit-III**

Semester-II | **M.Com-C254**

PRICING STRATEGIES - SETTING THE PRICE

STRUCTURE

14.1 INTRODUCTION

Price is the sacrifice made by the consumers to get an item. They are very sensitive to what they sacrifice for a product. In price setting, marketers should consider consumers' ability to pay, the demand for the product that exists, the cost involved in producing the item, and the costs, prices, and offers of their competitors. The price is what the consumer must give up to get the product. It is a representation of value placed on the product for purposes of exchange. Partially, this value is established by the marketing executive. Marketers incur certain costs in making, handling, storing, and selling the product.

These costs are usually covered in the selling price except for certain expectations. Marketers seek some extra compensation over the actual costs, so they make some profits. Costs and profit expectations, then, become the value the marketing executive places on the product. The marketer does not always set the value of the product. Buyers as well help determine value through their purchasing patterns. Buyers allocate their funds to the goods and services that maximize their short and/or long-run benefits. Buyers thus, place a trade-off value on the company's product by weighing the benefits of having the item against the cost of foregoing the purchase of other products or retaining their money.

The product's price will be balanced between the seller's value and the buyer's trade-off value. Where these two are similar, the price will be appropriate. If they do not match, some changes in values must occur, or the product will fail in the marketplace i.e. it will not sell well. The nature of the value of the product determines the price related problems. In addition to the costs, the seller's expectations of profit and the buyer's trade-off values are variables.

Not all sellers have the same profit expectations, and not all buyers have the same perception of the benefits of having the product versus holding money or purchasing another product.Generally speaking, a product's price reflects the personal values of the seller and buyer. Specifically, the price has a somewhat different role, acting as a technical mechanism for negotiations between individuals and groups of individuals who have goods, services, or money to trade. Price is the common denominator allowing sellers and buyers to make evaluations and complete their exchanges. As a marketer, it should be kept in mind that price is a means for allocating the nation's scarce resources. Raw materials, products and services in relatively short supply tend to be more highly valued than those readily available. Through the pricing system, sellers and buyers can better arrange their priorities and better utilize the economy's resources. Price is a highly significant marketing variable that is directly affecting the company's sales and profits. Price also has considerable symbolic value, conveying information about the company to potential buyers.A marketer should realize that the prices of his products heavily influence his sales and profits. An increase or decrease in price can mean higher or lower revenues. This assumption is not always realistic since price changes alter the buyer's cost-benefit trade-off. Generally, when the price increases, consumer demand falls, and vice versa. But total taka sales can increase even though demand declines. Similarly, total sales can rise when prices decline, and consumer demand greatly increases. Though consumers are sensitive to price changes, the degree of sensitivity depends on many factors such as consumer's financial status, availability of new products, etc.The price set by the marketing executive is also important as consumers relate a product's price to such factors as quality, progressiveness, and social status, psychological satisfaction, and so on.They usually equate higher prices with better quality, modern, and more fashionable products. This image carries over to a company's other products and the company itself, affecting the company's future.

14.2 OBJECTIVES

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

1. Various kinds of pricing
2. Methods of pricing of the product
3 Pricing strategies
4. Stages for establishing prices

14.3 VARIOUS KINDS OF PRICING FOR VARIOUS PRODUCTS

Firms may choose various kinds of pricing for their various products these are:

(i) Odd Pricing:

It may be a price ending in an odd number. Bata Shoe Company pricing one of its pair shoes at 299.95 is an example of odd pricing. Such a pricing is adopted by the sellers of specialty or convenient goods.

(ii) Psychological Pricing:

The prices under this method are fixed at a full number. The price settlers feel such a price has an apparent psychological significance from the viewpoint of buyers. This differs from the concept of odd pricing in that the curve doesn't necessarily have any segments positively inclined.

(iii) Customary Prices:

Such prices are fixed by the custom. Soft drinks are priced by their customary bases, such a pricing is usually adopted by chain stores.

(iv) Pricing at Prevailing Prices:

This kind of pricing is undertaken to meet the competition. It is also called 'Pricing at the market. Such a strategy presumes a market in elasticity of demand below the current price.

(v) Prestige Pricing:

Many customers judge the quality of a product by its price. In their opinion lower priced product is inferior, and higher priced product is superior. This pricing is applied generally to luxury goods.

(vi) Price Lining:

This policy of pricing is usually found among retailers. Technically it is closely related to both psychological and customary prices. Under this policy the pricing decisions are made only initially and such fixed prices remain constant over long periods of time.

(vii) Geographic Pricing:

The manufacturer sometimes adopts different prices in different markets without creating any ill will among customers, e.g., Petrol is priced depending upon the distance from the storage area to the retail outlet.

(viii) FOB Pricing (Free on Board):

Here the buyer will have to incur the cost of transit and in the later the price quoted is inclusive of transits charges.

(ix) Dual Pricing:

When the manufacture sells the same product at two or more different prices in the same market it is 'Dual Market Pricing'. This is possible only if different brands are marketed. It is adopted in railways where passengers are charged differently for the same journey and traveling in different classes. This is also referred to as 'Discriminatory Pricing'.

(x) Administered Pricing:

This applies to the practice of pricing the products for the markets not on the basis of cost, competitive pressures or the laws of supply and demand but purely on the basis of the policy decisions of the sellers. These kinds of price remain unchanged for substantial periods of time.

14.4 PRICING – METHODS OF PRICING THE PRODUCT

The export price structure, like the domestic price structure, begins on the factory floor. But there is no similarity in the costs included in the two structures. The pricing of the products for domestic and export purposes shall be calculated in a somewhat different manner. The export price structure is the basis of all export price quotations, discount and commissions. There are various methods of pricing the product in the foreign markets. The methods may be grouped into two i.e., cost oriented export pricing methods and market oriented export pricing methods.

The pricing of the products for domestic and for the markets abroad is calculated in a somewhat different way. The price structure for export is the basis of all export price quotations, discount and commissions.

The various methods of pricing the product in the foreign markets are grouped into following two methods:

1. Cost-oriented export pricing methods,

2. Market-oriented export pricing methods.

1. Cost-Oriented Export Pricing Methods

These are based on costs incurred in the production of the articles. As total cost includes fixed costs and variable costs, export pricing may be based on full cost (fixed and variable) or only on variable costs. A reasonable profit will be added to the base cost to arrive at the export pricing.

Thus cost-oriented export pricing methods may be:

(i) Full cost or total cost method, and

(ii) Variable cost or marginal cost method.

(i) Full Cost or Total Cost Method:

This method is also known as cost-plus method and it is the most common method. Under this method for arriving at the export pricing, the total cost of production of the article is considered. In addition to the fixed and variable costs incurred in the production of the item, all direct and indirect expenses needed for the export of the product including cost on transportation, freight, customs duties, risk. To this a reasonable profit allowance is added to the cost. From this amount the value of all assistance received from any source is deducted.

Given below are the various elements of the total cost:

(a) Direct Cost:

It includes variable and other costs directly related to exports:

i. Variable Costs – It includes expenditure on direct materials, direct labour, variable production overheads, and variable administrative overheads.

ii. Other Costs Directly Related to Exports – These are in addition to the variable costs.

This include:

Selling costs advertising support to importers in the foreign market. Costs on Special packing, labelling, commission to overseas agent, export credit insurance, bank charges, inland freight, forward charges, inland insurance, port charges, duties on exports of the product, expenditure on warehousing at port, documentation and incidental, expenditure therein, Interest on funds involved or cost of deferred credit. Cost of after sale service, including free supply of spare parts, consular fees, preshipment inspection and loss due to rejection of product.

(b) Fixed Costs:

It includes overheads on production and administration, publicity and advertising, travel abroad, after sale service.

From this amount following are deducted:

i. Compensatory assistance,

ii. Import replenishment benefits,

iii. Duty drawback,

iv. Expenditure on freight and insurance.

Merits of this Approach:

(a) Its main advantage is that through this method exporter becomes aware of the full cost in marketing the product in a market abroad.

(b) It is a very simple method.

Disadvantages:

When smaller number of units are to be exported it would be difficult for the exporter to supply the product at the same price because of its high cost of production per unit due to fixed costs. This method is justified only when the cost of information about demand and the administrative cost of applying a demand based pricing policy exceed the profit contribution arrived at when this approach is applied.

(ii) Marginal Cost Pricing:

In this method the price is determined on the basis of variable cost or direct cost, while fixed cost element in the total cost of production is totally ignored. The firm is concerned here only with the marginal incremental cost of producing the goods which are sold in foreign markets.

Now, the fixed cost remains fixed up to a certain level of output irrespective of the volume of output. On the other hand, variable costs vary in proportion to the volume of production. Thus, the variable or direct or marginal costs set the price after output at Break-Even Point (BEP).

This method is based on the following assumptions:

(a) The export sales are bonus sales and any return over the variable costs contributes to the net profit.

(b) The firm has been producing the goods for home consumption and the fixed costs have already been meet or in other words, breakeven point has been achieved. Thus, if the manufacturers are able to realize the direct costs, including those involved in export operations specifically, they would not affect the profitability of their firms. However, the profitability of firms should be assessed with reference to marginal cost which should normally constitute the basis for export pricing. Direct costs and other elements in calculating price will remain the same.

Advantages:

(i) No Overhead Costs – Export sales are additional sales. Hence these should not be burdened with overhead costs which are ordinarily met from the domestic trade.

(ii) Large Market – Since the buyers of products from developing countries are usually in countries with low national income, it is advisable for the firm to serve a large segment of the market at low prices. Low prices may serve to widen and create markets. In such countries price is still the decisive factor and quality is comparatively less important.

(iii) Firms from Developing Countries – This approach is advocated for firms from developing countries who are not well-known in foreign markets as compared to their competitors from developed countries. Therefore, lower prices based on variable costs may help them enter a market. Price may be used as a technique for securing market acceptance for products newly introduced into the market.

Disadvantages of Marginal Cost Pricing:

(i) Attracts Anti-Dumping Process – Developing countries might be charged of dumping their products in foreign markets because they would be selling their products below net prices and attract antidumping provisions which take away their competitive advantage.

(ii) Cut-throat Competition – The use of this approach may give rise to cut-throat competition among exporting firms from developing countries resulting in loss in valuable foreign exchange to the exporting countries.

(iii) Marginal Cost Pricing is Not Advisable in the following cases-

a. If the importers are regularly purchasing the product at a low price, it will be difficult for exporters to increase the price of the commodities later on. It may lose their market.

b. This policy is not useful or of limited use to industries which are mainly dependent upon export markets and where over-heads or fixed costs are insignificant.

Circumstances of Feasibility:

(i) Large Domestic Market – There must be a large domestic market of the product so that the overheads may be charged from products manufactured for domestic market.

(ii) Mass Production – Mass production techniques must have been adopted so that the gap between the full and marginal costs may be reduced.

(iii) Higher Prices in Home Market – The home market has a capacity to bear the higher prices.

(iv) No Overhead Costs – Additional production for exports is possible without increasing overhead costs and within permissible production capacity.

2. Market-Oriented Export Pricing:

The costs are no doubt, important but the competitive prices should also be considered before fixing the export price, competitive prices mean the prices that are charged by the competitions for the same product or for the substitute of the product in the target market. Once this price level is established, the base price, or what the buyer can afford, should be determined.

The base price can be determined by following the three basic steps:

(i) First, relevant demand schedules (quantities to be bought) at various prices should be estimated over the planning period;

(ii) Then, relevant costs (total and incremental) of production and marketing costs should be estimated to achieve the target sales volume as per demand schedules prepared; and

(iii) Lastly, the price that offers the highest profit contribution, i.e., sales revenues minus all fixed and variable costs.

The final determination of base price should be made after considering all other elements of marketing mix within these elements, the nature and length of channel of distribution is the most important factor affecting the final cost of the product. Besides, product adaptation costs should also be considered in fixing the base price.

The above three steps; though appear to be very simple, but it is not so because there are various other factors that should be looked into. The most appropriate method to estimate the demand of the product shall be the judgmental analysis of company and trade executives.

One other way may be the extrapolation of demand estimates for target markets from actual sales in identical markets in terms of basic factors.

The following information gives the nature of analysis for market-oriented export pricing:

Analysis for Market-Oriented Export Pricing:

Market Price		
Less –	Retail Margin on selling price	—
	Cost to the Retailer	—
Less –	Wholesaler's mark up to his cost	—
	Cost of the wholesaler	—
Less –	Importer's mark up to his cost	—
	Cost to the Importer	—
Less –	Import Duty	—
	Landed Price	—
Less –	Freight and insurance charges	—
	f.o.b. realisation of the exporter	—

Having found out what the market can bear, the firm has to determine whether it can sell the product at that price profitably or not by working back from the market price as shown above.

This analysis gives an idea of the upper limit of what the firm can charge. The price of the product in the foreign market may be then fixed between these two limits. As the firm gathers experience, it would be able to set the price that gives the highest profitability. However, in many cases, it happens that the market realization is very low.

In such circumstances, the exporter may compare his f.o.b. realization (under market-oriented export pricing) with the direct cost or full cost as calculated under cost- oriented export pricing. He can then determine whether he should export the goods or not. He can decide to export the goods even at a loss if he thinks that market prospectus are better in future and the loss is only a short-term phenomenon and he feels a better realization in future.

Whatever be the price determined by the firm for its product, it must consider the prices and non-price factors before taking a final decision.

14.5 PRICING STRATEGIES

Studies have shown that pricing is the most critical profit driver in today's competitive business environment. After a goods or service has been developed, identified, and packaged, it must be priced. This is the second aspect of the marketing mix. Price is the exchange value of a good or service. Pricing strategy has become one of the most important features of modern marketing.

All goods and services offer some utility or want-satisfying power. Individual preferences determine how much utility a consumer will associate with a particular good or service. One person may value leisure-time pursuits, while another assigns a higher priority to acquiring property, automobiles and household furnishings.

Consumers face an allocation problem; their scarce resource of a limited amount of money and a variety of possible uses for it. The price system helps them make allocation decisions. A person may prefer a new personal computer to a vacation, but if the price of the computer rises, they may reconsider and allocate funds to the vacation instead.

Prices help direct the overall economic system. A firm uses various factors of production, such as natural resources, labour, and capital, based on their relative prices. High wage rates may cause a firm to install labour-saving machinery. Similarly, high interest rates may lead management to decide against a new capital expenditure. Prices and volume sold determine the revenue received by the firm and influence its profits.

Yet few firms think systematically about their pricing strategies or acquire the confidence to leverage their pricing strategies to capture maximum value. An ad-hoc pricing strategy or a trial-and- error approach to pricing can significantly reduce a firm's bottom line. Pricing Strategies will give you a powerful set of tools and frameworks for developing your pricing strategies. The fundamental underlying pricing strategy can be described with the three elements being named costs, competition, and value to the customer.

The costs to be recovered set a floor to the price that may be charged for a specific product; the value of the product to the customer sets a ceiling; whereas the price charged by competitors for similar or substitute products may determine where, within the ceiling-to-floor range, the price level should actually be set. Companies seeking to make a profit must recover the full costs associated with producing and marketing a service, and then add a sufficient margin to yield satisfactory profit.

An exception occurs in the case of "loss leaders," designed to attract customers who will also buy profitable products from the same organisation. But even with such loss leaders, managers need to know the full costs associated with these products, so that the amount of promotional subsidy is fully understood. Price may also play a role in communicating the quality of a service. In the absence of tangible clues, customers may associate higher prices with higher levels of performance on service attributes.

Traditional Pricing Strategies:

Many executives and economists argue that not cost but the market fix the prices. While true in theory, this is rarely the case in practice. Almost all companies set prices on a cost-plus-basis. They rely on the traditional labour based cost accounting system to establish a cost- based price.

Since product costs are calculated according to volume and product-mix, prices are set to an acceptable profit margin above the product costs. Therefore, each company has its costs systematically decided in the same direction – under-pricing low-volume, customized products; and over-costing high-volume, standardized products. This distortion, no doubt, influences pricing.

Traditional cost systems ignore the so-called "below-the-line" expenses, like sales, distribution, R&D and administration. At many companies, those costs are not assigned to different markets, customers, channels of distribution or even products. Many managers believe these costs are fixed.

Therefore, these "below-the-line" costs are treated as though they are equally distributed across all customers. Yet, some customers are much more expensive to serve than others. Using one price to all customers may either under price or over-cost to the disadvantage of some customers.

A company cannot set up a right pricing strategy unless it changes from the traditional labour-based costing method to "activity-based" costing method. Activity-based costing splits costs into two different groups – one that is product-driven and another that is customer-driven.

Product-driven costs are the costs of designing and manufacturing products. These costs include procurement, warehousing and transport, production planning, quality control, engineering etc.

Customer-driven costs are the costs of delivery, servicing, and supporting customers and markets. These costs include order entry, distribution sales, R&D, advertising, marketing, etc.

Activity-Based Costing (ABC) assigns costs to products or customer bands on the resources they consume. The system identifies the costs of activities such as order entry, shipping, billing and freight. These costs vary with the frequency of the activities and can be modified at different levels.

Another traditional method of pricing is the demand-oriented pricing. The classic optimization model of microeconomics theory assumes that the firm's pricing objective is to maximize short-term profits. To maximize profit, a company chooses a price at the intersection point of the marginal cost and marginal revenue curves. A major limitation of the marginal analysis is the assumption that cost data and demand schedule information are readily available.

However, we can easily estimate the cost impact of a volume change on a product's production cost. Few companies know precisely what their products' price elasticity is; that is, what the demand curves look like. The company does not know how much sales volume it will lose by increasing the product's price, or vice versa. Therefore, it is only possible to estimate the optimal price for the highest cash flow; but it is difficult to determine the profitability of a company.

Some other traditional methods of pricing are as follows:

(i) Rate of return pricing, whereby prices are set to achieve a pre-set rate of return on investments or assets.

(ii) Competitive parity pricing, where prices are set on the basis of following those set by the market leader.

(iii) Loss leading pricing, usually applied on a short-term basis, to establish a position in the market, gain market shares, or to provide an opportunity to cross-sell other products.

(iv) Bundle pricing, where a set of products or services are combined and a low, single price is charged for the whole package.

(v) Cross-benefit pricing, where price is set at or below cost for one product in a product line, but relatively high price is set for another item in the line which serves as a direct complement.

(vi) Stay-out pricing, where the firms set prices lower than the demand conditions so as to discourage market entry by new competitors.

The problems with most of the traditional pricing methods are as follows:

(i) They consider only one party (the customer) in price setting. In the real world, the firm must consider all channel members such as competitors, suppliers, public policy makers, officials in non-marketing functional areas, and others.

(ii) They put strong emphasis on price to set the marketing strategy. Actually, many other controllable and uncontrollable variables are involved. The marketing manager must consider the role of each of the other elements in the marketing mix and the relationships among them.

(iii) Almost all pricing decisions remain largely the domain of economic theory, as in the case of cost-plus, demand-oriented or imitative pricing. However, a pricing policy or strategy may be formulated to take advantage of an impending market opportunity or in response to customer value.

(iv) Most of the pricing decisions are based on a simple assumption to increase the sale volume in the short-run without considering the activity costing information and the outcome of the price changes.

(v) Traditionally, price setters have considered a very limited number of alternatives when faced with pricing difficulties. If their prices seemed high, they would lower it, and if it was too low, they would simply raise it. Much more complex behaviours should be considered which provide opportunities for novel approaches. For example, price setters might change the product's package, advertising, quality design, or the after-sale customer service.

Pricing Strategy for New Products:

Pricing of new product is a critical task for the firms. As we know new products can be developed out of technological innovations or modifications to the existing product. In case where new products are through marketing modifications, pricing is not as such a big issue; but altogether new products through technological innovations, pricing becomes a critical issue. Firm here has no base on which it can work out the price.

Such type of the new products, do not have any demand in the market nor any competitors, or any leader. Thus, demand-based pricing, competition-based pricing and leader-based pricing do not provide a solution. Further, the estimation of cost also cannot be done accurately as many costs such as research and development cannot be easily allocated. Thus, cost plus pricing is also not very feasible.

The pricing strategy for new products will depend to a large extent on the degree of newness of the product and how firm considers the concept of new product. The need to introduce a new product may be different for different companies. For some companies it may be simply to enlarge their product mix and for others it may be the desire to fulfil an unsatisfied need of the market. There may be companies which go for new products because they want to provide something entirely new to the market.

Pricing strategy is also influenced by the fact that how new the product is to the market. The degree of newness of the product will attract the market and accordingly the price may be set.

In general, the pricing strategy options available for the companies are:

1. Market Skimming Pricing.

2. Market Penetration Pricing.

1. Market Skimming Pricing:

Market skimming pricing strategy is a one where the firm initially charge high prices and skims the cream of market by concentrating on those segments of the market which are not price sensitive. The high initial price of the product helps in bringing back the revenues for the firm which can be further used by the firm. Later, on as product gets accepted and firm wants to enter mass market; it may lower down the price. For skimming strategy it is necessary that firm offers something distinctive in the product, worthy of its price, only then the product will be acceptable.

2. Market Penetration Pricing:

The market penetration pricing strategy is one where firm initially charges a low price for the product with the objective of the penetrating the market. When the firm sees that market available for the product is price sensitive, it has to fix a low price of the product. Low price brings changes in volume of sales and thereby more profits.

Penetration pricing is thus used when there is no segment in the market which is willing to pay any price for the product. At the same time, the product is such that it will face intense competition immediately when it is introduced in the market.

14.6 Stages for Establishing Prices

Every organization faces a problem of setting the prices of products. The main aim of marketing strategy of an organization is to attain marketing objectives and satisfy the targeted market.The marketing decisions affect the prices of products to a great extent.

The marketers follow various steps to set prices as shown in Figure below:

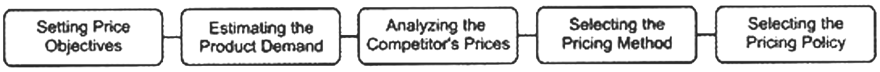


Figure-3: Process of Setting Prices

1) Setting Price Objectives:

Refers to set the goals of the pricing policy. An organization can have multiple pricing objectives.

Some of the price objectives are discussed as follows:

a. Survival:

Involves the formulation of a short-term price objective to face the fierce competition. The price of a product is reduced to increase sales volume. However, this strategy does not work in the long term as an organization would not be able to cover its costs, thus, profit margin may decrease in future.

b. Quality of a Product:

Affects the price of products. An organization incurs high cost in research and development to improve the quality of a product. Therefore, it covers the research and development cost in the price of the product. Sometimes, the organization raises prices to make customers aware about the improved quality of its products.

2) Estimating the product demand:

Helps in knowing the factors that affect the demand of a product. Some of the important factors can be the prices of products, environmental factors, and income and expectations of customers. There are three things that are studied by the marketers for estimating the demand.

These are discussed as follows:

a. Price Sensitivity:

Affects the demand of a product. If the price of the product rises then the demand falls and vice versa. In this case, the demand may shift to the substitute of the product. A marketer tries to study the price sensitivity of the product for making decisions about the price of the product.

b. Demand Curve:

Implies a statistical tool that shows a relationship between the demand and price of a product. It helps in knowing the demand and price fluctuations of the product.

c. Price Elasticity of Demand:

Refers to a percentage change in the demanded quantity of the product with respect to the percentage change in the price of the product. If the demand of a product changes with the change in price then the demand is said to be elastic. On the other hand, if the demand of a product does not change with the change in price then the demand is said to be inelastic.

3) Analyzing the Competitor's Prices:

Influences the decisions of setting the prices of products. The pricing strategies of competitors affect the demand of the product and lead to a loss of market share. Thus, it is clear that the marketers should be careful about the future competition.

Following are the three ways by which an organization reacts to price changes:

a. Maintaining the status quo and not reacting to any price change

b. Setting the prices equal to the organization's prices

c. Setting the prices less than the organization's prices

The process of analyzing the prices of competitors is difficult. Therefore, the organizations depend on the publicly available data or public statements to know the price strategies of competitors.

4) Selecting the Pricing Method:

Involves the selection of a technique for setting the price. There are various types of pricing methods used by organizations.

5) Selecting the Pricing Policy:

Involves a strategy or practice used by an organization to achieve its pricing objectives.

14.7 DIFFERENCE BETWEEN PRICE AND VALUE

For most customers price by itself is not the key factor when a purchase is being considered. This is because most customers compare the entire marketing offering and do not simply make their purchase decision based solely on a product's price.

In essence when a purchase situation arises price is one of several variables customers evaluate when they mentally assess a product's overall value.

Value refers to the perception of benefits received for what someone must give up. Since price often reflects an important part of what someone gives up, a customer's perceived value of a product will be affected by a marketer's pricing decision.

Any easy way to see this is to view value as a calculation:

Value = Perceived benefits received

Perceived price paid

For the buyer value of a product will change as perceived price paid and/or perceived benefits received change. But the price paid in a transaction is not only financial it can also involve other things that a buyer may be giving up.

For Example : In addition to paying money a customer may have to spend time learning to use a product, pay to have an old product removed, and close down current operations while a product is installed or incur other expenses. However, for the purpose of this tutorial we will limit our discussion to how the marketer sets the financial price of a transaction.

Types of Pricing Orientations Followed by Multinational Companies (With Examples)

The international pricing decision depends on the number of factors, such as pricing objectives, cost, competition, customers and the government laws etc. The total cost method is considered to be the most important factor in setting price in the international market.

Mainly the following two types of pricing orientations are followed by the multinational companies:

(1) The Cost Approach

(2) The Market Approach.

(1) The Cost Approach:

In the cost approach all the relevant costs are computed first and then after a desired markup profit is added as to arrive at the price. The cost approach is very simple to comprehend and use, therefore it is very popular approach in practice. The other benefit of using this approach is that it leads to fairly stable prices.

The following are the main benefits of the cost approach:

(i) It is very simple to comprehend and use.

(ii) It leads to fairly stable prices.

(iii) It is helpful to remain competitive in the market.

(iv) It is used as a promotional tool.

(v) It is helpful to win confidence of the buyers.

(vi) It can be used as an important tool as to convince and motivate buyers.

This approach, however, has number of benefits but it too had following drawbacks:

(i) Sometimes computation of costs can be troublesome.

(ii) It brings inflexibility into the pricing decisions.

Under this approach tentative price charged is calculated on the basis of its costs. The final price emerges by considering government regulations, demand for the products, competition in the market, objectives of the company and others. The main emphasize is given to the costs of the product.

It forces inflexibility also. The main problem in this regard is the meaning of costs, what should be included in the total cost, should it be both fixed as well as variable costs. Should the total cost also consist of research and development costs as well as administrative cost of present company? The exact answer and other classification of all these questions is very difficult.

While determining the total cost as the basis of pricing a full cost or an incremental cost pricing method can be applied. A full cost pricing is a conservative approach, whereas an incremental cost pricing can allow for seeking business otherwise lost.

It can be explained with the help of following illustration:

The Duke Overseas Pvt. Ltd. has a production capacity of 20,00,000 units per year. At present the company is producing and selling 15,00,000 units per year. The regular market price of its unit is $15.00 per unit.

The variable costs of the company are listed as under :

Raw material	$ 5.00/unit.
Labour cost	$ 4.00/unit.
Total cost	$ 9.00/unit

The total fixed cost is $ 4000000 per year. The following is the income statement of the company.

Sales (1,50,000 × 15)	= $ 2,25,00,000	
Cost :-		
Variable cost (1,50,000 × 9)	= $ 1,35,00,000	$ 1,75,00,000
Fixed cost	$ 40,00,000	
		$ 50,00,000

Now suppose the company do have an opportunity of selling an additional 3,00,000 units $10.00 per unit in the overseas market. This particular order does not have any adverse effect on the prices of the products in the regular market.Further if Duke Overseas Ltd. would have used full costing method to reach up till the decision on pricing for the particular product, the offer would have been rejected. Because the full cost method does not justify the price quoted for the said offer.

The cost as per full cost method will be as under :

Total cost (Fixed cost + Variable cost)	= 1,75,00,000 $
Total units produced (Annually)	= 15,00,000 $
Cost per unit	= 11.666 $

Thus there will not be any other option with the company except to give up this order. The company will be losing revenue worth $ 300000. On the other hand if company is using incremental cost method, the offer for said order shall be accepted and thus company will be earning additional revenue of $ 300000.

It can be explained as under:

Additional revenue from the offer (300000 × $ 10.00)	= $ 30.00.000
Additional costs (300000 × $ 9)	= $ 27.00.000
Additional income from persent offer	= $ 3.00.000

Thus the treatment of fixed cost plays an important role in both the cases. While calculating price and cost on the basis of full cost method, the cost per unit is calculated by considering the fixed cost in the total cost. On the other hand in incremental cost method it is considered that no additional fixed costs shall be incurred if additional units are produced.

Thus fixed costs are not considered in the process of decision making for additional overseas order. It is pertinent to mention here that an important factor which is always considered and kept in the mind is the negative effect of such offers on regular market price. If such an offer is from the regular market, in that case it should not be accepted. Because by doing this, it can severely hamper the market operations in future course of time in the regular market.

The profit markup or desired profit is added in the total cost as to compute the final price. The percentage of profits desired is decided arbitrarily.

For example, if the total investment in the present business is $ 10,00,00,000 and the total standard cost of annual output is $ 15 crore, the capital turnover ratio would be $ 10 crore/ $ 15 crore, or say 0.67. While multiplying it with desired percentage return on investment, it will give percentage mark up on cost. For example if the desired percentage return on investment is 25 percentage, the percentage markup on cost will be (0.67 x 25 = 16.67 percent).

$$\text{Percentage make up on cost} = \frac{\text{Total capital investment}}{\text{Total standard cost}} \times \text{Desired percentage return on total investment}$$

This method is considered to be more scientific and is an improvement over the cost plus method. The determination of fair rate of return may be a problem with the company. Generally a fair return on investment should be equal to or more than the current cost of capital. But in actual practice some time a certain amount is to be considered as a fair return. In this particular method the mark up is linked with total investment and do not consider any change in price of cost elements.

(2) The Market Approach:

In the market approach, pricing starts in a reverse way.

The pricing is to be determined in the following steps:

(i) An estimate of acceptable price is made in the target market.

(ii) In the second stage an analysis is carried out as to determine whether the price would meet the objectives of the company.If not, the alternatives shall be either to increase the price or to give up that business.

(iii) An additional adjustment can be required as to cope with other factors like, competitors price, laws of host country, costs and other environmental factors. These factors are considered essentially in both the approaches i.e. cost plus and market approach. The market approach focuses on the price at customers' requirements or view point.

The major drawback and leakage of this approach is lack of price and demand relationship in many countries which is not possible to develop there. Therefore, it is not possible to implement market approach for pricing in those countries. This uncertainty emphasizes to pursue for the cost approach.

14.8 TYPES OF PROMOTIONAL DISCOUNTS

One of the most frequently used sales promotion techniques is offering promo-tional discounts to buy extra sales albeit only in the short term.

These can be grouped into a number of main categories:

1. Price Reductions:

The simple money-off promotion imprinted on the packaging is the most direct method and may have the most immediate impact on sales levels. Because it is shown on the package, it is nearly impossible for any retailer to avoid passing it on to the consumer. It is the most expensive technique, because to be effective it usually needs to represent 15 to 20 percent off the regu-lar retail price.

It may also prove difficult to restore the price to its original level at the end of the promotion, as consumers may decide to stockpile in order to hold off on additional purchases until the next promotion. It may also do consid-erable damage to the image of quality products or services, especially where the price-off sticker visually dominates the label.

Even though there are many draw-backs to price reductions, researchers have found that in spite of the success of the everyday low pricing scheme of Wal-Mart and other retailers, a high-low pricing scheme works more profitably for most firms. At the same time, however, they concluded that price is not a defensible point of differentiation for a firm unless it is driven by an existing advantageous operating cost structure.

2. Free Goods:

The offer of more products for the same price (e.g., two for the price of one) has several advantages. It forces the customer to buy more than usual for the same price during the sale. However, it clearly signals what a nor-mal price is and that such a discount is temporary. Therefore, it has less impact on the image of the product and its established price.

3. Tied Offers:

Two or more kinds of products, often shrink-wrapped together and offered at a lower price (e.g., a Microsoft Windows 2000 manual that comes with a Rand McNally's Trip Routing Software on a CD-ROM and its instruction brochure). This packaging requires retooling of the assembly process and changes to the production and assembly lines with considerable reductions in productiv-ity. In addition, larger or different shelf space may be required at the retail store. It could be a dangerous promotional campaign if cooperation was not assured in advance from the retailer.

4. Coupons and Virtual Coupons:

Coupons are often used when the aim is to extend the penetration or trial of the product to new customers. These are most effectively delivered door-to-door, where they achieve high redemption rates. Increasingly, coupons are also delivered via freestanding inserts, which are books full of coupons. Coupons can also be incorporated in press advertisements, which are cheaper to run but have a considerably lower redemption rate.

Depend-ing on the generosity of the offer, the coupon is supposed to tempt consumers away from the brands they use to try a new one. This can be a very effective type of promotion if coupon redemption levels are high enough and may be more cost effective than sampling.

The use of traditional coupons, along with other forms of sales promotion, has not been without controversy. Procter & Gamble, probably the most success-ful package goods marketer with a wide array of sales promotions in the United

States, came to realize how difficult the company had made it for consumers over the years to make a purchase decision.

In 1996, the company began stan-dardizing product formulas, eliminating marginal brands, cutting product lines, and reducing complex deals and coupons. Gone are 27 types of promotions, including such outlandish tactics as goldfish giveaways to buyers of Spic & Span (unfortunately, many froze to death during midwinter shipping). Although it is not possible to attribute the results solely to reduced use of coupons, the company has increased its business by a third. P&G executives attribute it to the power of simplicity. Obviously, the reduced use of coupons has not hurt sales at all.

Coupons can also meet with cultural resistance. When ACNielsen tried to introduce money-off coupons in Chile, the firm ran into trouble with the nation's supermarket union, which notified its members that it opposed the project and recommended that coupons not be accepted. The main complaint was that an intermediary such as Nielsen would unnecessarily raise costs and thus the prices charged to consumers. Also, some critics felt that coupons would limit individual negotiations, because Chileans often bargain for their purchases.

However, emerging forms of coupons permit more precise targeting and therefore result in less waste. Advanced Promotions Technologies, for example, has developed a unit with a small colour touch screen and a printer that sits on the check-writing stand in supermarkets. The customer can watch the screen to see coupons that are applicable to the purchases made and touch the screen to request a printout.

Other technology prints out coupons at the checkout counter that either highlight complementary products that the customer has not bought or products competitive with ones that have been purchased. Similarly, consumers can sign up on various Internet-based coupon offering Web sites by providing their residential and other personal information so that the Web-based companies can show on the screen various coupons on goods and services that they may be interested in purchasing.

A study by NPD Online Research shows that 46 percent of Internet users who have downloaded coupons have used coolsavings(dot)com, 41 percent have used valupage(dot)com, 12 percent have used valpak(dot)com, 12 percent have used hotcoupons(dot)com, and 10 percent have used directcoupons(dot)com. Obvi-ously, coupons are alive and well on the Internet. With such greater precision, the coupon tool becomes less expensive and more efficient and is therefore likely to be used more. It can be problematic, however, for some industries.

5. Cash Refund:

A cash refund (from the retailer or by mail), usually on the basis of a coupon that is part of the packaging, is another way of offering a con-trolled price reduction. However, the redemption procedures may be complex and unwelcome to the trade, because proper monitoring is required to ensure that cash refunds are issued only for sales that have actually been made.

Unless there is a matching of inventory held, products sold, and refunds issued, manufactur-ers may expose themselves to the possibility of retailers claiming cash refund reimbursements without having sold the merchandise. Cash refunds can also be expensive. Sometimes the refund may be as much as the whole purchase price.

6. Money Off Next Purchase:

This method may be used to extend buying patterns and build customer loyalty. Such offers are often part of the product label and require some effort to use. For example, the label may have to be soaked off the bottle, or the packaging may have to be preserved. Sometimes, the hassle of such requirements can result in customer dissatisfaction rather than promotion.

7. Loss Leader Pricing:

A product may actually be priced below cost in order to attract customers into a store, in the hope that they will buy other prod-ucts or services that are profitable.

8. Cheap Credit:

If credit is offered, lower-priced or even free credit may be used instead of a simple price reduction. This may be cheaper to the vendor who has access to lower-cost credit, although the cost of bad debts must also be cov-ered. Such offers are often seen in the furniture business (e.g., 90 days same as cash; pay nothing until January 2001), where financing rates low are advertised.

Low-cost credit and delayed invoicing can also be used as important tools to get retailers to carry a new product. By offering payment terms of 120 days, for exam-ple, many Japanese manufacturers and wholesalers achieve high acceptance lev-els from their retailers, who can keep the funds for some time after the sale and earn interest. Low-cost credit may also introduce the consumer to the use of the supplier's credit facilities.

Other Forms:

Other forms of promotion offer added value but are not directly price related.

1. Contests:

In this case the purchaser receives the right to one or more entries in a competition. Because the size of the top prize reportedly determines the inter-est of the customer, a large prize can be a very attention-getting form of promo-tion. Contests can be easy and cheap to mount and have a guaranteed fixed max-imum cost. They can also be used as incentives for retailers for the sales force in the form of bonuses or prizes, such as participation in special top-production meetings in a desirable resort area.

2. Free Gifts:

Such offers can be designed to lure customers and channel mem-bers from the competition or to build loyalty. Banks, for example, offer home equity loans without charging financing points or advertise that they will pay for any legal expenses of the closing costs. Customers are thus encouraged to change banks. The use of frequent flyer miles by airlines is an example of a customer loy-alty builder.

Here customers are encouraged to fly regularly on a specific airline in order to receive, after a number of flights, a free ticket. On the Internet, there is now a ubiquitous virtual gift. For example, Internet Perks' Incentive Ware is an Internet promotional piece that companies can use to keep their names in front of customers while giving them free desktop applications.

As the use of sales forces declines, the Internet becomes a valuable tool with which to reach cus-tomers. Incentive Ware consists of applications for the desktop called droplets that can be sent as virtual gifts attached to e-mail, downloaded free from a Web site, or put on disks to be handed out at trade shows and sales calls. Incentive- Ware is meant to replace promotional gifts, such as hats, coffee mugs, and T-shirts bearing the corporate logo that companies frequently use.

3. Self-Supporting Offers:

In this case, the offer is not free, which is why it is also called a premium offer. The impression is usually given that the supplier is subsidizing the offer so, that the customer will obtain a good deal on the item. In practice, the intention is usually to cover the cost with the amount paid by the customer, in effect offering the customer only the benefit of the supplier's buying power. Marlboro sweatshirts is one example. Such offers can be difficult to admin-ister, and the forecasting of inventory levels can be problematic.

4. Multi Brand Promotions:

In this case a number of brands, typically from one supplier, share a single promotion in order to maximize impact for given costs. This technique can be used to recruit new users to these brands. For exam-ple, Taco Bell promotes Six Flags amusement parks with a "Buy One Get One Free" discount ticket. Taco Bell has booths and restaurants at Six Flags parks to boost its sales as well.

5. Guarantees and Services:

Trade promotion can also take the form of special guarantees or services, either to consumers or to channel members. For example, in order to increase sales for online retailers, much emphasis has been placed on network and referral programs. Consumers can also be offered a 30-day trial period. Frequently such promotions are used for magazine subscriptions, allowing customers to cancel the subscrip-tion after trying out one or more issues.

However, similar guarantees are emerg-ing in many other sectors, where customers can return merchandise liberally. The same tool is also applied to channel members, where manufacturers may desire that retailers stock up in expectation of large demand. Liberal return priv-ileges facilitate such over ordering. Offering special services, such as restocking assistance, cooperative advertising, or providing display stands can also be used as enticements.

14.9 SUMMARY

Price is the amount of money charged for a product/service or Total sum value of exchange the consumer offers for using a product/service. Price is one of the main factors which affect the consumer's buying decision. Particularly in price sensitive segments proper price setting plays a major role in the success of the product or the service offered. High price will make the buyer to look for other options. On the other side low price might give an impression that the product might be of low quality. So, marketers must be very careful in setting the correct price.

The first step in price setting is to identify the firm's pricing objective. The objective of the firms could be to increase the profit or to maximize the market share. In the first case the pricing could be premium where as in the latter case the focus is on increasing volume by offering low prices. Five major objectives of the companies are

1. Survival

2. Maximum current profit

3. Maximum Market share

4. Maximum market skimming

5. Product-quality Leadership

Example: Sony uses market skimming prices

Once the firm's objective is determined the demand for the product need to be analysed as different pricing the demand will vary. Estimating the demand will help in understanding the price sensitivity of the market and the demand curve. Demand analyses help us to arrive at the price ceiling. Cost estimation will give the price floor. To set proper prices the management should know how different production level affects the total costs. Knowing the cost and price of the competitors will help in positioning the product better in terms of price.

Generally different pricing methods are used for products based on the type of product and industry. They are

1. Cost oriented pricing—Full cost/Direct cost
2. Competitor oriented pricing—Going rate/competitive bidding
3. Marketing oriented pricing

14.10 GLOSSARY

Normative price – A price that is considered 'fair' by an individual or group

Positive price – The present cost or marked price of a product

Prestige pricing – The process of setting a price based on the perceived exclusivity or reputation of the company name or brand name of the product or service

Price elasticity of demand – The relative change in demand that occurs in response to a relative change in price

14.11 SELF ASSESSMENT QUESTIONS

1. Compare and contrast between price and value.

2. Explain using suitable examples the steps in Selling ?

3. Discuss in detail the methods of pricing the product ?

14.12 LESSON END EXERCISE

1. Distinguish between market skimming pricing and market penetration pricing ?
2. Discuss the pricing strategy of New products and existing products.
3. Highlight the various kind of pricing ?

14.13 SUGGESTED READINGS

- Strategic Marketing (McGraw-Hill/Irwin Series in Marketing) by David Cravins
- Strategic Management and Business Policy. by Azhar Kazmi

Lesson No. 15 **Unit-III**

Semester-II **M.Com-C254**

INITIATING AND RESPONDING TO PRICE CHANGES AND REACTION AND RESPONDING TO COMPETITORS' PRICE CHANGES

STRUCTURE

15.1 INTRODUCTION

Internal or external forces often lead an organization to change its prices. Price changes are often initiated by the organization. The organization also has to design its strategy to deal with price changes initiated by competitors.

Initiating price changes

An organization may initiate price changes to deal within new forces arising within the organization or the market. The price change may occur at both directions: increasing price or lowering prices.

Increasing price

Increasing price of a product is an attractive proposition for every business organization. since a small increase in the price results in huge increase in the revenue and profits. If an organization feels that the sales volume will not be affected by a small price increase, it may always be tempted to increase the price.

Most price rise are the results of inflation that causes the organization's costs to increase. Costs often increase when the government introduces new taxes or raises the current tax rates. Increase in the price of any factors of production, wage levels, raw materials prices and interest rates may cause the price to increase. Often organizations anticipate such increases and may raise the price of its products in advance.

Sometimes, an organization may increase the price in order to reduce the demand for the product. When an organization cannot increase the supply of its over demanded product, it may raise the price level to manage the demand at the current supply point.

Lowering price

Several situations lead an organization to reduce the once of its products. Organizations with excess capacity try for extra sales in order to achieve higher capacity utilization rates. In such a situation, it may find lowering price the most easy method or achieving higher sales volume.

Some organizations often lower the price to achieve higher sales volume, and thereby capture larger market share. These organizations believe that once they are to dominate the market and hold to a large market share, the resulting sales volume may allow it to achieve economies of scale.

Lowering price is very risky strategy. It usually invites sharp reactions from competitors and often results into a price war. Careless price cuts may lead an organization into the following traps:

Low quality trap

An organization initiating price cuts may fall in a low quality trap when consumers associate the new low prices to a poorer quality product.

Fragile market trap

It may fall into a fragile market trap when price sensitive consumers wait for further price cuts or search for cheaper products.

Shallow pocket trap

It may fall into the shallow pocket trap if financially strong organizations react by huge price cuts to counter the price cuts initiated by a weak organization.

Responding to Price Changes

An organization faces a strategic decision situation when competitors initiate price changes. Responding to the price change, particularly in the case of price cuts is a difficult question. The organization has to consider the objective and time frame of the price change. The following clues are important in responding to price changes:

1. lf the price cut has been initiated in order to use excess capacity or to cover rising costs, it does not warrant any response.
2. lf the price change is temporary or short term, initiated to clear old stocks, there is no need for response.
3. lf the objective is to dominate the market and the price change is long term. the organization has to respond quickly and effectively.
4. The organization should also evaluate the consequences of non response to

the price change.

5. If the price change does not seriously affect it current sales and market share, there is no need for response.

6. Before showing any response, it should carefully watch how other competitors react to the price change.

Responding to a competitor's price change is also influenced by the status of the organization in the market. Small follower firms are forced to follow the price changes initiated by a large organization that forced to follow the price changes initiated by a large organization that performs the role of the price leader. The price leader normally establishes the market price that is adopted by several price follower firms.

Sometimes, the price leader is also troubled by smaller firms through severe price cuts. In such a situation, the price leader has the options or response or non response. The leader organization may not respond if it docs not expect to lose any significant portion of its market share.

If the price cut is expected to seriously hurt the market share and profit situation the leader organization may take one or more of the strategic options:

Option 1: Increase customers perceived value of the product by increasing promotional level.

Option 2: Increase the price complemented by an improvement in quality and features of the product. This requires a re-positioning strategy to establish the brand at a higher price position.

Option 3: Add a new lower price brand to the current product line and position it directly with the attacker's brand. This trading down strategy helps the organization to maintain high quality image for the old brand.

Option 4: As a last option reduce the price to offset the negative effects of the price attack.

15.2 OBJECTIVES

After reading this chapter you will be able to understand:

1. Initiating to price changes
2. Responding to price changes
3. Reactions and responding to competitor's price changes

15.3 CONSUMPTION AND PRICING

Consumption of the offering is important to retain customers and to generate positive word of mouth about satisfaction. Pricing methods must be adjusted accordingly.

If a customer pays regularly for the service he is using, he is steadily reminded of the cost he is incurring and is more likely to use the service regularly. When a customer uses a service regularly, he is more likely to discover its benefits and continue using the service. In comparison, if a customer makes an one-time payment, he is enthusiastic in using the service in the beginning, but the interest may wane gradually. And since the customer does not receive the full benefits of the service, he is likely to discontinue using the service. For example if a customer pays membership fees for a health-club monthly, he is reminded of the cost of his membership every month. He will feel the need to get his money's worth throughout the year and will workout more regularly. Since he is benefitina from the membership, he is likely to renew the membership.

Companies have not paid attention to the relationship between consumption and pricing policies. Companies believe that if customers do not feel the pain of making payments they will be more liberal in buying the product or the service. Therefore, they mask the cost to the customers by such methods as automatic payroll deductions, bundling specific costs into a single, all-inclusive fees, season tickets etc. But these practices reduce the likelihood of the customer using the product, and a customer who does not use the product is not likely to buy it again.

Following guidelines would be helpful.

1. **To build a long-term relationship with customers, it is important that they consume the product that they have bought.** The extent to which customers use paid-for products determines whether they will buy the product again or not. This phenomenon is more pronounced in businesses that sell subscription or membership. Health club members who workout four times a week are more likely to renew their memberships than those who work out just once a week. In software business, once customers start using an application, they are more likely to buy its upgrade. In businesses like movie theatres, sports arenas and concert halis, a big part of the revenue comes from customer spending on parking, food and drinks. So if ticket holders do not attend these events, these high margin secondary sales are lost. Finally, consumption is important to any business that relies on satisfaction to generate repeat sales and positive word-of-mouth. For products as diverse as wine. books and electronic gadgets, customers will not purchase again or spread positive word-of-mouth if they do not use the products.

2. **Customers reel compelled to use products that they have paid for to avoid feeling that they have wasted their money.** Most customers would use a less effective service or product more when they have paid a higher price, than use a more effective product or service that they have bought for a lower price.

3. **Consumption is driven by perceived cost rather than the actual cost.** A $10 cash transaction feels of different magnitude than a $100 cash transaction. But a $10 credit transaction feels similar to one for $100. Customers remember the cost of products better if they pay for them with cash than if they pay with credit cards. They also feel more pressure to consume products if they paid with cash than if they paid with credit card. Season tickets, advance purchases and suscriptions also reduce the pressure to consume.

4. **Payments that occur at or near the time of consumption increases attention to a product's cost,** increasing the likelihood of its consumption.

But payments made either long before or long after the actual purchase reduce the attention to a product's cost and decreases the likelihood of its being used. Immediacy of payment is critical for the consumption of a paid- for product. Services where customers have an option of paying annually, semiannually, quarterly and monthly, reveal this phenomenon remarkably. It is found that members who make a single annual payment use the service most frequently in the months immediately following payments. But the frequency of usage goes down subsequently, and in the last few months they treat their membership as ifit were for free. Similarly for semiannual and quarterly payments, use of service is highest each time payment is made only to decline steadily until the next payment. For monthly payments the use is more uniform as they are reminded of the cost more frequently.

5. **Companies bundle prices to hide the cost of individual components.** Price bundling influences consumption. It is easier to identify and account for the cost of an individual product in an unbundled transaction than within a bundled transaction. The one-to-one relationship between price and benefits in an unbundled transaction makes the cost of that item obvious which makes the customer feel guilty if he does not use the product. In case of season tickets the customer pays one bundled sum for a collection of individual events, making it difficult to allocate costs to any individual performance or game. This reduces the likelihood of its usage. As the number of events or days included in a bundle increases, the chances of attendance in individual events goes down. Managers can run operations more efficiently by anticipating actual demand by looking at the mix of bundled and unbundled purchases or the ratio of current to advance purchases. A manager should expect more no-show rates when there are more bundled or advance purchases.

15.4 PRICE SENSITIVITY

Companies can reduce price sensitivity of customers and have more scope for maneuvering their pricing strategies.

Price sensitivity of customers will determine the latitude that a company will have in increasing its price. A company should know the price sensitivity of its customers and the factors affecting it. In certain situations a company may be able to explore opportunities to reduce price sensitivity of its customers if it develops a keen understanding of his motivations in making the purchase, the purpose for which he uses the product and the very nature of the product.

A customer is price sensitive if he is bearing the cost as opposed to a third party. The customer is also less price sensitive if he does not have to make the payments upfront. Allowing customers to pay later may make the customer less fixated on the price. Arranging a loan for the customer will allay the concern of high price. The customer does not mind paying a slightly higher installment but he might not be willing or able to pay the high initial price. If the payment for some services are being made by insurance companies or come as perks, the customers will not worry about price and seek the best service. Service providers should seek such businesses and offer premium quality of services. Pharmaceutical companies will have a greater pricing latitude if neither the prescriber nor the patient paid the cost of the medicines, but the price was paid by an insurer.

A customer is also price sensitive if the cost of the item represents a substantial percentage of a customer's total expenditure. The choice of the target market becomes very important. In generic terms, a wealthier segment would be less price sensitive and should be targeted. Industrial marketers can target such customers for whom their product will be minor purchase in comparison to the other purchases that they make.

If the buyer is not the end user and he sells his end product in a competitive market, price pressure from further down a distribution channel ripples back up through the chain. For instance, one steel producer was able to obtain good margins by selling a component to buyers who then produced specialty items for end users. Buyers of the specialty item were less price sensitive. Selling that same component to buyers who made products for commodity-like markets meant lower realized prices as the end users were more price sensitive. Therefore the company will have to evaluate the price sensitivity of its customer's customers and target such customers whose own customers are less price sensitive.

The customer is more likely to be price sensitive if he is able to judge quality without using price as an Indicator. A customer's price sensitivity will be more also if the product is one for which it is easy to make comparisons. For instance, it is easier to compare cameras than it is to compare computers. A customer will be more price-sensitive if there is limited difference between the performance of products in the category. A company will have to make it difficult for customers to evaluate quality and make comparison. A company should desist from using purely functional attributes as competitive parameters. In most categories, with sorrie ingenuity, products can be imbued with some sense of style. fashion, colour, sensuality and grandeur. Customers will be unable to put a monetary value to these attributes. In hard-to-judge categories such as perfumes, price has little impact because the customers assume that high price and high quality go together.

A customer will be price sensitive if he can easily shop around and assess the relative performance and price of alternatives. Advances in information technology will enable customers to increase their awareness of prices and access to alternative options. Price sensitivity of customers is going to increase in a wide range of products and services. It will be dangerous to deny access to one's product, or information about it, as the customer may just refuse to buy unless he has made the required comparisons. The only solution will be to imbue the product with elements of style, fashion and sensuality which will make comparisons difficult.

A customer will be price sensitive if he can take the time he needs to locate and assess alternatives. For instance, in an emergency, the speed of delivery will be crucial. Price will not be the primary factor determining the purchase. A sense of urgency has to be created in the buying situation. Products may have to be phased out more regularly and threats of impending stock-outs should sound real.

A customer will be price sensitive If he can switch from one supplier to another without incurring additional costs. A customer will also be price sensitive if the long- term relationship with the company and its reputation are not important and the customer's focus is on minimizing the cost of the particular transactio. Easing process of procurement for the customer by taking responsibility of maintaining enough inventory with the customer and ensuring automatic replenishment will bind the customer to the seller. He will not be sure if the next supplier will do so much. The seller will have to prompt the customer to invest in the relationship. Joint efforts and exercises to increase quality and productivity will keep the customer interested in the relationship. The customer should be made to feel that he is getting more than the product or the service that he is buying from the seller. The seller has to create a web of services and interactions around the product sold and shift the customer's attention from the product.

Sadly most companies take the level of their customer's price sensitivity as something they cannot do anything about and shudder to increase prices even for very legitimate reasons. But companies can take steps to reduce the price sensitivity of their customers and thus be able to charge higher price.

15.4.1 Case Study

SpiceJet Maruti, Rata The '9' price point

SpiceJet launched its low-cost Delhi-Bangalore flights at Rs 4.999. When Maruti rolled out its volume-buster financing scheme for the MBaa. the EMI was fixed at Rs 2.599. When Acer debuted its cheap and cheerful 2.5 Ghz Celeron-based notebook. the MRP was kept at Rs 49.999.

From phone cards to clothes, fromjewelers to movie tickets. the 99 price point is the most ubiquitous price positioning in the market. Marketers call it 'Bata Pricing', because the company invented it and refined it to a fine art. A simple psychological toot, it has managed to redefine pricing and completely rewrite the rules of retail. Introduced nearly three decades ago when Shoe-major Bata priced its shelf-star 'Hawai' chappals at Rs 39.99, the 99 price point is still the rule in retail pricing.

At the heart of Bat a Pricing is the art of sneaking in a tagjust short of the 'oops' barrier. In the process, it repositions a planned purchase as an impulse buy, thus boosting sales. Most customers have a mental price band for any product. Positioning just below that level generates a degree of comfort with the purchase decision. This kind of psychological price positioning is very useful, especially in a price-sensitive market like India where the purchase desire Is high but there is shortage of funds. So if a company sneaks in a product just below the psychological price barrier, the price looks less intimidating

. 99 price points also looks good on ads and publicity communication and the price tag looks better in showrooms.

But there are doubts if the consumer can be fooled. 99 price point may actually be driven by marketer psychology rather than the consumer mind block. Such skepticisms may have a ring oftruth to it. 99 price point has now become so all-pervasive, there isn't much of a 'wow' element left in it. Legacy issue could have kept Bata Pricing alive and kicking for three decades in India. It might be precedence rather than utility that may have kept this positioning so strong for so long. The tactic may work better in higher value items. It is known to be used more in planned purchases rather than impulse buys. So typically products like shoes, cars or durables see this kind of pricing more often but it is not common In FMCG or low-value products or daily consumption items. And where it is used, the attempt is to turn an impulse buy into a planned purchase, exactly the opposite of the intended Bata effect.

Some marketers feel the 99 price point is relevant for most product categories though the responsiveness may vary. Some categories may see rapid rise in sales when the price point goes below the psychological barrier. Others may grow slowly.

15.5 INITIATING AND RESPONDING TO PRICE CHANGES

Marketers need to be aware of the need to change even long-standing prices. Price is a strategic tool with which competitors have to be overwhelmed, and higher profits earned. No price, howsoever diligently set, is sacrosanct. Managers need to know when and how to raise or lower prices and whether or not to react to competitors' price moves. Sometimes external factors may force such moves and at other times price changes are deliberate moves to gain competitive advantages. Price is essentially dynamic.

15.5.1 Circumstances under which **price can be raised**

Marketing research may reveal that customers place a higher value on products than is reflected in its price. A price increase is not likely to turn away customers as they will still find the company's offer attractive. But if competitors hold on to the old price levels and the offerings are similar, customers are likely to defect. In most industries, the offerings of major competitors have become similar, and it may be suicidal for a company to raise prices if competitors do no follow suit. In most industries customers are getting good value and the industries can become more profitable if the companies raise prices. But because of unpredictable competitor reactions, no company takes the initiative to raise prices. One altemative is to raise prices and introduce some differentiation in the offering simultaneously so that the customer feels that he is paying the extra amount for some added value. The customer essentially does not mind paying the high price because he is getting commensurate value, but is perturbed that other companies are offering the same value at lesser price. The slightly differentiated offering will put him at ease.

Costs of doing business may have gone up. If the escalating costs are affecting all competitors, most of them are likely to follow suit when a company takes the initiative to raise prices. But if only a particular company has been affected, it cannot raise prices as competitors will hold on to their prices and lure away the company's customers.

There is excess demand. If a company raises price and competitors do not follow suit, the company may-still get enough customer. from the increased pool of customers to end up with higher profits. But most competitors are likely to raise their prices to enhance their profitability. If a few competitors hold on to the old prices, it may actually work to their disadvantage. Customers will take the price charged by the largest company or the majority of companies as reasonable and will attribute the low prices of the few companies to inadequate quality.

A company's objective may have become to harvest the business i.e. to increase margins at the cost of survival. It does not mind losing some customers but charges higher prices to whoever is willing to buy its products. Competitors should not raise their prices in response to such a company's raising its prices. But if competitors are oblivious of the company's intentions and raise their prices, the company will be able to retain its customers and really earn a windfall.

15.5.2 Circumstances under which prices may be cut

Marketing research discovers that the price is higher compared to value customers place on the product. If the company does not reduce its price, the customers would stop buying. If the scenario is true for the whole industry, all the competitors will follow the initiator, and market shares will stabilize somewhere close to where it was before the price cut.

Costs of doing business may have come down. The company wants to pass on some of the benefits of the reduced costs to customers to earn their goodwill. It will help the company immensely if such a move is well-publicized. Competitors may follow suit but the company which does it first is likely to register maximum goodwill among customers.

The company has excess capacity and reduces its price to increase volumes so that its per unit cost goes down. Therefore the low price is compensated to some extent by falling costs if sales increase in response to the low price. If a company operating at full capacity cuts its price in response, the cut will come straight from profits as it does not get any reduction in cost. Such a company will be reluctant to cut price and will lose customers to the company with larger capacity. Companies with larger capacities can get advantage over smaller companies by reducing their prices systematically. But if there is industry overcapacity i.e. every company has excess capacity, competitors are likely to follow suit if a company initiates a price cut. Sales do not increase for any company, but profits fall further for every company.

The company wants to increase its market share. It cuts price and if it is lucky not to have its competitors matching the cut, it may be able to increase its market share. But this method to increase market share is fraught with danger. It may lead to spiraling price cuts in the industry with reduced profits for every company.

15.5.3 Proactive Price Cut

A company cuts price to preempt competitive entry into a market. It incurs short term profit sacrifices but immediately reduces the attractiveness ofthe market to the potential entrant. The competitors do not consider the market attractive enough to commit resources in it. The move reduces the risk of customer annoyance if prices are reduced only after competition entry.

15.5.4 Tactics of price change

(i) The company increases or decreases price by the full amount in one go. When a company raises prices substantially at one instance, it avoids prolongjng the pain of a price increase over a long period but raises the visibility of price rise to customers. Some customers may find the price hike too steep and decide not to buy. And once they move to a competitor's offering they may never return.

(ii) When a company reduces prices in one go, the decline in price is noticed by customers and they may now find the new price level attractive and may purchase almost immediately. In fact price reduction below certain threshold level is not noticed by customers and is a wasted move with regard to attracting customers. A big price reduction stirs the market, customers take notice and sales increase. Such price reductions should be heavily promoted. But such a move causes an immediate impact on margins. There is also the fear that such a steep reduction might not have been needed and that a lesser reduction in price would have resulted in the same customer response. The company takes a avoidable hit in its revenues ifit unwittingly reduces prices more than that was required to create a stir in the market.

(iii) A company increases its price by small amounts in stages. Customers do not notice and continue to buy. Customers do expect prices to go up incrementally, so a small price hike does not alarm them. But a company which resorts to price hikes very frequently runs the risk of being charged with always rising its prices. This image may be harmful in the long run.

(iv) Staged price reductions is done when the amount necessary to stimulate sales is unclear, Small cuts are made till desired effect on sales is achieved. The company is able to avoid urmecessary reductions in price. But some customers may not take notice and continue to assume that the company is still charging its original price and will not switch over from their current suppliers. Smaller price reductions also cannot be effectively advertised. And when the company continues the process for too long, customers may postpone their purchases and wait for the next cut in price.

(v) An escalator clause in a contract (for instance, construction) allows the supplier to stipulate price increase in line with a specified index, like increase in material cost. Customers are normally wary of such clauses and fear that the supplier will increase prices on the flimsiest of grounds. Suppliers should ensure customers that the price hike would take place only under strictly specified and verifiable circumstances.

(vi) Price unbundling allows each element in the offering to be separately priced and sold in such a way that total price is raised. Customers can avoid buying the full product if they require only a few elements of it. It helps customers as they can select different suppliers for different elements. They do not feel dependent totally on one supplier.

(vii) The company maintains the list price but offers required discounts to customers. When the list price is lowered, customers who otherwise would have been willing to pay higher prices also pay the decreased price. But under this method, the company offers discounts to some customers to get their business but charges full price to others. There is fear of customers' reprisal if the customers become aware of the discriminatory pricing of the company especially if the differences between what customers have paid are big. A company can lower or completely withdraw cash and quantity discounts when the demand is heavy. But when such discounts are offered indiscriminately and for all customers and for all periods, customers lose faith in the price list of the company. Customers distrust such companies as prices become the function of how hard a customer can bargain. A company should not allow the sanctity of its list price to be withered away under the pretext of having to do business under very competitive conditions. It will be better to reduce the list price if discount will be ultimately given to every customer.

(viii) A company can decrease price without a direct fall in price. Price bundling can lower prices. For instance, a company sells television with repair warranty. The drawback is that while the company incurs real costs in fulfillment of additional responsibilities or services. the customers may not value them or may not even want them. And over a period pi time customers begin to expect these extra services as normal part of the offering and do-not acknowledge any favors being Hinted to them. A possible solution is to offer customer'an option of taking the bundled product or a small discount. The discount should be lower than the monetary value of the service being bundled. This option will act as a reminder to customers that the company is providing enhanced value to them. And it can be a genuine option for customers who do not want the added service.

(ix) Discount terms can be made more attractive by increasing the percentage or lowering qualifying levels. 'The first move makes a serious dent in the profits and the second results in the virtual reduction oflist price.

(x) Introduce a low price fighter brand to counter a cut price competitor while keeping the price premiumness of the main brand intact. This is normally a good strategy to avoid lowering the prices of a company's premium brands. Brand equity developed over decades and centuries can get eroded if premium brands are pressed to engage in battles with low price brands. The premium brands win by cutting prices as customers lap up such a premium brand at such affordable prices. But the brand is dead for ever. It becomes the mediocre brand it vanquished. Though creating a low price fighter brand will cost the company, it will be worth protecting its premium brands.

15.5.5 Estimating Competior Reaction

Price changes by a company rarely go unanswered by competitors. Reactions may be strong and aggressive (for instance reducing prices further when price cuts have been initiated by a competior company) if the competitor is the market leader, or an aggressive challenger. Competitors may follow the lead in reducing prices, thus nullifying the advantage of the initiator, or may choose no! to follow the price increase, thus putting the initiator at a disadvantage.

1. **A price rise that no competitor follows may turn customers away to competitors' offerings.** A price cut that is met by the competition will not result in increase in sales of the initiator but may reduce industry profitability. A company that initiates prices changes will achieve its purpose if its price

hike is matched by competitors but its price reduction is not matched by competitors.

2. **A company's reaction to another company's price moves is dependent on its strategic objectives.** It is likely to follow price increase if its strategic objective is to hold or harvest. If it is intent on building market share, it will resist following price increase. Conversely it will follow price cuts if it is building or holding and will ignore price cuts ifit is harvesting. Companies should try to gauge their competitors' strategic objectives for their product. By observing pricing, and promotional behaviour, talking to distributors and even hiring their employees estimates of whether competitor products are being built, held or harvested can be made.

3. If price is raised in response to rise in inflation, competition is likely to follow than if price is raised because of harvest objective of a firm.

4. If competition has excess capacity, a price cut will be matched.

5. A price rise is likely to be followed if competition is faced with excess demand. Competitor reaction can also be judged by looking at their price reactions to previous price changes.

15.6 REACTIONS AND RESPONDING TO COMPETITORS PRICE CHANGES

Companies have several options when price changes are initiated by competitors. It is important for the company to understand the circumstances under which it should react to price changes by competitors.

When to Follow a Competitor's Price Moves

Competitive price increases are more likely to be followed when they are due to general rising cost levels or industry wide excess demand, or when customers are relatively price insensitive, which means that followers will not gain much by not increasing the price. When a brand image is consistent with high prices a company will follow a competitor's price rise as to do so would be consistent with the brand's positioning strategy. A price rise is more likely to be followed if a company is pursuing hold or harvest objective because company's aim is, profit margin rather than sales/ market share gain.

Price cuts are likely to be followed when they are stimulated by general falling costs or excess supply. Falling costs allow all companies to cut prices while maintaining margins and excess supply means that a company is unlikely to allow a rival to make sales gain at their expense. Price cuts will also be followed in price sensitive markets since allowing one company to cut price without retaliation would mean large sales gains for price cutter. Some companies position themselves as low price manufacturers or retail outlets. They would be less likely to allow a price reduction by a competitors to get unchallenged, for to do so would be incompatible with their brand image. Price cuts are likely to be followed when the company has build or hold objective. An aggressive price move by a competitor would be followed to prevent sales/market share loss. In build objective price fall may exceed initial competitive moves.

When to Ignore a Competitor's Price Move

Price rise are likely to be ignored when costs are stable or falling, as there are no cost pressures. In situations of excess supply, a price rise will make the initiator less competitive, especially if customers are price sensitive and price rise can go unchallenged. Companies occupying low price position will find increasing price due to a competitor's increasing, price incompatible with their brand image. Companies pursuing build objectives with an objective of a competitor's price rise will go unmatched in order to gain sales and markets.

THE B+ CAR SEGMENT IN INDIA

Emergence of a new segment with premium value offering

In response to consumers' demand for something bigger than B segment cars, yet smaller than those in the C segment, car manufacturers are lining up a new range of variants in this segment. The Swift from Maruti is one such car. It will go head-on with Hyundai Getz, the Opel Corsa Sail, Tata Indica and the Fiat Palio in creating a new niche segment, car companies call the B+ segment. More entrants are there, including the Chevrolet Aveo, the Nissan Micra, and Honda's Jazz.

There has not been much in terms of sales in the segment, therefore it is debatable whether the new cars, with a premium pricing strategy, will bring in the requisite volumes to manufacturers. Suzuki and Hyundal are betting that a large number of Indian customers will want to shell out something extra to get a car in a new segment. The cars promise to provide more passenger space than many mid-size cars, will be easier to drive and have trouble-free ownership.

Fiat claims that they opened up a whole new segment with the introduction of the Palio. Although sales have tapered over the years, the Palio remains a good car to buy.

The B+ segment is where the real action is. It is essentially a growing segment. Those already in the B segment want a bigger car, but a much bigger car could pose parking problems. So the B+ segment is ideal. The premium B+ could snatch volumes away from sedans (priced at above Rs 5,00,000). Today, all those who are driving A segment or even B segment cars are looking for an upgrade and the B+ segment makes perfect sense as it is one step higher than B, yet does not go into C.

It is a proven fact that the small car is intrinsically unsafe compared to a bigger car. But today, small cars are coming loaded withABS and airbags in addition to leather upholstery, CD players etc. In terms offeatures and specifications, they are equivalent to other bigger cars. As people want to shift to superior cars, but not give up functionality, the B+ segment cars are an attractive option. The segment is getting more populated with new offerings and the value proposition of each product is going up. All this means that the B+ segment is one which will see a lot of action in years to come. However, it remains to be seen as to how much is lapped up by the discerning Indian consumer. The crossover car trend was introduced in India by GMIL, with its hatchback Corsa Sail. nearly two years ago But the model did not generate much excitement among consumers.

Price cuts are likely to be ignored in conditions of rising costs, excess demand, and when servicing price insensitive customers. Premium price positions may be reluctant to follow competitor's price cuts, as it would be incompatible with brand image. Price cuts may be resisted by companies using harvest objective.

15.7 TACTICS OF REACTION

Price change can take place slowly or quickly. A quick price increase is likely then rhere is an urgent need to improve profit margins. Slow reaction is desirable when-an image of being the customer's friend is being sought. Some companies never initiate price increase and follow competitor's increase slowly.' The key to this tactic is timing the response. The optimum period is found by experience, but in the meantime, sales people should tell the customers that the company is doing everything to hold prices.

There should be a quick reaction to competitor's price decrease if there is an erosion of market share. Reaction is slow when a company has loyal customer base willing to accept higher prices for a period so long as they can rely on price parity over the longer run.

15.8 PRICE WARS

A company can fight a price war without eroding its brand equity and profits. Besides retaliatory price cutting, there are other ways of reacting to price cuts initiated by a competitor. Of all the variables of a company's marketing strategy, it takes the least time for executives to make changes in their pricing strategy. However, such changes also trigger several unexpected and mostly unwanted repercussions from competitors, customers and also within the organization. Change in pricing strategy usually means initiating a price cut. Such a price cut invariably triggers a chain reaction in the industry, with competitors usually trying to outdo each other in cutting prices, leading to a decline in the overall profits of every player in the industry. Price then becomes the main competitive tool which eventually undermines the investment that the company may have undertaken to develop any differential advantage, for instance, superior quality, better delivery systems or superior technology. It also makes customers expect and want more price reductions, affecting the industry's competitiveness irreparably.

Companies in such situations must decide their response strategies. When faced with a competitor who has reduced prices, most companies choose to retaliate with price cuts. It is however important to explore other possibilities before succumbing to the inevitable price war.

The company should first analyze the situation. It should evaluate customer issues such as price sensitivity of the target segment, competitor issues such as their cost structures, intentions, competencies, and company related issues, i.e. its own cost structures, competencies, vision before initiating any action whatsoever. It should also analyze the impact of the present price cut on suppliers, government etc. Waiting for same time to test the real time effect of the price cut initiation (instead of merely analyzing the situation) may also be a sensible idea for some companies. Thereafter, the company has several options other than merely decreasing its price levels in retaliation.

1. **The company may choose to reveal its strategic intentions to its competitors without responding to the price cut in any other manner.** For instance, it may reveal its low cost structure to competitors that could allow it to sustain the price war longer, ifrequired. It may also let it be known to competitors that it does not intend to compete on the basis of price in this market. Maybe the firm could alert the regulators indirectly against such predatory moves of the competitor. The basic intention of this move is to scare the competitor, or to let it know that it would eventually lose out in the race.

2. **The company may choose to compete strictly on non-price based measures. If** a competitor has reduced prices, and perhaps others are also willing to do so, the company may either decide to persist with existing price levels or even increase prices. The main purpose is to prevent damage to the brand image in the market (especially if the brand carries a premium image among the target audience). The company would also have to emphasize high quality or value-added features in its communications or provide more value or denigrate the attempt of competitors to shift the focus of customers away from quality to price. Perhaps they could also try to convince-customers ofthe dangers of buying lower priced products, or warn them against future competitive moves (such as the dangers of monopolistic tendencies if other competitors were driven out of the market because of predatory pricing).

3. **It is important to remember that there is life after price wars for brands.** The brand should strengthen itself by providing more features and benefits and advertising more stridently. A stronger brand is the ultimate deterrence against price slashing competitors. But if brands reduce prices indiscriminately during the price war as a retaliatory measure, it damages the brand image for good.

4. **The company may selectively respond to such price cuts to avoid an all out war.** For instance, the company may give quantity discounts. It may engage in value pricing, i.e. charge' a higher price from customers who want more features, and lesser price from those who want a stripped down versionof the product. It may offer peak services at usual prices, and cut down prices at non-peak hours to stimulate demand. This method allows responding to the price cut in a manner that prevents damage to the brand's reputation. It also allows adequate time to the company to plan further moves and sense the impact of the competitor's price cuts with less risks.

15.8.1 The Motorcycle Market in India

Price wars and commoditization due to to lack differentiation

The top motorcycle companies are rolling out more models in the 100-125cc range. The price segments are getting more crowded than ever before. Earlier, the entry- level segment spanned 100-110cc, and the price ranged from Rs 35,000 to well over Rs 40,000. But the situation is different now. Currently the entry-level segment is strictly 100cc where the price range spans Rs 30,000 to Rs 36,000. While both CTI 00 and CD Dawn are in the Rs 31,000-32,000 range, the Bajaj Platina is priced steeper at Rs 34,000-36,000. Hero Honda's best selling Splendor range is slightly more expensive at Rs 39,000-41,000, while the TVS Star range hovers around Rs 33,000.

The earlier 11 0-119cc category has now been carved off into a separate segment where the likes of Boss 115, Freedom 110 and the lower displacement variants of the Discover and Victor rule the market. The price range here is Rs 38,000-40,000. However, with the 125cc segment witnessing many new launches and increasing price aggression, this segment is beginning to fade out. The 125cc executive segment has also seen price tags jostle. While the accepted positioning in this segment was around the Rs 45,000-mark, Discover's aggression with its base models broke that psychological barrier. Currently, the lower Rs 40k range boasts several models including

the low-end Discover and Super Splendor. While Hero Honda's launch, the 125 cc Glamour, is pricier at Rs 45,000, other debutantes have been more aggressively tagged. Suzuki's maiden launch Heat (l25cc) is priced at Rs 38,000 although HMSI's Shine costs more at Rs 45,000-47,000.

There is logic behind the pricing clutter. Motorcycle companies want to straddle two segments with their products and the attempt is to either straddle the segment below or the segment above with the price positioning. That's why the Platina costs just a tad more than the normal 100cc entry level range, but is considerably less than the 110cc price range. Same is the case with heat, which straddles the 11 Occ and 125cc price ranges with its in-between positioning. HMSI's Shine does the same with the range above Rs 45-47K and its pricing helps it straddle the middle ground between the 125cc and the 150cc.

The entry-level bike today is more of a commodity than anything else. Companies look at it as the commoditization of bikes that belong to the less than 150cc segment. With little differential in the feature parameters, cutting retail prices is the only thing bike makers can do to woo customers. Motorcycle technology has become fairly standardized in the volume segments. Besides alloy wheels and flashy metallic finishes, most models do not have anything that the competition does not pack in as well. The cost elbow room is so small in the executive and economy segments that the pricing strategy becomes crucial to gain market share.

Honda and Suzuki first broke the price barrier relevant to each segment and started the two-segment strategy that is now prevalent in the bike business. A majority ofthe price cuts have been from new entrants like HMSI or Suzuki, who as a strategy have reduced prices to enter the market. Bajaj had cut prices of its CT-1 00 because it wanted to make room for its new model, the Platina. A lot of the current price clutter in the market is due to model proliferation. Motorcycle companies believe that it is the only way to get incremental growth. It is the customer penetration game that has really driven the price cuts.

Hero Honda, however feels that bikes have not become a commodity. It feels that like other consumer durable items, the automotive segment too has seen its price reductions. It is to drive demand that a company maintains the price points and adds emotional and technology features at the same levels. Hero Honda too has played the price game aggressively. Hero Honda feels that the market is waiting for the transition to higher displacement performance segments. But that is not likely to happen soon. Bike manufacturers have been waiting for the upgrade from 100 to 125cc. So far the bulk of sales remains at the bottom. The current pricing trends can Change all that. But at the moment, customers can have a field day taking their pick from a whole host of models, both old and new, that straddle features and prices of more than one segment. The car market saw similar trends in pricing a few years ago.

TVS Motors believes that the clutter is more in a segment where prices make the most difference. It does not agree that it is just a customer-wooing strategy that has led to price cuts. The company feels that it has a big opportunity for market penetration and it does not need to cut prices to woo customers. The consumer at the bottom end of the bike pyramid is price sensitive which had led to the price cuts.

1. **The last option for the company is to fight the price war.** The- company has to resort to this option if its stakes in the industry are high i.e. the business is strategically important for the company. However, the ability to fight out the war depends on the financial strength of the company. However, the intensity and the time for which the war would be waged would depend on other players in the industry. Stronger players with larger stakes would stretch the war for a longer time. Therefore, the industry dynamics should be weighed carefully before the company goes whole hog,
2. If the company cannot fight the price war, and it is foreseen that the war would be fought by other stronger players in the industry, the company should start

planning exit strategies. There is no point fighting a battle which one can never expect to win.

15.9 SUMMARY

Initial prices for any product must be established after analyzing the cost structure of the company, gauging the cost's of the competitors, and understanding the value propositions desired by the customer in the intended market. These initial prices undergo changes with changes in any ofthe aforementioned factors. Thus, price points are rarely permanent. Pricing policies of companies are flexible, and reflect changes in the business envirorunent.

However, pricing is rarely considered to be a strategic tool. Most companies do not have a formal organizational structure, like a department, in place whose prime responsibility is to manage pricing policies in the company. Prices can be set by a lower level functionary in an accounts department as well as by the chief executive. The rigor needed to arrive at the right price is missing, which may either result in leaving a lot of money on the table or charging a price which customers do not find acceptable. Prices are only considered to be means to earn revenues, though in reality prices are instrumental in shaping perceptions about the company, its strategic direction and changes in policy.

Price points of various offerings of an organization convey the positioning intent. They convey who the product is meant for i.e. target audience. Prices also convey additional associations related to the offering, for instance, whether the product is a high class lifestyle product. But knee jerk reactions to competitor's changes in pricing policies are very common in most markets and across most product categories. Such reactions very often destroy established images which take years to build.

Every marketing activity shapes the pricing strategy ofa firm. For instance, technological advancement of a product or packaging, promotional expenditure, distribution coverage etc. impact the final prices at which products are sold to customers. So, logically pricing policies should be formulated in consultation with other functional areas, and the implementation process should also be continually monitored as discounts are given at various stages of the selling process. Somebody in the organization should be responsible for the price that is actually realized and be accountable for the difference between the set price and the realized price, which means that this authority should have the power to decide the discounts that can be given by various functionaries handling the sales process. But this rarely happens. In most companies pricing is an ad-hoc decision whereas the price of the product should emanate from the strategic goals of the company.

15.10 GLOSSARY

1. **Low-Quality Trap:** Consumers will assume that quality is low.

2. **Fragile-Market Share Trap:** A low price buys market share but not market loyalty. The same customers will shift to any lower- priced firm that comes along.

3. **Shallow-Pockets Trap:** The higher priced competitors may cut their prices and may have longer staying power because of deeper cash resources.

15.11 SELF ASSESSMENT QUESTIONS

1) What do you mean by price changes?
2) How do organizations initiate price changes'!

15. 12 LESSON END EXERCISE

1) Write a detailed note on responding to competitor's price changes
2) Write a detailed note on initiating and responding to rproice changes by an organisation.

15.15 SUGGESTED READINGS

- Marketing Management, Pearson, By: Kotler & Keller
- Marketing Management, Tat Mc-Graw Hill. By: Rajan Saxena
- Marketing Management, Prentice Hall. By: Bagozz i
- Cases in Marketing Management, Excel Books. By: Bhasin. M.L.

- Marketing In India: Cases and Readings, Viva Publications, By: Neelamegham, S.
- Marketing Management: the Millennium Edition, Pearson, By: Kotler & Keller
- Marketing Management, AITBS Publications, By: Craven David W.
- Marketing: Real People, Real Choice, Prentice-Hall, By: Soloman, Michael.

PLACE & PROMTION MIX DECISIONS

Lesson No. 16 **Unit-IV**

Semester-II **M.Com-C254**

MARKETING CHANNELS

STRUCTURE

16.1 INTRODUCTION

Although the principles remain the same, the practice of distribution has changed dramatically in the past 100 years and even more so since the advent of the 'Internet of Things'. A seismic shift has been the introduction of affiliate partners and programs in the strategy of distribution channel marketing and channel sales management. When life was a lot simpler, trades-folk would bring their goods to a central market where the local villagers would come to either buy the goods or trade them for their own wares. The tradesmen would then return home with the revenue generated. The cycle would then repeat itself. As long as people had something of value, they could 'get into the market' to have their needs met. Although Marketing Channels and Distribution Channels are terms that are often used interchangeably, for the purposes of this chapter, they will be distinguished as follows:

Marketing Channels refer to the entire ecosystem required for getting products (tangible goods and intangible services) from the point of production to the point of consumption; this includes people, organizations, and all the required activities. Channel Management is defined as the process where the company develops various marketing techniques and sales strategies to reach its customer base.

The Distribution Channel is a more focused term that refers to the chain of intermediaries through which the product passes until it reaches the end consumer.

16.2 OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the marketing channels and its need
2. Hold the concept of channel development
3. Having insights of value networks
4. Be well verse with different types of marketing channels
5. Understand the role of marketing channels
6. Identify the major channel alternatives
7. Grasp the various channel decisions

16.3 CHANNEL DEVELOPMENT

The marketing channel that a company chooses affects many aspects of the way a product is sold. A product's price point will depend largely on the type of environment it is sold in. Training and advertising efforts will have to be tailored to meet the needs of the seller. Ultimately, the entire perception of a product will be influenced by the way channel partners present it.

The first step in creating a channel marketing plan is to identify potential channel partners. This involves a careful analysis of the product sold, the products of competitors, and the markets where they apply. The analysis must be thorough, technical, and compare hard market data to find the right partner. Once a partner has been identified, they must be convinced that a channel partnership would benefit both parties. Producers must market their products to the needs of retailers in the same way that a company tries to make a pitch to consumers. After an agreement is reached, both parties will draft and sign a binding contract. It is important that every contingency is accounted for. The only way for a channel partnership to work is for all of the most pertinent details to be agreed upon in a contract before the partnership begins.

Functions of a Channel

The primary purpose of any channel of distribution is to bridge the gap between the producer of a product and the user of it, whether the parties are located in the same community or in different countries thousands of miles apart. The channel of distribution is defined as the most efficient and effective manner in which to place a product into the hands of the customer. The channel is composed of different institutions that facilitate the transaction and the physical exchange.

Institutions in channels fall into three categories:

1. **The producer of the product:** a craftsman, manufacturer, farmer, or other extractive industry producer
2. **The user of the product:** an individual, household, business buyer, institution, or government
3. **Certain middlemen** at the wholesale and/or retail level

A channel performs three important functions. Not all channel members perform the same function. The functions are:

1. **Transactional functions:** buying, selling, and risk assumption
2. **Logistical functions:** assembly, storage, sorting, and transportation
3. **Facilitating functions:** post-purchase service and maintenance, financing, information dissemination, and channel coordination or leadership

These functions are necessary for the effective flow of product and title to the customer and payment back to the producer.

Characteristics of a Channel

Certain characteristics are implied in every channel.

First, although you can eliminate or substitute channel institutions, the functions that these institutions perform cannot be eliminated. Typically, if a wholesaler or a retailer is removed from the channel, its function will either shift forward to a retailer or the consumer, or shift backward to a wholesaler or the manufacturer.

For example, a producer of custom hunting knives might decide to sell through direct mail instead of retail outlets. The producer absorbs the sorting, storage, and risk functions; the post office absorbs the transportation function; and the consumer assumes more risk in not being able to touch or try the product before purchase.

Second, all channel institutional members are part of many channel transactions at any given point in time. As a result, the complexity of all transactions may be quite overwhelming. Consider how many different products you purchase in a single year and the vast number of channel mechanisms you use.

Third, the fact that you are able to complete all these transactions to your satisfaction, as well as to the satisfaction of the other channel members, is due to the routinization benefits provided through the channel.

Routinization means that the right products are most always found in places where the consumer expects to find them (such as catalogues or stores), comparisons among products are possible, prices are marked, and methods of payment are available. Routinization aids the producer as well as the consumer, because it tells the producer what to make, when to make it, and how many units to make.

Fourth, there are instances when the best channel arrangement is direct, from the producer to the ultimate user. This is particularly true when available middlemen are incompetent or unavailable, or the producer feels he or she can perform the tasks better. Similarly, it may be important for the producer to maintain direct contact with customers so quick and accurate adjustments can be made.

Direct-to-user channels are common in industrial settings, as are door-to-door selling and catalogue sales. Indirect channels are more typical and result, for the most part, because producers are not able to perform the tasks provided by middlemen.

ATM Machines: ATM machines are one of the ways banks responded to channel issues.

Finally, although the notion of a channel of distribution may sound unlikely for a service product (such as health care or air travel), service marketers also face the problem of delivering their product in the form and at the place and time demanded by the customer.

Banks have responded by developing bank-by-mail, Automatic Teller Machines

(ATMs), and other distribution systems. The medical community provides emergency medical vehicles, outpatient clinics, 24-hour clinics, and home-care providers. Even performing arts employ distribution channels. In all three cases, the industries attempt to meet the special needs of their target markets while differentiating their product from that of their competition. A channel strategy is evident. With the contract in place, the two parties can begin exchanging goods and services. For the duration of the contract it will be necessary for managers from both sides to smooth out issues and address concerns as they arise. Even the most thorough contracts cannot address every possible issue, so both parties must maintain a productive business relationship. At the completion of the contract, the terms can be renegotiated or the partnership can be severed.

Generating more and more revenue is one of the biggest challenges for salespeople and companies do their best to make most out of working hours of their salespeople. However, it is impossible to make use of 100% of the working hours of a salesperson, because of the other job responsibilities. Therefore, companies invest to develop sales channel such as a company gives the responsibility for their sales to a third party such as affiliate partners, resellers, value-added providers, distributors, and independent retailers etc. These people don't directly work for your organization.

16.3.1 Phases of Channel Development

1. Emerging Growth : This phase refers to times when a company is building a new sales channel, which includes various activities such as to recruit and involve these partners successfully. In the emerging phase, companies are usually engaged in making proper plans and procedures to make sure that everything is in place. In addition to this, it also includes establishing a profile for the ideal partner.

Different elements included in the emerging phase.

1. Signing up a contract or deal with first partners and preparing them to sell.
2. Designing and creating material related to the market which can help partners to generate leads.

3. Specifying and writing guidelines for partners and detailing the role of each party.
4. Organizing the training materials (Online or in person training).
5. Selection of channel manager.
6. Purchasing and installation of software support system. Investing in efficient software in the beginning phase will help you in the future.
7. Designing and implementing strategies for outreach sales partner prospects..
8. Planning for further expansion of business such as which markets to venture and in what order.

Emerging phase is very important for every business. the more planning you in this phase the more benefits you will get. Hence, it is advisable for you to plan a lot so that your future phases will be smooth.

2) Scaling : When the basic channel management process is established and sales are maintainable. At this point, the company wants to upsurge its revenue. This phase of the channel management process is called scaling. The scaling phase of sales channel development process will include followings.

1. Channel management group to recruit more staff to handle recruitments and on boarding facets are expanded.
2. The more use of technology, for example, use of automation in day-to-day work and taking the training online rather than in-person training. You can make use of PRM.
3. Establishing centralized content storage and enhancing media libraries for partners' use.
4. Creating and implementing survey and feedback forms for partners to address problems faced by them efficiently.
5. Initialize market development funds to increase the availability of resources for partners.

6. Working to minimizing the channel conflicts such as restructuring the sales process and clearing the overlapping area.
7. Structuring plans to recruit global sales partners.
8. Structuring guidelines for eliminating underperforming partners.

3) Continuous Improvement : The scaling process is a never-ending process unless a company doesn't want to progress. To keep on the scaling process requires major investments or expansions after when a company has reached a plateau point. At this time, the focus of the company becomes to keep the sales sustainable and using optimizations to enhance revenue to increase sales beyond the total capacity. The continuous improvement process phase of sales channel development includes followings.

1. Focusing on the new products rollout and enhancement in the existing products.
2. Software system should be fully centralized, in case, it has not been done already.
3. Working on improving the after-sales support, post-sale upgrade initiatives, and other similar long-termed profit generation methods.
4. Providing helping hand to partners to heighten their workflow.
5. Increasing promotion as well as awareness about the business such as by making trade show presentations.

A continuous process is a sub-part of scaling phase and it never ceases. A company can always become better and find more and more avenue to be walked. Moreover, the market never remains the same all the time, the change in the market make it inevitable for a company to change or improve its working style. However, there is one more phase that every successful company would want to avoid. The fourth phase is called "Sub-optimization" and any company can slip into it if things don't go well.

4) Sub-Optimized : Sub-optimized is the only phase that prevents a company from generating revenue and increasing outreach. Followings are the "signs" that a company should be aware of all the time.

1. Difficulties of partners because of working with so many software solutions.
2. Management issue with partners. Failure in identifying the underperforming salespeople and dealing with them.
3. Vague and fallacious lines of communication.
4. Customers' unsatisfaction and recurrent complain related to service or product.
5. Customers' complain about the lack of support from the recruited partner.
6. Issues within the organization such as the lack of communication between the marketing manager and other departments (such as R&D or Marketing).
7. Frequent expansion of business without the expansion of technical and personnel resources.

To avoid this phase, a company should spend a great amount of time to evaluate business plans and don't rush to enhance business further without making sure the stabilization of current business.

16.4 VALUE NETWORKS

We know, almost instinctively, that networks hold value. Human beings are by nature social creatures and our own social networks (not just those online) provide a framework for our behaviors and structure to our lives. Yet, the value of networks in business is often overlooked. Designers looking to drive adoption and appropriation of products, in particular, will want to examine their own value networks and ask critical questions regarding those networks for both the product design and the design and execution of marketing for the product.

What is a Value Network?

A value network is a system that organizations, departments, operating units or people use to do work, buy or sell products, or create plans that benefit the entire organization.

How it works/Example:

Research and development units, for example, are key components of many companies' value networks. By working with government agencies for grant funding or approvals, third-party vendors for supplies and talent, and internal marketing or development teams, the R&D department creates new goods and services that make more money for the company, help cure diseases or other social problems, and foster the growth of the third-party vendors. This is a value network.

Why it matters:

A value network is like an ecosystem, and many analysts even map them out for presentation. Value networks contain many symbiotic relationships in which the participants all benefit in some way from their participation in the network. Similarly, if one part of the value network is weak, the rest of the network may suffer. There are many different types of value network but broadly speaking they may be placed into two categories: internal value networks and external value networks.

An external value network consists of those people and other interactions which lay outside of the business in question; these can include customers, users, business intermediaries, business partners, stakeholders, suppliers, etc.

Whereas an internal value network lies within the business in question; it is the combination of processes and relationships inside the business.

The value in these networks is generally considered to be created through the creation of effective relationships between those conducting roles within businesses. In fact, internal value networks aren't limited to business – they exist wherever two or more people work together to create anything (education, civil service, the army, etc.)

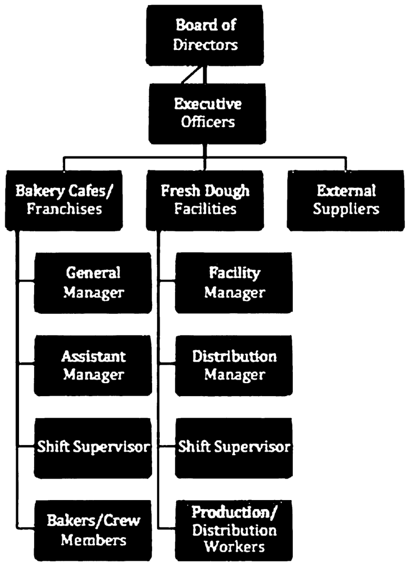


Fig. 16.1

How are Value Networks Described?

In general value networks are described by nodes (which are representations of the actors or actions within the network) and the relationships between those nodes. The relationships are seen in terms of either tangible or intangible benefits between the nodes.

Tangible benefits are those which involved the exchange of goods, services or revenues. They also include anything directly related to this such as: contracts for provision of services and goods, invoices and receipts, confirmations of payment, etc. Intangible benefits are those that include knowledge and/or favors. So for example, a thought leader who shares information with their Facebook friends is providing an intangible benefit to those friends. An innovator who agrees to help test your product in exchange for early access is both giving and receiving an intangible benefit. There are also four common types of value network: Clayton Christensen's networks, Fjeldstad and

Stabells networks, Normann and Ramirex' constellations and Verna Allee's networks. Each of these is a slightly different way of looking at value created in a network.

Clayton Christensen's Networks

In his book "The Investor's Dilemma," Christensen the analyst says"; The collection of upstream suppliers, downstream channels to market, and ancillary providers that support a common business model within an industry. When would-be disruptors enter into existing value networks, they must adapt their business models to conform to the value network and therefore fail that disruption because they become co-opted."

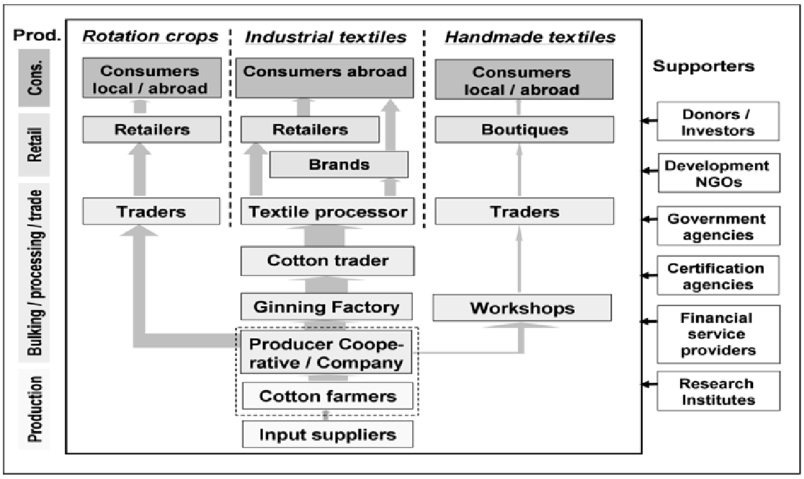


Fig. 16.2

Which is a fancy way of saying; a network consists of everything outside a business that supports that business and that it's hard to break in to such networks and make big changes because of the expectation that you will conform to that network model. This is useful to designers who are looking to develop revolutionary products. They must understand that if the current product model lays within a well-developed network; there will be large amounts of inertia to overcome in order to have their products adopted. Christensen also provides some additional sage advice; "The job, not the customer, is the fundamental unit of analysis for a marketer who hopes to develop products that customers will buy."

Fjeldstad and Stabell's Networks

Writing for the Strategic Management Journal in their article "Configuring value for competitive advantage: On chains, shops and network" Stabell and Fjeldstad offer up the idea of value configurations. Their value networks are based on the concept that value networks include certain components:

1. **Customers**
2. **Services** – which are used by all the customers and which allow for interaction (though not always direct interaction) between those customers
3. **A service provider**
4. **Contracts or agreements which allow access to services**

This is a different approach from Christensen. In Christensen's networks; value exists independently of customers whereas in Fjeldstad and Stabell's model – customers are a key component of the value network.

An obvious Fjeldstad and Stabell network would be Facebook. Facebook provides the service, they provide a contract (a user agreement) to access those services, and the customers sign up for those services and they may interact directly with each other through the value network that Facebook provides.

A slightly less obvious example would be insurance companies. The insurance company provides the service, insurance, and the contracts to use that service. The customers sign up to their policies contractually. While they do not necessarily interact directly with each other; their premiums are pooled to cover "shared risk" and as such they indirectly interact with each other with the value network facilitating this interaction. Designers can map these value networks to ensure they have all the building blocks for value creation in place.

Normann and Ramirez Value Constellations

This approach was proposed in the Harvard Business Review in 1893 by Normann and Ramirez. Instead of fixed value models such as those mentioned previously; Normann and Ramirez see value models as dynamic, fluid systems. In which the objective is to continuously improve relationships and roles within the model to create as much value as possible.

This offers an interesting approach to designers as they iterate their products and work; it requires that they ask where can value best be created and how can it be achieved? This could be approached by mapping the nodes and relationships between nodes and asking the question of each relationship – it is also important to ask; "which relationships are missing which could create further value?"

Verna Allee's Networks

Verna Allee, in their book "The Future of Knowledge" offers a more generalist approach to value networks arguing that a value network is simply a web of relationships that will generate either or both of tangible and intangible value. She also developed a system for analyzing the value within networks, which will not be covered here but is referred to in the references below, which has become highly valued for reporting non-financial value within businesses. Allee recommends that every business become involved in value network analysis because of the powerful ability to transform thinking on problems when every problem is expressed in terms of value creation.

16.5 TYPES OF MARKETING CHANNELS

There are basically four types of marketing channels:

1. Direct selling;
2. Selling through intermediaries;
3. Dual distribution; and
4. Reverse channels.

Essentially, a channel might be a retail store, a web site, a mail order catalogue, or direct personal communications by a letter, email, or text message. Here's a bit of information about each one.

1. Direct Selling

Direct selling is the marketing and selling of products directly to consumers away from a fixed retail location. Peddling is the oldest form of direct selling.

Modern direct selling includes sales made through the party plan, one-on-one demonstrations, and personal contact arrangements as well as internet sales.

A textbook definition is: “The direct personal presentation, demonstration, and sale of products and services to consumers, usually in their homes or at their jobs. “

Industry representative, the World Federation of Direct Selling Associations (WFDSA), reports that its 59 regional member associations accounted for more than US$114 Billion in retail sales in 1907, through the activities of more than 62 million independent sales representatives.

According to the WFDSA, consumers benefit from direct selling because of the convenience and service benefits it provides, including personal demonstration and explanation of products, home delivery, and generous satisfaction guarantees. In contrast to franchising, the cost for an individual to start an independent direct selling business is typically very low, with little or no required inventory or cash commitments to begin. Direct selling is different from direct marketing in that it is about individual sales agents reaching and dealing directly with clients while direct marketing is about business organizations seeking a relationship with their customers without going through an agent/consultant or retail outlet.

Direct selling often, but not always, uses multi-level marketing (a salesperson is paid for selling and for sales made by people they recruit or sponsor) rather than single-level marketing (salesperson is paid only for the sales they make themselves).

2. Selling Through Intermediaries

A marketing channel where intermediaries such as wholesalers and retailers are utilized to make a product available to the customer is called an indirect channel.

The most indirect channel you can use (Producer/manufacturer –> agent –> wholesaler –> retailer –> consumer) is used when there are many small manufacturers and many small retailers and an agent is used to help coordinate a large supply of the product.

3. Dual Distribution

Dual distribution describes a wide variety of marketing arrangements by which the manufacturer or wholesalers uses more than one channel simultaneously to reach the end user. They may sell directly to the end users as well as sell to other companies for resale. Using two or more channels to attract the same target market can sometimes lead to channel conflict.

An example of dual distribution is business format franchising, where the franchisors, license the operation of some of its units to franchisees while simultaneously owning and operating some units themselves.

4. Reverse Channels

Recycling Bins

Recycling Containers: Recycling is an example of a reverse marketing channel.

If you've read about the other three channels, you would have noticed that they have one thing in common — the flow. Each one flows from producer to intermediary (if there is one) to consumer.

Technology, however, has made another flow possible. This one goes in the reverse direction and may go — from consumer to intermediary to beneficiary. Think of making money from the resale of a product or recycling.

There is another distinction between reverse channels and the more traditional ones — the introduction of a beneficiary. In a reverse flow, you won't find a producer. You'll only find a User or a Beneficiary.

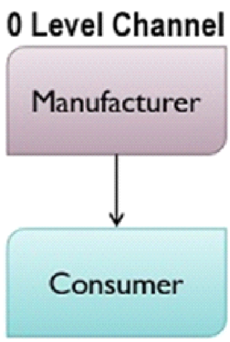
The other different types of marketing channels or channels of distribution have been identified based on the number of intermediaries or the levels the goods or services passes through to reach the customers. These marketing channels are bifurcated into the following two categories:

Fig. 16.3

Other Types of Marketing Channels

1. **Direct Marketing Channel :** Direct selling is that medium of distribution in which there is no middle person involved, and the goods or services are directly sold by the manufacturer to the customer. It is also termed as 'zero-level channel'.

Zero Level **Channels**: This type of channel is popular among the services industry. Most of the services like travel, catering, salons fall under the direct marketing channel.



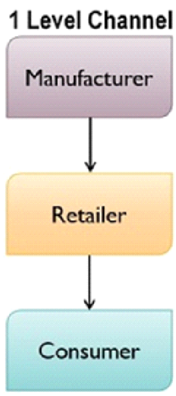
Even when the products are complicated to use like the industrial machinery require direct selling and support from the manufacturer. The small manufacturer of general goods finds this channel more profitable and cost-efficient since they cannot afford giving margin to the intermediaries. For Example; In restaurants, the food is prepared as well as served to the consumers.

2. Indirect Marketing Channels : In this channel of distribution, the goods produced by manufacturing units passes through different intermediaries to reach its final consumer. The indirect channels can be further classified into the following types, each of which is supported by an example:

One-Level Channel

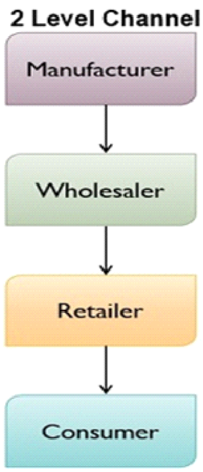
The single-level channel involves only one middle person, i.e. the retailer who purchases the goods from the manufacturer and sells them to the customers.

The shopping malls and marts use this channel for acquiring goods at a low price and selling them to customers at a reasonable price. Also, the manufacturers of some specialize goods like furniture; clothing, footwear, etc. preferably go for the one-level marketing channel.



For Example; Big Bazaar is a retail mart which buys the products directly from the manufacturer and makes it available to the consumers.

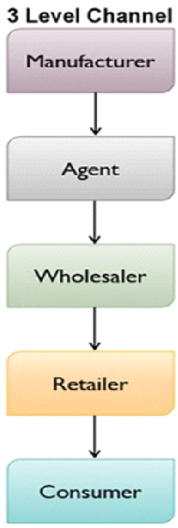
Two-Level Channel



The wholesaler buys the goods in large quantity from the manufacturers and supplies it to the various retailers in small quantities. These goods are then sold by the retailers to the customers. This channel is preferred by the manufacturers who want to sell their products to obtain market share. It eliminates the expenses which the manufacturer incurs on the sales force, warehousing of goods and other retail selling practices. It also facilitates mass production and a high volume of sales by increasing the scalability of the manufacturers.

For Example; Rice yield by farmers is purchased and stored in bulk quantity by the wholesalers. The retailers then buy the rice in small quantity from the wholesaler and sell it to the customers.

Three-Level Channel



The manufacturer appoints agents or gives the goods to agencies who further distribute the goods to selective wholesalers in large quantity. The wholesalers then sell the rice to the retailers in smaller quantity who finally sell it to the customers. This is one of the most commonly used channels of distribution for confectionery products. It is used by the manufacturers who look forward to capturing a market for reaching the consumers scattered over a vast geographical area. Even the perishable goods manufactured in large quantity need to be distributed through this medium since the manufacturers can't acquire customers more quickly through any other channel.

For Example; Tata Tea manufactured by the company is sold to the agencies in different regions, these agencies sell it to the wholesalers of their respective areas. The wholesaler further sells it to the retailers from where it reaches the customer

16.6 ROLE OF MARKETING CHANNELS

A marketing channel is a set of interdependent organisations involved in the process of placing products and services with consumers.

The introduction of intermediaries between the manufacturers and the final consumer is adopted by many organisations to facilitate the distribution of their products, especially where a wide distribution will provide maximum exposure of their products. Manufacturers of snack foods, pies, cigarettes and many similar products require mass distribution in often small quantities. This distribution makes the demand management process by one company difficult to achieve cost effective distribution.

In situations where many deliveries are made to retail outlets, the intermediaries can reduce a large portion logistics costs, and distributors endeavor to act as middle-men for many manufacturers. This increases their profitability and can lead them to offering lower distribution costs.

One disadvantage in using marketing channels is that the manufacturer relinquishes a level of control over the products, as well as increasing their distance from the end consumer.

The parties involved in the marketing channel render various key functions which increase the effectiveness of placement through the channel. The functions are:

1. Information gathering and distribution
2. Product promotion
3. Arranging contacts and matching products to meet buyers needs
4. Negotiation of prices and financing the costs of the activities in the channel
5. Physical distribution of products through the channel.

Channel marketing focuses on the distribution of products from the manufacturer to the consumer. It is part of the distribution (or "place") component in the four P's of the "marketing mix" – product, pricing, promotion, and place. Since most manufacturers and producers don't sell directly to their end user, they use a marketing channel to distribute their products, whether it's a vending machine, department store, or a trade show. While channel marketing is usually applied to products, it can also be used to market ideas and services. Marketing channels help organizations expand their reach and their revenue. However, each marketing channel will offer a different combination of coverage and performance, and so they may be used in combination. Marketing channels may include traditional distribution models — which include producers, wholesalers and retailers or variants that cut out one or two components. For examples, companies like Dell and Avon avoid wholesalers and retailers by using their own warehouses and salespeople to sell to consumers. Examples of marketing channels include:

1. Wholesalers
2. Direct-to-distributors
3. Internet direct
4. Catalogue direct
5. Sales team
6. Value-added reseller
7. Consultant
8. Retail sales agent
9. Manufacturer's representative

In practice, companies often use a mix of marketing channels, such as internet sales and an on-the-ground team.

Every marketing channel includes at least one person or organization who serves as an intermediary. Each of these intermediaries performs a function, provides a value, and expects some kind of economic return. The values provided by these intermediaries include:

- Collecting and sharing marketing information about customers and competitors
- Developing marketing communications
- Negotiating price and other terms of transactions
- Storing and moving products
- Transforming ownership titles from one person or organization to another
- Taking on the financial risk of the channel, such as bad debt

The choice of marketing channel is one of the most critical an organization can make, and affects all other forms of the marketing mix. Once a company has committed to a distribution model, it may be hard to change. The choice of channel is based on various factors related to the company's product and the way it will be used, including size, perishability, and whether or not the product needs to be demonstrated before purchase. Customer desires and preferences also determine the marketing channel. For instance, companies selling rare or high-value products may be able to limit the number of distribution outlets; producers of inexpensive products – like potato chips – will need many points of distribution to make a profit.

Distribution types include:

1. **Intensive distribution** – products are sold at the majority of retail outlets
2. **Selective distribution –** the producer relies on a few intermediaries, such as specialist retailers, to carry their product.
3. **Exclusive distribution** – the producer relies on very few retailers (common with luxury brands)

Marketers need to help their organization choose the most appropriate marketing channel, train and motivate the intermediaries, and monitor the channel's performance. Over time, they may need to modify some of their channels or choose a new mix. They also need to work to prevent "channel conflict", which occurs when one intermediary – say, a wholesaler – makes moves that threaten another part of the channel, such as a retailer.

16.7 IDENTIFYING MAJOR CHANNEL ALTERNATIVES

We have mentioned the three distribution alternatives in the preceding sections, namely intensive, selective, and exclusive.

We shall now discuss them in a greater detail here.

1. **Intensive Distribution**: This alternative involves all the possible outlets that can be used to distribute the product. This particularly useful in products like soft drinks where distribution is a key success factor. Here, the soft drink firms distribute their brands through multiple outlets to ensure their availability at an arm's length to

the customer. Hence, on the one hand these brands are available through countless soft drink stalls, kiosks, sweet marts, tea shops, etc. Any possible outlet where the customer is expected to visit is also an outlet for the soft drink.

2. **Selective Distribution:** This alternative is the middle path approach to distribution. Here, the firm selects some outlets to distribute its products. This alternative helps focus the selling effort of the manufacturing firms on a few outlets rather than dissipating it over countless marginal ones. It also enables the firm to establish good working relationship with the channel members. Selective distribution can help the manufacturer gain optimum market coverage and more control but at a lesser cost than intensive distribution. Both the existing and new firms are known to use this alternative.

3. **Exclusive Distribution:** When the firm distributes its brand through just one or two major outlets in the market who exclusively deal in it and not competing brands, we say that the firm is using an exclusive distribution strategy. This is a common form of distribution in products and brands that seek high prestigious image. Typical examples are of designer wares, major domestic appliances and even automobiles .By granting exclusive distribution rights, the manufacturer hopes to have control over the intermediaries price, promotion, credit inventory and service policies. The firm also hopes to get the benefit of aggressive selling by such outlets.

Terms and Responsibilities of Intermediaries

The commercial policy of the manufacturer often lays down the terms and conditions for intermediaries and their responsibilities .Generally these include price policies , mode or terms of payment , returns policy , territorial rights, etc.

1. **Price Policy:** This decides the price at which middlemen will get the product from the manufactures and the discount schedule. It also mentions the price at which middlemen may sell the product. Generally, the company is required by law to stipulate the maximum retail price. The middlemen have to ensure that everyone involved gets fair and equitable deal.

2. **Payments Terms:** The manufacturing firm stipulates mode or payment terms.

For example, some firms ask middlemen to put a deposit with them from which the former adjusts the price of the goods sent to the latter. The middlemen has to then replenish the deposit by the required amount immediately , failing which he loses the interest on deposit .Some other firms insist payment to reach them on the day the intermediary takes physical possession of the goods. Others may accept a letter of credit as a payment mode. Credit policy of the manufacturer stipulates the period in which it must get paid.

3. **Returns Policy:** This indicates the warranty that the manufacturer extends to the intermediary .Some firms offer spot replacement for any of its products returned by the customer .Others take time to settle these claims .A distribution policy should lay down the clauses related to returns and refunds precisely outlining the responsibility of each party-manufacturer and intermediary. Failure to do so can lead to a perpetual conflict between the manufacturer and the intermediary.

4. **Territorial Rights:** The manufacturer should spell out the territorial jurisdiction of each of the distributor to avoid any territory jumping. This will also help in the distributor's evaluation.

5. **Mutual Services and Responsibilities:** These should be spelt out clearly, particularly in the case of franchised and exclusive agency channels. For example, Parle (Exports) have laid down the role of each of its quality control, distribution, promotion and selling. Parle gives to these franchises promotional inputs and support, training and other administration support. Such kind of a manual helps in avoiding conflicts.

Evaluating major channel alternatives is the next step after identifying major channel alternatives. In this step, marketing management department evaluates all the available major channel alternatives to choose the best one that suits the company. The marketing management does the evaluation based on three criteria- Economic criteria, control criteria, and adaptive criteria. In this chapter, students will learn about all the three criteria in detail. By evaluating major channel alternatives firms can understand these criteria more easily as our teaching members are from a marketing background and they can explain each criterion with real-time examples of various companies.

- **Understanding of Economic Criteria**

Each channel alternative results in a various level of costs and sales. Initially, the management has to access the sales levels which would be generated by the sales force of the company and the sales agency and to compare both the sales levels.

In the second step, the management has to work out how much it would cost to sell different volumes via each channel. By referring to these, firms can realize that the fixed costs of using a sales agency are always less in comparison to costs of establishing a company sales office.

However, selling through a sales agency increases abruptly due to the huge sales agent commission which is quite higher compared to company salespeople. There is also a sales level (SB) where both the selling channels have the same costs. Generally, smaller firms and big firms in smaller territories, whose sales volume is extremely less to set up a company sales force, prefer to use sales agents.

- **Understanding of Control Criteria**

Control criteria take into account the control issues related to the two channels. Selling products through sales agency results in more control problem. Since a sales agency works as an independent organization, its main interest is profits maximization. The agent may focus on those consumers who purchase the largest volume of products from their overall mix of client firms, instead of those who prefer to buy a company's products.

Another limitation of sales agency is that its sales force may not have technical expertise regarding the company's products. They are also not trained to handle promotion materials efficiently.

- **Understanding of Adaptive Criteria**

Long-term commitment and loss of flexibility are associated with every channel. Those who sell their goods through sales agency has to enter into a five-year contract. A company cannot break the contract with the sales agency before the completion of the tenure, even though its own sales force is performing better than the agency.

In terms of the evaluation criterion, a channel with long-term commitment must consider economic criteria or control criteria.

16.8 CHANNEL DECISIONS

A channel of distribution or trade channel is the path or route along which goods move from producers to ultimate consumers or industrial users. It is the distribution network through which a producer puts his products in the hands of actual users. It is the pipeline through which products flow during their journey to the market. A trade or marketing channel consists of the producer, consumers or users and the various middlemen who intervene between the two. The channel serves as a connecting link between the producer and consumers. By bridging the gap between the point of production and the point of consumption, a channel creates time, place, and possession utilities. A channel of distribution represents three types of flows:

1. Goods flow downwards from producer to consumers;
2. Cash flows upwards from consumers to producer as payment for goods; and
3. Marketing information flows in both directions. The downward flow includes information on new products, new uses of existing products, etc. The upward flow of information is the feedback on the wants, suggestions, complaints, etc. of ultimate consumers or users.

Nature and Significance of Channel Decisions

Channel decisions refer to the managerial decisions concerning the selection of the most suitable routes or paths for the distribution of goods from the producer to various consumers or users. Such decisions involve choice of a channel, determination of market coverage (number of middlemen) and the selection of particular middlemen or dealers.

The choice of a suitable channel for the distribution of the firm's products is an important decision area in the field of marketing. It is an important policy decision in marketing management due to the following reasons:

(i) Distribution channel is an important element of the marketing mix of a firm and other elements are closely interrelated with and inter-dependent on the channel of distribution. Therefore, choice of channel influences other marketing decisions like pricing, promotion, and physical distribution. A mistake in the choice of channel may affect adversely the whole marketing mix of the firm.

(ii) The cost involved in the use of a distribution channel enters the price of the product that the ultimate consumer has to pay. Due to a wrong decision regarding channel, distribution cost may be very high and sales might be very limited. On the other hand, a sound channel decision enables the firm to cut down costs and maximize sales revenue. Thus, channel influences sales .volume and profits.

(iii) *A* product or service is really useful to consumers only when it is available at the right time and place. The channel decision determines where and when the product will be available to ultimate consumers or users.

(iv) The choice of a marketing channel involves long-term commitment of the firm. The relations between the manufacturer and the middlemen depend largely upon the choice of appropriate channels of distribution. Changes in the channel are very difficult and costly.

(v) If the choice of channels is proper, fluctuations in production can be reduced due to continuous and effective distribution. The stability of production will help to ensure steady employment and proper budgetary control. The manufacturer can continuously monitor the sales and stock of his middlemen to exercise effective control over distribution network.

Choice of a Channel of Distribution

Choice of a channel of distribution involves the selection of the best possible combination of middlemen or intermediaries. The objective is to secure the largest possible distribution at minimum costs. The channel must be flexible and efficient. It should be consistent with the declared marketing policies and programmes of the firm. Such a channel can be selected by evaluating alternative channels in terms of their costs, sales potential, and suitability. The factors affecting the choice of distribution channels may be classified as follows:

1. **Product Considerations**: The nature and type of the product have an important bearing on the choice of distribution channels. The main characteristics of the product in this respect are given below:

(a) **Unit value:** Products of low unit value and common use are generally sold through middlemen as they cannot bear the costs of direct selling. Low priced and high turnover articles like cosmetics, hosiery goods, stationery, and small accessory equipment usually flow through a long channel. On the other hand expensive consumer goods and industrial products, e.g. jewellery, machines are sold directly by the producers.

(b) **Perishability:** Perishable products like vegetables, fruits, and bakery items have relatively short channels as they cannot withstand repeated handling. Same is true about articles of seasonal nature. Goods which are subject to frequent changes in fashion and style are generally distributed through short channels as the product has to maintain close and continuous touch with the market. Durable and non-fashion articles are sold through agents and merchants.

(c) **Bulk and weight:** Heavy and bulky products are distributed directly to minimize handling costs. Coal, bricks, stones, etc., are some examples.

(d) **Standardization:** Custom-made and non-standardised products usually pass through short channels due to the need for direct contact between the producer and the consumers. Standardised and branded goods can be distributed through middlemen.

(e) **Technical nature:** Products requiring demonstration, installation and after-sale service are often sold directly. The producer appoints sales engineers to sell and service industrial equipment and other products of technical nature. Consumer products like television, refrigerator, electric mixer-grinder, washing machines, etc., are sold through retailers but the after-sale service is generally provided by the manufacturer.

(f)**Product line:** A firm producing a wide range of products may find it economical to set up its own retail outlets. On the other hand, firms with one or two products find it profitable to distribute through wholesalers and retailers.

(g) **Age of the product:** A new product needs greater promotional effort and few middlemen may like to handle it. As the producer gains acceptance in the market, more middlemen may be employed for its distribution. Channels used for competitive products may also influence the choice of distribution channels.

2. Market Considerations: The nature and type of customers is an important consideration in the choice of a channel of distribution. Following factors relating to the market are particularly significant:

(a) **Consumer or industrial market:** The purpose of buying has an important influence on channel. Goods purchased for industrial or commercial use are usually sold directly or through agents. This is because industrial users buy in a large quantity and the producer can easily establish a direct contact with them. To ultimate consumers, goods are sold normally through middlemen.

(b) **Number and location of buyers:** When the number of prospective buyers is small or the market is geographically located in a limited area, direct selling is easy and economical. In case of large and widely scattered markets, use of wholesalers and retailers becomes necessary.

(c) **Size and frequency of order**: Direct selling is convenient and economical in case of large and infrequent orders. When articles are purchased very frequently and each purchase order is small, middlemen may have to be used. A manufacturer may use different channels for different types of buyers. He may sell directly to departmental and chain stores and may depend upon wholesalers to sell to small retail stores.

(d) **Buying habits:** The amount of time and effort which customers are willing to spend in shopping is an important consideration. Desire for one-stop shopping, need for personal attention, preference for self- service and desire for credit also influence the choice of a trade channel.

3. Company Considerations: The nature, size and objectives of the firm play an important role in channel decisions:

(a) **Market standing:** Well-established companies with good reputation in the market are in a better position to eliminate middlemen than new and less known firms.

(b) **Financial resources:** A large firm with sufficient funds can establish its own retail shops to sell directly to consumers. But a small or weak enterprise which cannot invest money in distribution has to depend on middlemen for the marketing of its products.

(c) **Management:** The competence and experience of management exercises influence on channel decision. If the management of a firm has sufficient knowledge and experience of distribution, it may prefer direct selling. Firms whose management lacks marketing know-how have to depend on middlemen.

(d) **Volume of production:** A big firm with large output may find it profitable to set up its own retail outlets throughout the country. But a manufacturer producing a small quantity can distribute his output more economically through middlemen.

(e) **Desire for control of channel:** Firms which want to have close control over the distribution of their products use a short channel. Such firms can have more aggressive promotion and a thorough understanding of customers' requirements. A firm not desirous of control over channel can freely employ middlemen.

(f) **Services provided by manufacturers:** A company that sells directly has itself to provide installation, credit, home delivery, after-sale service and other facilities to customers. Firms which do not or cannot provide such services have to depend upon middlemen.

4. **Middlemen Considerations:** The cost and efficiency of distribution depend largely upon the name and type of middlemen as reflected in the following factors:

(a) **Availability:** When desired type of middlemen is not available, a manufacturer may have to establish his own distribution network. Non-availability of middlemen may arise when they are handling competitive products or they do not like to handle more brands.

(b) **Attitudes:** Middlemen who do not like a firm's marketing policies may refuse to handle its products. For instance, some wholesalers and retailers demand sole selling rights or a guarantee against fall in prices.

(c) **Services:** Use of those middlemen is profitable who provide financing, storage, promotion and after-sale services.

(d) **Sales potential:** A manufacturer generally prefers a dealer who offers the greatest potential volume of sales.

(e) **Costs:** Choice of a channel should be made after comparing the costs of distribution through alternative channels.

(f) **Customs and competition:** The channels traditionally used for a product are likely to influence the choice. For instance, locks are sold usually through hardware stores and their distribution through general stores may not be preferred. Channels used by competitors are also important.

(g) **Legal constraints:** Government regulations regarding certain products may influence channel decision. For instance, liquor and drugs can be distributed only through licensed shops.

5. Distribution Policy

After selecting the channel of distribution, a manufacturer has to determine the number of middlemen to be used or the intensity of distribution. This depends on the degree of market coverage desired for the product. Market coverage reflects the channel strategy and can be of three types:

(i) **Intensive Distribution**: Under this strategy, a manufacturer tries to sell his product through every possible outlet in order to obtain the maximum exposure. Such a distribution policy is usually employed for the marketing of consumer products of everyday use, e.g., toothpaste, cigarettes, cosmetics, food products, soaps, etc. In the purchase of these convenience goods, consumers prefer the nearest location. Therefore, an attempt is made through intensive selling to go as near to the ultimate consumer as possible. Intensive distribution is sometimes used in case of some industrial goods like spare parts, lubricants and other supplies.

Intensive distribution can be successful when the manufacturer obtains cooperation from all middlemen and advertises his products on a large scale.

(ii) **Selective Distribution**: Selective distribution implies the use of a few selected middlemen in each sales territory. This policy may be employed at both the wholesale and retail levels. This type of distribution is appropriate in case of speciality goods and accessories. In such products, consumers generally have a brand preference so that the use of every outlet is not necessary. Selective distribution is more economical and provides the manufacturer sufficient control over the distribution of his products. As the number of middlemen is limited, each one of them gets sufficient sales volume which is helpful in securing their cooperation. Dealers are likely to take greater interest in the display and promotion of the products.

(iii) **Exclusive Distribution**: Such distribution involves the use of one dealer in each sales territory. The dealer is granted the exclusive right to sell the product in the specified territory through an agreement with the manufacturer. The dealer is prohibited from dealing in the competitive products. Exclusive selling is adopted in case of shopping and speciality goods enjoying brand loyalty. In the purchase of such goods, the consumer spends lot of time and effort. It is also used when the product requires huge investment in stocks and showrooms, e.g., automobiles and household appliances like mixer grinder, cooking range, etc. Exclusive distribution provides full control over distribution and reduces distribution costs. It also increases the prestige of the product. However, this policy is less flexible and does not permit wide distribution of the product.

6. Choice of Middleman

After deciding the number of middlemen, a manufacturer has to select the particular dealers through whom he will distribute his products. While selecting a particular wholesaler or retailer, the following factors should be taken into consideration:

1. Location of the dealer's business premises;
2. Financial position and credit standing of the dealer;

3. Knowledge and experience of the dealer;
4. Storage and showroom facilities of the dealer;
5. Ability of the dealer to secure adequate business and to cover the market;
6. Capacity of the dealer to provide after-sale service;
7. Willingness of the dealer to handle the manufacturer's products;
8. The degree of cooperation and promotional service he is willing to provide;
9. General reputation of the dealer and his sales force;
10. Nature of other products (competitive or complementary), if any, handled by the dealer.

16 .9 SUMMARY

There are many ways to consider value networks from a business perspective. What is important is the understanding that networks can create value for anyone selling a product or service. Those networks can either drive adoption or impede adoption depending on how the relationships within them are approached. Designers may find it highly beneficial to map their own value networks and examine where they can create the most value. A marketing channel has to be selected wisely to ensure the proper distribution of goods or services to the customers. Selection of a wrong channel may lead to excessive cost, perishability of goods, loss, etc.

16.10 GLOSSARY

1. **Manufacturer:** The Company or industry or the production unit where the goods are produced on a small scale or large scale for selling in the market, is known as a manufacturer.

2. **Customer:** The person, who intends to buy a product or service and is capable of doing so, is termed as a customer.

3. **Wholesaler:** The one who buys goods directly from the manufacturer in large quantity with the intention to sell it to the retailer, to earn a marginal profit is called a

wholesaler.

4. Retailer: The person who sells goods in small quantity, directly to the customers at the maximum retail price (MRP) is known as a retailer.

5. Agent: The one who distributes goods from the manufacturers to the various wholesalers and earns commission over it is called as an agent.

16.11 SELF ASSESSMENT QUESTIONS

1) What is distribution in marketing?

2) What do you understand by value networks?

3) Enumerate the role of marketing channels in detail

4) How are channel decisions taken in an organisation?

16.12 LESSON END EXERCISE

1) Explain the channel decision strategies of Amazon? How far do you think is Amazon successful because of the channel strategies?

2) Compare and contrast the various channels of marketing

3) What do you understand by channel development? Illustrate the process.

4) How would identify major channel alternatives.

16.13 SUGGESTED READINGS

- Marketing Management, Pearson, By: Kotler & Keller
- Marketing Management, Tat Mc-Graw Hill, By: Rajan Saxena
- Marketing Management, Prentice Hall, By: Bagozzi
- Cases in Marketing Management, Excel Books, By: Bhasin, M.L.
- Marketing in India: Cases and Readings, Viva Publications, By: Neelamegham, S.
- Marketing Management: the Millennium Edition, Pearson, By: Kotler & Keller
- Marketing Management, AITBS Publications, By: Craven David W.
- Marketing: Real People, Real Choice, Prentice-Hall, By: Soloman, Michael, R.

PLACE & PROMOTION MIX DECISIONS

Lesson No. 17	**Unit-IV**
Semester-II	**M.Com-C254**

RETAILING AND WHOLESALING

STRUCTURE

17.1 INTRODUCTION

Retailing refers to all the activities directly related to the sale of products to the ultimate end consumer for personal and non-business use. A retailer or retail store is any business enterprise whose sales volume comes primarily from retailing. Any organisation selling to a a wide array of customer service facilities for store customers. It offers several product final consumers - whether it is a manufacturer, wholesaler or retailer is doing retailing. For every successful large retailer like Wal-Mart, Marks and Spencer, Big Bazaar, Vishal Mega Mart, Pantaloon etc. there are thousands of small retailers with all of them having two key features in common, they link producers and end consumers and they perform an invaluable service for both. The purpose of retailer is to provide an access to the product for a consumer. Consumer expects retailers to deliver value along with the product. Convenience is the primary concern for most consumers as they are keen to integrate shopping time with leisure time. Convenience has brought in every innovation in retailer such as supermarket, department stores, shopping malls, self-scanning Kiosks etc. Convenience for a customer implies speed and ease in acquiring a product.

Retailing today occupies a key role in the world economy. In the past, retailers secured customer loyalty by offering convenient locations, special or unique assortments of goods, better services than competitors and store credit cards. However, retailing today is an enjoyable experience for the entire family, though the conventional grocery stores, roadside mini department store, roadside eatery continue to exist. The Indian market space is increasingly being occupied by shopping malls, chain stores, department stores, shopping centers, food courts, fast food outlets etc.

17.2 OBJECTIVES

After reading this lesson you will be able

1. To understand the meaning and types of retailers.
2. To comprehend the concept of wholesaling.
3. To study the functions and types of wholesalers.

17.3 GROWTH OF RETAILING

Over the years, retailing in India has been one of the most dynamic and fast paced industries, which has travelled through different phases. Origins of retailing in India can be traced back to the emergence of kirana and mom & pop stores, but with Indian economy getting liberalised in early 1990s, many indigenous franchise stores propped up. Many domestic players like Raymond, Bombay Dyeing etc. started to forward integrate from manufacturing to retailing thereby catering to a larger base of customers.

In the backdrop of evolutionary times coupled with day to day disruptions, retail outlets like Shoppers Stop, Planet M, Crosswords, Pantaloons etc. entered the market in the 1990s, followed by a few shopping malls, department stores and supermarkets. Thus, from early 90s to about 2005, shoots of organized retail started emerging in India. 2005 onwards marked a phase of growth and stabilization where large corporates like Reliance, Aditya Birla, Godrej etc. entered and grew their retail business. Retail became the 'buzzword' and the industry to be in. In the decade the industry saw many ups and downs and a few groups also exited retail who were not being able to grow and compete in the sector. A large number of International brands and retailers also entered India during this phase, many of them like Zara and H&M becoming extremely successful while the others still struggle to find a foothold.

Currently, driven by strong macroeconomic factors, India is one of the fastest growing economies globally and the fourth largest retail market in the world. It thus holds a very strong position as far as its market potential is concerned. It provides a strong platform for consumers, distributors, manufacturers and ancillary sectors like transportation, logistics, cold chains etc. Retailers are continuously trying to fully tap the depth of this potential by making use of latest technologies along with next gen tools like data analytics, social commerce, CRM solutions etc. which form the backbone of modern retailing.

The burgeoning millennial population, growing middle income households and increasing women workforce provide a highly positive outlook for the retail businesses in India. Fuelled by these factors, the Indian retail industry is expected to grow from US$ 790 billion in FY 2019 to US$ 1400 billion by FY 2024, as the overall economy crosses the US$ 5 trillion mark.

As internet penetration increases, more international retailers set up shops in India and established Indian brands and retailers set themselves on a high growth trajectory, the share of organised retail market is expected to increase from 12 percent in FY 2019 to 25 percent in FY 2024.The e-commerce market itself is estimated to grow from US$ 24 billion in FY 2019 to US$ 98 billion in FY 2024. Going forward, given the strong retail and consumer outlook, India is expected to witness redefining trends which will shape the future of the retail market.

Consumer experience will be the key focus of the retailers, while technology will play an important part in increasing sales as well as facilitating the enhancement of consumer experience throughout their shopping journey. The next 10-12 years will be the defining years for Indian retail as the market will mature and organized retail will penetrate deeper into smaller cities and towns. While on one side more international brands and retailers across categories and formats will aggressively enter and grow the Indian business, India will become the key growth market for the ones already present. Technology will replace many 'human roles' in retail and new ways to emotionally connect with consumer will evolve. New markets will develop, and new channels will disrupt and reshape the markets.

This article focuses on the some of the above points and throws light on trends expected to disrupt Indian retail industry in the near future.

Growth of Indian Economy & Consumption

Just days after coming to power, the current government spelt out its key priorities, which were focused on laying the foundation for making India a US$ 5 trillion economy by FY 2024. As per IMF too, India's GDP will grow at 7.4 percent in FY 2020, with medium term growth projection expected to remain strong at 8 percent due to ongoing structural reforms and a favourable demographic dividend.

These factors are largely scripted on the strength of India's growing domestic consumption. This high rate of growth in consumption is accompanied by a substantial decline in India's poverty rate and increase in formal employment, due to growing proportion of jobs in services and declining share of employment in agriculture. The growing contribution of services sector towards India's overall GDP, has resulted in creating improved working conditions and better income for Indian households. As a result of this, India's GDP per capita has crossed US$ 2,000 mark in FY 2019.

The government now intends to focus on the manufacturing sector to create new jobs and has launched many initiatives like "Make in India" for this. This will further help in increasing the GDP per capita, thereby putting more money into the hands of people to improve their lifestyle, thereby supporting consumption and the retail market.

It has been seen in the case of China that when the per capita GDP reaches US$ 2,000 mark and the basic requirements of shelter, food and clothing are met, people start spending many other categories and the retail market consumption prospects improve and investment momentum increases significantly. At this level of per capita income, basic needs are met and income available for discretionary spend increases. As India has crossed this US$ 2,000 mark in FY 2019, it can be expected that Indian retail has reached its inflexion point. With rapidly growing economy and higher GDP per capita, it can be assumed that Indian retail industry has started to change its gears, just like China did in the last 15 years.

Indian retail is thus expected to reach US$ 1400 billion by FY 2024 from US$ 790 billion in FY 2019, growing at a CAGR of 12 percent.

Growth of Organised Retail

Due to the sharp rise and changing consumption pattern of Indian consumers, share of organised segment is growing rapidly. While traditional formats or unorganised retail formats continue to dominate the retail market, organized retail is growing at a faster pace and eating up into traditional retail. A major driver of this high growth trajectory has been online retail which is projected to grow at a CAGR of 33 percent between FY 2019-24. Growth in online retail is majorly attributed to factors including:

1. Increasing internet penetration
2. Growth in number of smartphone users
3. Growing number of online shoppers

Although mobile, tablets and electronics as a category continue to be the dominant one in the online market of India, new breed of online players are targeting other categories like food & grocery, pharmacy etc. These will be the categories where we will see 40 percent plus year-on-year growth in the online space.

The major factors responsible for the growth of organised retailing in India are as follows:

Organised retailing is a recent development. It is the outcome of socio-economic factors. India is standing on the threshold of retail revolution.

etail Industry, one of the fastest changing and vibrant industries that, has contributed to the economic growth of our country. Within a very sport span of time, Indian retail industry has become the most attractive, emerging retail market in the world.

Healthy economic growth, changing demographic profile, increasing disposable incomes, changing consumer tastes and preferences are some of the key factors that are driving growth in the organised retail market in India.

Some of the factors responsible for the growth of organised retailing are as under:

1. Growth of middle-class consumers:

In India the number of middle-classconsumersare growing rapidly. With rising consumer demand and greater disposable income has given opportunity of retail industry to grow and prosper.

They expect quality products at decent prices. Modern retailers offer a wide range of products and value-added services to the customers. Hence this has resulted into growth of organised retailing in India.Growing consumerism would be a key driver for organized retail in India. Rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence (meeting) of consumer tastes.

2. Increase in the number of working women:

Today the urban women are literate and qualified. They have to maintain a balance between home and work. The purchasing habit of the working women is different from the home maker.hey do not have sufficient time for leisure and they expect everything under one roof. They prefer one-stop shopping Modern retail outlets therefore offers one store retailing.

3. Value for money:

Organised retail deals in high volume and are able to enjoy economies of large-scale production and distribution. They eliminate intermediaries in distribution channel. Organised retailers offer quality products at reasonable prices. Example: Big Bazaar and Subhiksha. Opportunity for profit attracts more and more new business groups for entering in to this sector.

4. Emerging rural market:

Today the rural market in India is facing stiff competition in retail sector also. The rural market in India is fast emerging as the rural consumers are becoming quality conscious.Thus, due to huge potential in rural retailing organised retailers are developing new products and strategies to satisfy and serve rural customers. In India, Retail industry is proving the country's largest source of employment after agriculture, which has the deepest penetration into rural India.

5. Entry of corporate sector:

Large business tycoons such as Tata's, Birla's, and Reliance etc. have entered the retail sector. They are in a position to provide quality products and entertainment.As the corporate – the Piramals, the Tatas, the Rahejas, ITC, S.Kumar's, RPG Enterprises, and mega retailers- Crosswords, Shopper's Stop, and Pantaloons race to revolutionize the retailing sector.

6. Entry of foreign retailers:

Indian retail sector is catching the interest of foreign retailers. Due to liberalisation multinationals have entered out country through joint ventures and franchising. This further is responsible for boosting organised retailing.

7. Technological impact:

Technology is one of the dynamic factors responsible for the growth of organised retailing. Introduction of computerization, electronic media and marketing information system have changed the face of retailing. Organized retailing in India has a huge scope because of the vast market and the growing consciousness of the consumer about product quality and services.

One of the major technological innovations in organised retailing has been the introduction of Bar Codes. With the increasing use of technology and innovation retailers are selling their products online with the help of Internet.

8. Rise in income:

Increase in the literacy level has resulted into growth of income among the population. Such growth has taken place not only in the cities but also in towns and remote areas.

As a result the increase in income has led to increase in demand for better quality consumer goods. Rising income levels and education have contributed to the evolution of new retail structure. Today, people are willing to try new things and look different, which has increased spending habits among consumer.

9. Media explosion:

There has been an explosion in media due to satellite television and internet. Indian consumers are exposed to the lifestyle of countries. Their expectations for quality products have risen and they are demanding more choice and money value services and conveniences.

10. Rise of Consumerism:

With the emergence of consumerism, the retailer faces a more knowledgeable and demanding consumer. As the business exist to satisfy consumer needs, the growing consumer expectation has forced the retail organizations to change their format of retail trade. Consumer demand, convenience, comfort, time, location etc. are the important factors for the growth of organised retailing in India.

The retail industry is divided into organised and un-organised sectors. Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc.

These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Un-organised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors.

It is important to understand how retailing works in our economy, and what role it plays in the lives of its citizens, from a social as well as an economic perspective. India still predominantly houses the traditional formats of retailing, that is, the local kirana shop, paan/beedi shop, hardware stores, weekly haats, convenience stores, and bazaars, which together form the bulk.

17.4 TYPES OF RETAILERS

Major types of retailers can be classified according to the marketing strategies employed, taking into consideration three elements; product assortment, price level and customers level. The different types of retailing channels are:

i) Department stores: These are large scale retailing institutions that offer a very broad and deep assortment of products (both hard and soft goods) and provide lines, invariably all that is required by a typical household. These product lines include food, clothing, appliances, home furnishing and other household goods. In a typical department store, each product line is managed independently by specialist, buyers or merchandisers. In India, these stores are at the introduction phase and are mainly located in metros like Delhi, Mumbai and other cities like Hyderabad, Bangalore etc. In US Market, department stores are believed to be in the decline phase of the retail life cycle because of increased competition among themselves and other types of retail stores.

ii) Supermarket: This is a large, low cost, low margin, high volume, self service operation designed to serve the customers need for food, laundry and household maintenance products. They are large scale retailing organizations that offer a wide variety of differing merchandise to a large consumer base. Operating largely on a self service basis with minimum customer service and centralized register and transactional terminals, supermarkets provide the benefits of a wide product assortment in a single location, offering convenience and variety. In India, there are not many supermarkets but they are being introduced now, e.g., Foodland and Garware's in Mumbai.

Supermarkets are preferred by the customers due to paucity of time faced by them, increase in demand of product's quality and easy access to a variety of products.

iii) Discount Stores: Discount stores are based on low prices combined with the reduced costs of doing business. They sell standard merchandize at lower prices than conventional merchants or stores by accepting lower margins but pushing for higher sales volume. It involves a broad but shallow assortment of products, low prices and very few customer services. Discount stores have following characteristics.

a) It regularly sells its goods at a discounted price.

b) It carries national or reputed brands to enhance its image.

c) It keeps its operational costs to minimum with self service and no frills interiors.

d) Its location tends to be in low rent areas.

The largest discount store in U.S is Walmart. The nearest to this concept were at one time textile stores like Babubhai Bhawani and Babubhai Jagjivanram in Mumbai, etc.

iv) Convenience store: They are conveniently located shops in residential areas offering a range of grocery and household items that cater for convenience and last-minute purchase needs of consumers. They have long hours of operations, seven days a week and carry a limited line of high turnover convenience products. Due to high degree of personalized service and home delivery, these stores play a very important role in Indian retail sector.

v) Specialty Store: Specialty stores carry a narrow product line with a deep assortment within that line and customer service that vary from store to store. The breath of product variety differs across limited line stores and a store may choose to concentrate on several related product lines (e.g. shoes, clothing, accessories,) a single product line (e.g. shoes, ornaments), specific part of one product line (sport shoes). Raymond's showroom that retails only men's clothing and accessories is known as limited line store and stores that deal in designer wear like Louis Phillip, Van Heusen, Lakshita, Mom & Me etc. are known as super specialty stores.

17.4.1 Value Creation For Retailers

The boom in organized retailing has its roots in the changing Indian market kaleidoscope. The Indian consumer having more disposable income is upwardly mobile and is more informed. He /she is not dogmatic nor a follower of any taboo. Competition offers him/her multiple choices at the doorstep and technology has revolutionized way of shopping. Two related factors explain this dramatic shift that prioritizes value. First, consumers have fundamentally changed their reference points for both price and quality, such that they have been trained to expect significantly lower prices from many retailers. In addition, people's lifestyles have become more casual, consumers have begun to redefine quality from "good" to "just good enough" for particular items and occasions, such as their casual wardrobe. As their definition of quality changes, so does their definition of value. Second, some retailers that used to be known primarily for their low prices have out executed their competition and moved beyond price as their sole point of differentiation, often offering assortment, convenience, and in-store experiences comparable to those of their more upscale competitors. Value retailers continue to improve their "shopability," providing more convenient store layouts and shopping experiences that make the task faster and easier. Value retailers are rapidly expanding, bringing more types of retailers and locations under them. Till date, the majority of regional and national retailers have not yet felt the full force of the value retailers. But the most vulnerable, the smaller, undifferentiated regional chains, have consistently lost out to value retailers when they arrive in the local market. These regional chains are likely to be absorbed by large chains or remain stranded, with limited growth outside their core geographies.

17.5 TRENDS IN RETAILING

The top seven trends in retailing are as follows:

I. **Shift from Unorganized to Organized Retailing**: Retailing in India is thoroughly unorganized. There is no supply chain management perspective. The key factors that drive the growth of organized retailing in India are higher disposable incomes, rising urbanization, growing consumerism, nuclear family structure, growing number of educated and employed women population.

2. **Store Design**: Irrespective of the format, the biggest challenge for organized retailing is to create an environment that pulls in people and makes them spend more time in shopping and also increases the amount of impulse shopping.

3. **Competition:** Competition is increasing between different types of retai lers. Discount stores, departmental stores, supermarkets, etc. all compete for the same customers. The small independent retailers survive by pro viding personal services to the customers.

4. **New Form of Retailing**: Modem malls made their entry into India in the late 1890s, with the establishment of Crossroads in Mumbai and Ansal Plaza in Delhi. India's first true shopping mall. 'Crossroadsv+complctc with food courts. recreation facilities and large car parking space-was inaugurated as late as 1899 in Mumbai. Malls have given a new dimension to shopping cxpcncncc.

5. **Technology:** Technology today has become a competitive tool. It is the technology that helps the organized retailer to score over the unorganized players, giving both cost and service advantages. Technology has also made possible the growth of non-store re-tailing.

6. **Consumer Buying Behavior:** In India, there are no uniform trends with respect to consumer buying behavior. There are visible differences in the shopping pattern of consumers across income segments. Organized retailing has definitely made headway in the upper class. However, even in this segment, items such as milk, fruits, vegetables and a significant portion of 'through-the-month' purchases seem to be done at traditional outlets. Organized retail outlets seem to be associated with branded items/special purchases. Organized retailing docs not seem to have made an impact on the lower class, except for 'curiosity" shopping.

7. **Entertainment:** Modem retail formats provide a place for people to assemble, and a means of entertainment by providing facilities such as food courts, mini theatre. childrens play spaces and coffee shops. These facilities help the customers enjoy

shopping.

17.6 FUNCTIONS OF RETAILING

Like other marketers, retailers perform important functions that increase the value of the products and services they sell to consumers. We now examine these functions, classified into the four Ps.

Product: Providing the right mix of merchandise and services that satisfies the needs of the target market is one of retailer's most fundamental activities. Offering assortments gives customers choice. But to reduce transportation costs and handling, manufactures typically ship cases of merchandise to retailers, such as cartons of butter or boxes of blue shirts. Because customers generally don't want or need to buy more than one of the same, item, retailers break the cases and sell customers the smaller quantities they desire. Manufactures don't like to store inventory because their factories and warehouses are typically not available to customers. Consumers don't want to store more than they need because it takes up too much space. Neither group likes to store inventory that isn't being used because doing so ties up money that could be used for something else. Retailers thus provide value to both manufactures and customers by performing the storage function, though many retailers are beginning to push their suppliers to hold the inventory until they need it. It is difficult for retailers to distinguish themselves from their competitors through the merchandise they carry because competitors can purchase and sell many of the same popular brands. So many retailers have developed **private-label brands,** which are products developed and marketed by a retailer and available only from that retailer.

Price: Price helps define the value of both the merchandise and the service, and the general price range of a particular store helps define its image. Price must always be aligned with the other elements of the retail mix: product, promotion, place, personnel, and presentation.

Promotion: Retailers know that promotion, both within their retail environments and throughout the mass media, can mean the difference between flat sales and a growing consumer base. Advertising in traditional media such as newspapers, magazines, and television continues to be important to get customers into the stores. Once in the store, however, retailers use displays and signs, placed at the point of purchase or in strategic areas such as the end of aisles, to inform customers and stimulate purchases of the featured products. Store credit cards and gift cards are more subtle forms of promotion that also facilitate shopping. Retailers *might* offer pricing promotions such as coupons, rebates, in-store or online discounts, or perhaps buy-one-get-one-free offers to attract consumers and stimulate sales. These promotions playa very important role in driving traffic to retail locations, increasing the average purchase size, and creating opportunities for repeat purchases. But retail promotions also are valuable to customers; they inform customers about what is new and available and how much it costs.

Also, many retailers are devoting more resources to their overall retail environment as a means to promote and showcase what the store has to offer. Their displays of merchandise, both in the store and in windows, have become an important form of promotion. Retailers try to distinguish themselves with unusual and exciting store atmospherics that add value to the shopping experience of the customer. Personal selling and customer service representatives are also part of the overall promotional package. The knowledge retailers can gain from their store personnel and customer relationship management (CRM) databases is key for developing loyal customers and operating loyalty programs. Traditionally, retailers treated all their customers the same way, but today, the most successful retailers concentrate on providing more value to their best customers.

Place: Retailers already have realized that convenience is a key ingredient to success, and an important aspect of this success is convenient locations. As the old cliche claims, the three most important things in retailing are “location, location, location.” Many customers choose stores on the basis of where they are located, which makes great locations a competitive advantage that few rivals can duplicate In pursuit of better and better locations, retailers are experimenting with different options to reach their target markets

17.7 WHOLESALING

Wholesaling includes all the activities involved in selling goods or services to those who buy for resale or business use. It excludes manufacturers and farmers because they are engaged primary in production and it also excludes retailers. Wholesalers (also called distributors) differ from retailers in a number of ways. First, wholesalers pay less attention to promotion, environment and location because they are dealing with business customers rather than final consumers. Second, wholesale transactions are usually larger than retail transactions and wholesalers usually cover a larger trade area than retailers. Third the government deals with wholesalers and retailers differently in terms oflegal regulations and taxes.

Following are the functions performed by the wholesalers:

1. **Selling and promoting:** Wholesalers' sales forces help manufacturers reach many small business customers at a relatively low cost. They have more contacts and buyers often trust them more than they trust a distant manufacturer.

2. **Buying and assortment building:** Wholesalers are able to select items and build the assortments as per their customers need, saving them considerable work.

3. **Bulk breaking:** Wholesalers achieve savings for their customers by buying large carload lots and breaking the bulk into smaller units.

4. **Warehousing:** Wholesalers hold inventories, thereby reducing inventory costs and risks to suppliers and customers.

5. **Transportation:** Wholesalers can often provide quicker delivery to buyers because they are closer to the buyer.

6. **Financing:** Wholesalers finance customers by granting credit, and also finance suppliers by ordering early and paying bills on time.

7. **Risk bearing:** Wholesalers absorb some risk by taking title and bearing the

cost of theft, damage, spoilage, and obsolescence.

8. **Market information:** Wholesalers supply information to suppliers and customers regarding competitors' activities, new products, price development, and so on.

9. **Management services and counseling.** Wholesalers often help retailers improve their operations by training sales clerks, helping with store layouts and displays. and setting up accounting and inventory-control systems. They may help industrial customers by offering training and technical services.

17.7.1 Wholesale Marketing Decisions

Like retailers, wholesalers also face growing competitive pressures, increasingly demanding customers, rapidly changing technologies, and additional competition caused by direct- buying programs on the part of large industrial, institutional, and etail buyers. Under such conditions, wholesalers have to pay more attention to their marketing strategies. Similar to retailers, wholesalers should take into account market segmentation, targeting, differentiation and positioning, and the marketing mix: product and service assortments, price, promotion, and distribution.(Kotler and Armstrong, 2012:397)

Segmentation, Targeting, Differentiation, and Positioning Decisions: No wholesalers can serve everyone. They must segment the whole market and then define their target markets, differentiate and position themselves effectively. For example, wholesalers can choose a target group by size of customer, type of customer, the need for service, or other factors, furthermore, within the target group, they can identify the more profitable customers, design strong offers, and build better relationships with target customers. In addition, they can propose automatic

Distribution(location or place)

Distribution(location) is critically important to wholesalers. Wholesalers must choose their physical locations, facilities, and Web locations carefully in order to provide immediate delivery to their customers. "Traditicnally, wholesalers were close to the markets they supplied rather than the source from which they got the products, and could gain high profit margins by locating in low-rent, low-tax areas and investing little money in buildings, equipment, and systems. However, as technology zooms forward and the thriving of the Internet and E-procurement, more and more wholesalers have dropped outdated systems and located nearer manufacturing bases in China, Taiwan, and South Asia. These wholesaling companies are mainly drop shippers offering drop shipping services to companies and individuals. (Kotler and Armstrong, 2012:398; Wikipedia:wholesale)

How today's wholesalers response to rising costs?

Now an increasing number of wholesalers have reacted to rising costs by investing heavily in automated warehouses and IT systems. For example, orders are fed from the retailer's IT system directly in the the wholesaler's and the items the retailer ordered are immediately picked up by mechanical devices and automatically taken to a shipping platform where the items are assembled for shipping. large and progressive wholesalers can easily and accurately carry out accounting, billing, inventory control, and forecasting by using technology. Modem wholesaler leaders are searching cost- reducing ways to meet the needs of their target customers, for example, transacting business online, a fastest growing channel for wholesalers.

17.8 RECENT TRENDS IN WHOLESALING

1. Wholesaler have been facing mounting pressures in recent years from new sources of competition, rising customer demands, new technologies, and more direct buying programs by large industrial, institutional, and retail buyers. Manufacturer's are not satisfied with the functioning of wholesalers as they feel that they don't aggressively promote the manufacturer's product line and act more like order takers. However. wholesalers do not carry enough inventories and therefore fail to fill customer's orders immediately.

Manufacturer also feel that wholesalers do not provide them with up-to-date market. customer and competitior information and also fail to attract high-caliber managers, bringing down their own cost. Moreover, the cost for their services is high.

2. Due to the challenges faced by the wholesalers they have adapted their services to meet their suppliers' and target customers' changing needs. They add value to the channel so as to fight competition.

3. Wholesalers try to increase asset productivity by managing inventories and receivables better. They tend to reduce operating costs by investing in more advanced material handling technology, information systems, and the internet. Finally, they improve their strategic decisions about target markets, product assortment and services, price, communications and distribution.

17.8.1 Growth in the Wholesaling

Distribution businesses have become increasingly complex with ample opportunities to serve many different customers globally. In the United States alone, wholesale distributor sales equal approximately $3.2 trillion. which also accounts for roughly 7% of private industry CJ DP since 1987(I)

The reason for such staggering numbers is partially because distribution spans many large market segments, ranging anywhere from grocery and food-service to furniture and home furnishings. Driving this growth in the wholesale/distribution industry are 3 factors that businesses are finding increasingly important:

(1) **Investment in Technology:** Many distribution business owners are beginning to realize the importance of making data-driven business decisions. Unfortunately. many companies are currently stuck using older software systems which are not providing relevant information in a timely and effective manner. As a result, the focus has shifted to implementing truly integrated software that will tie the different facets of the business. (such as order taking to warehouse management to accounting) together. The result for companies who move in this direction is a system that provides real-rime information across departments in a timely manner to facilitate effective decision making. For example, a salesperson on the road will need access to updated pricing, product availability, and customer information among many other pieces of information. This highlights the importance of a system that will provide information to all areas of an organization, be it in the warehouse or on the road at a customer's locaion.

(2) **A Renewed Focus on the Basics:** The emphasis recently placed on technology investment has allowed business owners to take a holistic approach in assessing their current operations. Investment in an inventory management and accounting ERP system is not a decision that should be made impulsively or quickly. but should instead involve a long and detailed search process before any decision is made. At the beginning of this process, one step many companies take is to assess their organizational strengths and deficiencies and how new software will and should affect this. By taking a well-rounded look at a business, owners are able to ensure they are meeting the basic needs of their clients, prior to investing in technology.

(3) **E-Commerce is Critical- but the Back End is Just as Important**: Customers in many industries want a multi-channel experience that will provide relevant and accessible information throughout the duration of the buying process. As a result, online shopping has become a critical component of many successful business models, as it provides customers with easy access to a wide variety of products. What many distributors have learned is that an impressive online store-front is very important; however, the back end inventory management system is equally critical to ensure customers are satisfied with their shopping experience. A strong back end system has the ability to streamline a company's processes by providing real-rime inventory information as well as allocating inventory to specific orders. thus ensuring that a customer receives their shipment without any complications.

A large emphasis has been placed on investing in different types or technologies to improve organizational efficiencies. Whether that technolog is in the form of an inventory management system or an e-commerce platform, these have become major considerations of distribution business owners. And use of high-level assessments of the business helps to ensure that distributors are meeting the basics needs of customers.

17.9 TYPES OF WHOLESALERS

There are the various types of wholesalers which are discussed below:

1. Merchant wholesalers: Merchant wholesalers are independently owned businesses that take title to the merchandise they handle. They are full –service and limited –service jobbers, distributors, mill supply houses.

2. **Full-service wholesalers**: Full-service wholesale merchants sell primarily to retailers. They carry stock, maintain sales force, offer credit, make deliveries, and provide management assistance. Some of these wholesalers carry several merchandise lines; while some carry one or two lines and others carry only part of the line. Industrial wholesalers sell to manufactures and also provide services such as credit and delivery.

3. **Limited – service wholesalers**: Limited – service wholesalers provide limited services to the manufacturer. Cash and carry wholesaler sells a limited line of fast-moving goods to small retailers for cash. Truck wholesalers sell and deliver a limited line of semi perishable goods to supermarkets, grocery stores, hospitals, restaurants, hotels. They assume title and risk from the time an order is accepted till its delivery. Delivery people set up displays, price goods keep inventory records; they retain title of the goods. Producers' cooperatives assemble farm produce to sell in local markets. Mail –order wholesalers send catalogs to retail, industrial, and institutional customers, orders are filled and sent by mail, rail, plane, or truck.

4. **Brokers and agents**: Brokers and agents facilitate buying and selling on a certain commission of the selling price. They perform limited functions and generally specialize by product line or customer type. Brokers bring buyers and sellers together and assist in negotiation and are paid by the party hiring them. For eg.,food brokers, real estate brokers, insurance brokers. Agents represent buyers or sellers on a more permanent basis. Most manufactures' agents are small businesses with a few skilled salespeople. Selling agents have contractual authority to sell a manufacturers' entire output while purchasing agents make purchases for buyers and often receive, inspect, warehouse, and ship merchandise. Commission merchants take physical possession of products and negotiate sales.

5. **Manufacturers and retailers' branches and offices**: This represents wholesaling operations conducted by sellers or buyers themselves rather than through independent wholesalers. Separate branches and offices are dedicated to sales or purchasing. Many retailers set up purchasing offices in major market centers.

6. **Specialized wholesalers**: Specialized wholesalers deals in special category products, such as agricultural assemblers (buy the agricultural output of many farms), petroleum bulk plants and terminals (consolidate the output of many wells,) and auction companies (auctions cars, equipment, etc, to dealers and other businesses).

17.10 SUMMARY

Retailing refers to all the activities directly related to the sale of products to the ultimate end consumer for personal and non- business use. Any organisation selling to final consumers (whether it is a manufacturer, wholesaler or retailer) is doing retailing. It does not matter how the goods or services are sold (in person, by mail, telephone, internet) or where it is sold (in store or street or consumers home). Wholesaling includes all the activities involved in selling goods or services to those who buy for resale or business use.

17.11 GLOSSARY

1. **Convenience products:** Convenience products are non–durable goods or services which are often bought with little pre- purchase thought or consideration.

2. **Retail audit**: Retail audit is the panel studies undertaken for retailers providing competitor (pricing) and market information.

3. **Electronic Kiosks**: Electronic kiosks are being placed in shopping malls to assist the retailing experience. Mediated by hypermedia web- based interfaces, these computer based retailing environments offer consumers increased self – service opportunity, wide product assortments, and large amounts of data and information aiding decision making.

17.12 SELF ASSESSMENT QUESTIONS

Q.1. Discuss various functions performed by the wholesaler.

Q.2. Differentiate between retailing and wholesaling.

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17.13 LESSON END EXERCISE

Q.1. Discuss the various types of retailing outlets available in India.

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Q.2. What are the recent trends in wholesaling?

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17.14 SUGGESTED READINGS

1. V.S Ramaswamy, & S. Namakumar, Marketing Management, Planning Implementation and Control, Macmillan.

2. Britt and Boyd (ed), Marketing Management and Administrative Action, Tata Mc Graw Hill.

3. T.K Panda, Marketing Management: Text and Cases, Excel Books.

PLACE & PROMOTION MIX DECISIONS

Lesson No. 18 **Unit-IV**

Semester-II **M.Com-C254**

MARKETING COMMUNICATION

STRUCTURE

18.1 INTRODUCTION

Marketing communication (originally called promotion) is one of the 4 P's of the marketing mix. It is used to communicate elements of an organizations' offering to a target audience. This offer might refer to a product, a service or the organization itself as it tries to build its reputation. Marketing communications are the means by which firms attempt to inform, persuade and remind consumers – directly or indirectly – about the products and brands they sell. It represents the 'voice' of the company and its brands and is a mean by which it can establish a dialogue and build relationships with consumers. Organisations plan, design, implement and evaluate their marketing communication activities.These activities/ campaigns involve the delivery of messages either to or with target audiences, through various communication tools and media.

Marketing communication is a management process through which an organisation attempts to engage with its various audiences. Organizations seek to develop and present messages for its identified stakeholder groups before evaluating and acting upon the responses. By conveying messages that are of significant value, audiences are encouraged to offer attitudinal and behavioural responses.

18.2 OBJECTIVES

After reading this lesson you will be able

1. To study the meaning, aspects and task of marketing communication.
2. To understand the role and functions of marketing communication.
3. To comprehend the process of marketing communication.

18.3 ASPECTS OF MARKETING COMMUNICATION

There are three main aspects of marketing communication:

a) **Engagement:** Identifying the audiences communication needs and the possible way to engage with them using one-way, two –way or dialogic communication.

b) **Audiences:** Identifying specific audience(s) to communicate with and their various behaviour and information processing needs.

c) **Responses:** The desired outcomes of the communication process based on changes in perception, values and beliefs or behavioural changes.

Thus, marketing communication is regarded as audience-centered activity. It performs four important **tasks** i.e.

a) It differentiates brands and organizations.

b) It reinforces brand memories and expectations in the mind of the customers.

c) It informs, educates and creates awareness regarding the product/ service among audiences.

d) It persuades audiences to do things and to behave in a desired way.

18.4 THE MARKETING COMMUNICATION PROCESS

Marketing communication process influences consumers from making them aware that a product or service exists to motivating them to purchase them. As the number of communication media has increased, the task of reaching target consumers has become far more complex. Communication process describes how communication goes from the firm to the consumer and the factors that affect the way the consumer perceives the message. Let's first define each component and then discuss how they interact.

1. **The Sender:** The message originates from the sender, who must be clearly identified to the intended audience. For instance, an organisation can send a message, using its distinctive logo, that it is having a special summer sale.

2. **The Transmitter**: The sender works with the creative department whether in-house or from a marketing (for advertising) so as to develop marketing Communications. Such an agent or intermediary is the transmitter.

3. **Encoding:** Encoding means converting the sender's ideas into a message, which could be verbal, visual or both. A firm may take out full-page ads in every major newspaper proclaiming: "Summer sale at 40 Percent off. " A television commercial showing people shopping at a shop is another way to encode the message that "there are great deals offered." As the old saying goes, a picture can be worth a

thousand words. But the most important facet of encoding is not what is sent but rather what is received.

4. **The Communication Channel**: The communication channel is the medium (print, broadcast, internet) that caries the message. Firms should transmit their message through television, radio, and various print and its should realize that to its consumers on TV media chosen must be appropriate to connect itself (the sender) with its desired recipient.

5. **The Receiver**: The receiver is the person who reads, hears, or sees and processes the information contained in the message and / or advertisement. The sender, hopes that the person receiving it will be one for whom it was originally intended. Decoding refers to the process by which the receiver interprets the sender's message.

6. **Noise:** Noise is any interference that stems from competing message, a lack of clarity in the message or a flaw in the medium, and it poses a problem for all communication channels. Firm may choose to advertise in newspaper that its target market doesn't read, which means the rate at which the message is received by those to whom it is relevant has been slowed considerably. Thus, encoding is what the sender intends to say, and decoding is what the receiver hears. If there is a difference between them, it is probably due to noise.

7. **Feedback Loop:** The feedback loop allows the receiver to communicate with the sender and thereby informs the sender whether the message was received and decoded properly. Feedback can take many forms; a customer's purchase of the item, a complaint or compliment, the redemption of a coupon or rebate and so forth. If a firm observes an increase in store traffic and sales, its managers know that their intended audience received the message and understood that there were great after-holiday bargains to be found in the store.

8. **Receiver Decode Message Differently**: Each receiver decodes a message in his or her own way, which is not necessarily the way the sender intended. Different people shown the same message will often take radically different meanings from it.

9. **Senders Adjust Message According to the Medium and Receivers' Traits**: Different media communicate in different ways. So marketer make adjustments to their message and media depending of whether they want to communicate with suppliers, shareholder, customers, or the general public. Kellogg's would not, for instance, send the same message to its shareholders in a target e-mail as it would to its consumers on TV. essage through television, radio, and various print and it should realize that the to its consumers on TV.

18.5 THE AIDA MODEL

After being exposed to a marketing communication programme, consumers go through several steps before actually buying or taking some other action. There is not always a direct link between a particular marketing communication and a consumer's purchase.

Generally, marketing communication makes the consumers to move in a stepwise series of mental stages, for which there are several models. The most common model is the AIDA model (A-Awareness; I- Interest; D-Desire; A-Action). The model suggest that Awareness leads to Interests, which leads to Desire, which leads to Action. At each stage, the consumer makes judgments about whether to take the next step in the process. Customers actually have three types of responses, so the AIDA model is also known as the "think, feel, do" model. In making a purchase decision, consumers go through each of the AIDA steps to some degree, but the steps may not always follow the AIDA order. For instance, during an impulse purchase, a consumer may "feel" and "do" before he or she "thinks."

1. **Awareness:** Even the best marketing communication can be wasted if the sender doesn't gain the attention of the consumer first. When a firm introduces a redesigned model, its first step should be to make consumers aware of the new design, So the company places television, radio, internet ads and print advertising to reach its desired target audience. This multichannel approach increases the likelihood that the message would be received because even if one of the communication channels is missed or ignored, odds remain good that another would catch the potential customer's attention.

2. **Interest:** Once the consumer is aware that the company or product exists, communication must work to increase his or her interest level. It isn't enough to let people know that the product exists; consumers must be persuaded that it is a product worth experimenting. Marketers do so by ensuring that the ad's message includes attributes that are of interest to the target audience. Through these communications, consumers' interest must be aroused enough that they react to the message.

3. **Desire**: After the firm has aroused the interest of its target market, the goal of subsequent messages should be to move the consumer from "I like it" to "I want it".

4. **Action**: The ultimate goal of any marketing communication is to drive the receiver to action. If the message has caught consumers ' attention and made them interested enough to consider the product as a means to satisfy a specific desire of their, they likely will act on that interest by making a purchase.

5. **The Lagged Effect**: Sometimes consumers don't act immediately after receiving a marketing communication because of the lagged effect –a delayed response to a marketing communication campaign. It generally takes several exposures to an ad before a consumer fully processes its message. In turn, measuring the effect of a current campaign becomes more difficult because of the possible lagged response to a previous one. Suppose you purchased a Nokia mobile right after hearing a radio ad sponsored by a local dealer. The radio ad may have pushed you to buy, but other communications from Nokia, such as television ads and articles in magazines that you saw weeks earlier, probably also influenced your purchase.

18.6 MARKETING COMMUNICATION FUNCTIONS

Marketing communications perform many **functions** for consumers. These are as follows:

1) It informs or shows consumers how and why a product is used, by what kind of person and where and when it can be used.

2) Consumers can learn about who makes the product and what the company and brand stands for.

3) Consumers can get an incentive or reward for trial or usage.

4) Marketing communication allows companies to link their brands to other people, places, events, brands, experiences, feelings and things.

5) It contributes to brand equity by establishing and creating a brand image as well as drive sales and effect shareholder value.

18.7 ROLE OF MARKETING COMMUNICATION

For any communication campaign to succeed, the firm must deliver the right message to the right audience through the right media. Reaching the right audience is becoming more difficult however as the media environment grows more complicated. Advances in technology have led to satellite radio, wireless technology, pop up and banner ads on Web sites, brand –sponsored Web sites and text messaging, all of which vie for consumers' attention. Print media have also grown and become more specialized. This proliferation of media has led many firms to shifts their promotional money from advertising to direct marketing. Web site development, product placement and other forms of promotions in search of the best way to deliver message to their target audience. Media fragmentation has also occurred on television. Networks are dedicated to certain types of sports (ESPN), Children (Neckelodeon, Pogo), news channel (NDTV) etc. Each of these channels allows planners to target their desired audience narrowly .

Fundamentally, marketing communication comprises three elements i.e., set of tools, the media and messages. The common tools are advertising, sales promotion, personal selling, direct marketing and public relations. In addition, there is a range of media associated with communication eg., television, radio, press and the internet, which are used to convey messages to target audiences. These tools have been developed in response to changing market and environmental conditions. For eg., direct marketing is being recognized as an important way of developing closer relationship with buyers while public relations is seen to have both a product and a corporate dimension.

The new and innovative forms of communication being used through sponsorship, floor advertising, video screens in supermarkets, internet and associated technologies, imply that effective communication requires the selection and integration of an increasing variety of communication tools and media. Thus, communication is no longer restricted to promoting and persuading audiences as it is used to reflect an organization's communication activities.

The more contemporary goal is to use communications to make the consumers behave in a particular way i.e., developing positive attitudes towards brands. This is called behavior change and is driven by using messages that provide audiences with a reason to act (ie., call to action).

Thus, communications is used to develop brand feelings on one hand and change or manage the behavior of the target audience on the other hand. These are not mutually exclusive eg.,certain television advertisement are referred to as direct response ads because not only do they attempt to create brand values but also carry a website address, telephone numbers or details of a special offer (sales promotion) .

18.8 MEASURING THE EFFECTIVENESS OF MARKETING COMMUNICATION

The marketer has to know whether the communication has been effective. In order to do so, marketing communication has to be measured on cognitive, connative, and behavioural levels. At the cognitive level, recall, recognition and association tests are conducted to assess the change in the target audiences' awareness of the product or brand. The recall tests are unaided, while recognition tests are aided in nature. The marketer may even want to know where the customer had seen or heard the message. This help in knowing the effectiveness of different channels of communication. The marketer may even further probe customers on whether they tried the product or brand, if so their experience or satisfaction with it and also whether they would recommend it to others. This helps in assessing the change that takes place at the affective and behavioural levels. The marketer may like to compare these results against the communication or pre communication stage, provided he or she has done research at that stage too. The difference between the pre and the post communication periods can reveal the changes at the cognitive, connative and behavioural levels.

18.9 COMMUNICATION MIX

There are multiple components of a communication mix. The communications mix in marketing comprises of the various way that a company can communicate with the customers. Because marketing communications is of utmost importance in today's day and age. the communications mix and the marketing vehicles used within it are also important to marketing.

As can be seen from the concept or marketing there were initially various different concepts which used when manufacturing first started. They were the production concept the sales concept etc. However, slowly but surely, we moved on to implement the marketing concept and today we generally use the customer concept in the market.

The key principle behind the marketing concept is that we should add value to our products so that the customer will automatically buy our products above that or competition. However how will the customer know that we have value added products. This is the job of the marketing communication department and hence the communications mix is need. Generally, when a company makes a marketing communications plan. It combines multiple forms of communication channels into the mix. This is done to ensure that the message or the customer recalls the brand because of the brand message being repeated in multiple channels at once.

Variables ofthe Communication Mix are as Follows.

I . **Advertising** : We are very well with the impact that advertising has on our purchase behavior. Advertising may be in many forms but the two most common forms are ATL advertising which includes television, radio and print and the other type is BTL advertising which majorly includes out or home advertising. Advertising is strongly used by brands who have deep pockets or who have a lot of competitors in the market. Advertising requires that you have a unique advertising message as well. The more unique and impactful the message, the more is the connect between the brand which is advertising and the consumers.

2. **Personal selling:** Personal selling is the second most common method to communicate the benefits of your products to the end customer and convert him from a lead to a prospect and ultimately to your customer. This is the reason that many top companies and even small businesses nowadays are focused on personal selling. If you enter a branded retail outlet, you will many times fmd that the company promoter is already present in the retail outlet. The reason that the company appoints their own brand promoter is because this ensures that the customer will have better attention from their individual brand. Along with this, the company's salesman will also have more knowledge of product and competition as he has been dedicatedly hired by the brand.

If instead of a brand promoter, there was the retailer's own salesman, he would have promoted any brand on the shelf. At the same time, the retailer's salesman might not be as knowledgeable as the brand salesman because he has so many brands and products to sell. He gets overloaded and ultimately, forgets the features of products he is selling. So, if a company wants to communicate the benefits of its products, convince and convert the customer, then personal selling with handpicked and trained executives is the best option.

3. **Sales promotion:** There are many different ways of running sales promotions and many different tips and tactics present depending on the sector you are in. Where trade discounts and freebies work very well in FMCG, in consumer durables, free services and value addition (free installation) works better then discounts. Sales promotion also involves providing the consumer with an incentive for the purchase ofthe product. At the same time, it may involve giving incentives to dealers or distributors to get the product selling & moving in the market. The expenses in sales promotion is lower and the investment is very less because it gets the product moving. Sales promotions is increasingly being used as a tool especially after the rising popularity of E-commerce and online sales. Every other day you will see a "Sale" or "Deal" online which will be time bound and which customers will impulsively purchase. Due to those discounts being given for certain amount of time, online retailers can move huge quantities or products across the country or the region they are selling in.

4. **Public relations:** Public relations are the art of spreading the news about your products or services in the public domain so that some hype is created and people talk to each other about it. One of the most commonly observed public relations exercise is when there is some news related to a Movie or related to a product which is published in the newspapers just before the movie is supposed to be released or the product is supposed businesses, even packaging is considered as an important medium of communicating with your consumers. The packaging of the product is the last point of sales for the company. When the consumer is standing in a retail aisle, he or she has a plethora of products in front of them to choose from. Many a times, the decision is made looking at the overall packaging of the product as well as the informaton written on the product.

If a customer wants an Aloe Vera shampoo, he might look at the packaging and decide against an Anti dandruff shampoo. However, if the packaging is poor, and the distinguishing feature is not mentioned clearly, the consumer might ignore the product altogether.

As a result, because even packaging communicates to the consumer, it is now considered as an element of the communications mix. So overall, the above 6 media vehicles are the ones which are considered as the communications mix. Whenever a brand wants to communicate to their consumers, they will use one of the above methods to do the same.

18.10 SUMMARY

Marketing communications are the means by which firm attempt to inform, persuade and remind consumer- directly or in directly about the products or brands they sell. Marketing communication activities tries to get right message at the right place, at the right time and for the right audience. It supports the marketing strategy and associated plan. It is a systematic process that involves the series of procedure and activities that lead to setting of marketing communication objective and formulation of plan for achieving them.

18.11 GLOSSARY

1. **Brand –** Brand is a name, term, sign, symbol, design or a combination of them so as to identify the goods and services of one seller or a group of sellers and to differentiate them from those of competitors.
2. **Dyadic-** Dyadic essentially means two –way. A commercial relationship which is dyadic is an exchange between two people, typically a buyer and seller.
3. **Sponsorship** - Sponsorship is an marketing communication activity where by one party permits another an opportunity to exploit an association with a target audience in return for funds, services, or resources.

18.12 SELF ASSESSMENT QUESTIONS

Q.1. What does marketing communication imply?

Q.2. Discuss the role of Marketing communication.

18.13 LESSON END EXERCISE

Q.1. To what extent firm should use marketing communication just to persuade audience to purchase a product?

Q.2. Discuss the various functions performed by marketing communication

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18.14 SUGGESTED READINGS

1. P. Kotler and Armstrong , Principles of Marketing, Prentice Hall India
2. Douglas, K Hoffman, et al.., Marketing Best Practices, Thomas South – Western
3. Rajan Saxena, Marketing Management, Tata McGraw Hill.

PLACE & PROMOTION MIX DECISIONS

Lesson No. 19 **Unit-IV**

Semester-II **M.Com-C254**

ADVERTISING, SALES PROMOTION & PUBLIC RELATIONS

STRUCTURE

19.1 INTRODUCTION

The traditional marketing communication mix consists of a set of five primary tools i.e. advertising, sales promotion, direct marketing, public relations and personal selling. But now a-days, events and experiences and interactive marketing are also undertaken as important tool of marketing communication mix. These tools are used in various combinations and with different degrees of intensity in order to achieve different communication goals with target audiences.

The various tools of marketing communication are discussed in the following sections.

19.2 OBJECTIVES

After reading this lesson, you will be able

1. To comprehend the elements of marketing communication mix.
2. To study in detail the functions performed by the various elements of marketing communication mix.

19.3 ADVERTISING

Many people confuse advertising with marketing as they believe it to be same. However, advertising is part of marketing, though a very visible element. Advertising is any paid form of non personal presentation and promotion of ideas, goods or services by an identified sponsor. It is an element of marketing mix. It plays significant role in awareness creation and attitude formation. It even generates trial and purchase of product/ service as long as all other elements of the marketing mix play a contributory role.

Advertising is one of several tools used to communicate an organizations marketing offer. It is an effective means of managing demands i.e, it can be used to influence demands for products/ services or can be used to manage perceptions and understanding about the organization as a whole. However, the role of advertising is to engage audiences and generate favourable response.

Advertising has following advantages over other elements of the communication mix.

i) It offers a fair amount of control over what the marketer has to say to the potential customers.

ii) Advertising can also reach a large number of customers efficiently.

iii) It is flexible as different kinds of images and symbols can be presented through a wide variety of media.

iv) Advertising can also be humorous, serious or emotional, can show the product in action and explicitly compare the product with its competitors.

v) Though television media is very expensive, but it reaches millions of potential customers at one time.

Advertising suffer from series of drawbacks:

i) It is difficult to evaluate the effectiveness of advertising as it is generally used to build sales in the long term by achieving other intermediate objectives in the short run (eg. awareness).

ii) It rarely results in a measurable and observable change in sales.

iii) Advertising especially TV advertising can be expensive and makes it difficult for a small company to make much of an impact in the market.

iv) Most of the advertising in mass media (eg. TV) is wasted as it is not the best communication element for targeting a specific audience directly.

v) Customers are bombarded with ads which make it difficult for marketer's message to be retained through the clutter.

19.3.1 Developing an Advertising Programme:

In developing an advertising programme the marketing managers have to identify the target market and buyers motives. Following are the various decisions which they have to make.

(1) **Advertising objective**: Advertising is a specific communications task and

achievement level to be accomplished with a specific audience in a specific period of time. The main aim of advertising is:

(a) To create brand awareness and knowledge of new product (informative ad).

(b) To create liking, preference, conviction and purchase of product/ service.

(c) To stimulate repeat purchase of product / service.

(d) To convince current purchasers that they made the right choice.

(2) A**dvertising Budget**: A company has to set aside a budget for its advertising programme. New products typically merit large advertising budgets to build awareness as compared to established brands which support lower advertising budgets. Also high market share brands usually require less advertising expenditure. Brands in less differentiated product classes (eg. soft drinks, banks and airlines) require heavy advertising to establish a differentiated image.

(3) Advertising Campaign: In designing and evaluating an ad campaign, marketers have to develop the message strategy (what the ad attempts to convey about the brand) and its creative strategy (how the ad express the brand claims). The ads impact depends not only on what it says, but also how it says. Thus message generation and its execution are important. Marketers are always seeking different ideas that connect with consumers rationally and emotionally, distinguish the brand from competitors and is flexible so as to translate to different media, market and time periods. Every advertising medium has advantages and disadvantages.

(4) Media Effectiveness: After designing the message, the next task of marketer is to choose the media to carry it. Media selection is finding the most cost – effective media to deliver the desired number and type of exposures to the target audience. The effect of exposures on audience awareness depends on the exposures reach, frequency and impact. Also, choice of media depends on target audience, media habits, product characteristics message characteristics, cost of media etc.

19.4 SALES PROMOTION

Sales promotion comprises of collection of various incentive tools used to promote sales in a given territory and time. They are short term in nature and are designed to stimulate quick sales of particular product / service by consumers. While advertising provides a reason to the target customer to purchase a product, sales promotion provides incentives to the customer to purchase the product or service. Sales promotions are used extensively in consumer markets especially while launching new brands as well as in markets that are mature. They are also used where market growth

Profiles of Major Media Types

Medium	Advantages	Limitations
Newspapers	Flexibility; timeliness; good local market coverage; broad acceptance; high believability	Short life, poor reproduction quality, small " pass along" audience
Television	Combines sight, sound, and motion; appealing to the senses; high attention; high reach	High absolute cost; high clutter; fleeting exposure; less audience selectivity
Direct mail	Audience selectivity, flexibility; no ad competition with the same medium; personalization	Relatively high cost, " junk mail" image
Radio	Mass use, high geographic and demographic selectivity, low cost	Auto presentation only, lower attention than television; nonstandardised rate structures, fleeting exposure
Magazines	High geographic and demographic selectivity; credibility and prestige; high- quality reproductions , long life; good pass – along readership	Long ad purchases lead time; some waste circulation; no guarantee of position
Outdoor	Flexibility; high repeat exposure; low cost; low competition	Limited audience selectivity, creative limitations

Yellow pages	Excellent local coverage; high believability; wide reach; low cost	High competition, long ad purchase lead time, creative limitation, costly
Newsletters	Very high selectivity, full control, interactive opportunities, relative low costs	Cost could exceed
Brochures	Flexibility, full control, can dramatize message	Over production could lead to runaway cost
Telephone	Many users, opportunity to give a personal touch	Relative high cost unless volunteers are used
Internet	High selectivity, interactive possibilities, relatively low cost	Relatively new media with a low number of users in some countries

Table : 19.1

is limited and where price and sales promotion are the only way of improving performance. Consumer oriented promotions include devices such as coupons, points of purchase savings, sweepstakes, rebate and free samples. Sales promotions are oriented towards the channels of distributions including the sales force. The advantage of sales promotions are following:

(i) They can generate a measurable short term sales response.

(ii) Free samples are effective for inducing trials of new product.

(iii) Promotions such as coupons delivered in magazines can complement an advertising campaign by reinforcing a brand name.

(iv) Sales promotions are essential in gaining shelf space in retail outlets.

(v) It provides opportunities to manufacturers to reach out to market segments with differing price sensitivity.

(vi) It motivates the trade to keep more and push more of those brands that are on promotions.

(vii) It is cost effective alternative.

The sales promotion programme also has following set backs:

(i) It is almost always focused on price. As a result, customers can be induced to become more price sensitive and deal loyal (i.e. loyalty towards brand offering some kind of promotion) rather than brand loyal.

(ii) It delays purchases as customers begin to expect and wait for sales promotion, rebates or special deal being offered.

(iii) The results of sales promotions are short lived.

19.4.1 Obectives of Sales Promotions

Broad objective of any sales promotion programme is to induce trial and purchase of a product, beside various other objectives which are as under:

(i) Sales promotion generates consumers' interest which leads to trial purchases. Free samples and coupons have been found useful in stimulating trials of low involvement products because they generate a low cost usage experience that may create favourable attitude faster than advertising e.g. Dove, a premium brand from Hindustan Levers urges consumers to try the 7 day test to convince themselves of the claims made by the company.

(ii) It generates inquiries from the target customer group. This is done through mails –in coupons, free catalogues and prizes. This method is useful in following situations:

(a) When the firm has to identify and attract prospective customers.

(b) When customers stock has to be frequently replenished i.e., institutions whose stationary stock needs to be periodically replenished often receives mail in coupons or special prices or gifts during festivals.

(c) When a new model or version of product or services has been introduced.

(iii) Sales promotion builds traffic for a brand at the retail outlet thereby generating additional sales of the product. Various shopping malls or stores e.g., Shoppers Stop, Big Bazaar etc., organises several events and festivals. Such special sales, festivals sales or even entertainment events e.g., FilmFare Awards are designed to build consumers traffic at retail outlets or for brand.

(iv) It motivates customers to repeat their purchases. Several companies use promotion tool like First Citizen's Club (Shopper's Stop) and cumulative purchase card which promises the customer a free product on redemption of purchases points. Similarly, Visa card, Master Card etc. offer its members redeemable points for every purchase made on the credit card. These tools are aimed at creating brand loyalty.

(v) Sales promotion increases the rates of purchase of the product. The firm's objective is to increase the rates of purchase so as to retain the customers or generate primary demand. For this, it may offer multipack or a large pack at a lower price than the competitors e.g., Hindustan Liver a multipack offer for Dove, or a recipe for a desert on Milkmaid's label.

19.4.2 Sales Promotion and Product Life Cycle

Sales Promotion plays a different role at each stage in the product life cycle. In the introduction stage, advertising creates awareness and positioning of the brand, the role of sales promotion is to induce trial. Thus, the firm generally uses sampling and couponing to achieve their objectives.

In the growth stage, advertising role is to create competitive differentiation and expand the market whenever possible. The role of sales promotion is to create and reward loyalty. It also aims at enhancing per capita consumption and encourages existing customers to introduce new ones. Hence, redemption points, bonuses, price cuts for new introductions or bundling of products and services are common tools used at this stage.

The maturity stage results in slowing down of market growth rate and advertising at this stage reminds the customer about the product availability. Consumer oriented promotions like coupons, discounts, premium and bonus packs are often used by firms to maintain customer loyalty, attract new users and also protect against competition. Firms often indulge in trade promotions to get a larger share of retail shelf space.

19.4.3 Sales Promotion Programme

It is necessary that the marketer spends considerable time in planning and adopting a long term planning approach which involves the following points.

(i) For any sales promotion programme, the marketer needs to review the product market situation. He has to scrutinize consumers' responsiveness to any promotion programmes that is planned to be introduced.

(ii) The purchase patterns of consumers also need to be examined. The marketer should plan to provide incentive for a longer term so that heavy users get an opportunity to benefit in their normal purchase cycles.

(iii) Marketer should analyze distribution methods being used in his product category as this will influence the choice of promotion tools.

(iv) Based on market analyses and trade characteristics, a firm has to identify the opportunities and threats conforming it. It can use promotion tools to exploit opportunities and also convert threats into opportunities.

(v) Firm has to choose the sales promotion objectives and have to work for its achievement.

(vi) The firm also has to work on the sales promotion budgets with which it has to undertake sales promotion programme.

19.5 PUBLIC RELATIONS

Public relation (PR) is an important tool within the marketing communication mix because its primary motive is to influence, the way an organisation is perceived by various groups of stakeholders. It is the management function that focuses on the relationship and communication with individuals and groups in order to create mutual goodwill. Not only must the company relate, constructively to customers, suppliers and dealers, it must also relate to a large number of interested publics. A public is any group that has an actual or potential interest in or impact on a company's ability to achieve its objectives. Most companies have a public relations department that monitors the attitudes of the organizations public and distributes information and communication to build goodwill. The PR department advices top management to adopt positive programmes and eliminate questionable practices resulting in no negative publicity. The main advantage of PR is that it comes from a supposedly unbiased source and therefore has more credibility than advertising. Also, it is in expensive except for the cost the PR agency charges. The main disadvantage of PR is that the sponsoring company has little control over it. PR can also have a negative impact on the firms' reputation.

The PR department performs the following five functions:

(i) Press relations: Presenting news and information about the organization in such a way so as to generate goodwill.

(ii) Production Publicity: Sponsoring efforts to publicise specific product.

(iii) *Corporate Communication*: Promoting understanding of the organization through internal and external communications.

(iv) Lobbying: Dealing with legislators' and government officials to promote or defeat legislation and regulation.

(v) Counseling: Managing the advertisements about public issues and company positions and image during good and bad times.

19.5.1 Role of Public Relations

Public relations play three main roles within an organizations' marketing communication mix. These are:

(i) **Development and Maintenance of Corporate Goodwill**: It involves the creation of goodwill and interest between the organization and its various key stakeholders. It provides services of cues by which the stakeholders can recognize, understand and position the organization in such a way that the organization builds a strong reputation.

(ii) **Marketing of Firms Product or Service:** PR supports the marketing of the firm's products and services with a view to integrate the other elements of the communication mix. For e.g., it commences at the time of launching a new product with passing the information on to the editors, news broadcasters and other stakeholders about the launch.

(iii) **Build Relationships:** PR encourages interaction and dialogue and provides the means through which information exchanges and discussions can occur. This is a complex role as the communication process needs to enable messages to be conveyed, listened to, considered and acted upon.

There are a range of public relation methods available to organizations which they use so as to communicate effectively with their various stakeholders. Some of these methods are, media relations, publicity and events, lobbying, sponsorship, crisis management, public affairs, industry relations etc.

19.5.2 Features of Public Relations

The key characteristics of public relations are that:

(i) It requires the purchase of airtime or space in media vehicles such as television, magazines etc. The decision about intended public relations message being, transmitted depends upon those in charge of managing the media resource and not the client organization. The people who make these decisions are often journalist and editors who represent opinion formers and through their professional expertise can influence the decisions made by others.

(ii) The messages received through PR are deemed to be highly credible, and more trustworthy. However, there is low level of control that management can exert on a message as it is the editor who decides whether a message will be conveyed or the context and style of the message may be changed.

(iii) The absolute cost of PR is minimal, except for those organizations that retain an agency but even then their cost is low as compared with those associated with advertising. The relative cost (i.e., the proportional costs associated with reaching each member of the target audience) is also very low. The main cost associated with PR is the time and opportunity costs associated with the preparation of press releases, associated literature and events.

(iv) Another characteristics of PR is that it can be used to reach specific audience, in a way that paid media cannot. With increasing customization of markets, PRs activities represent a cost effective way of reaching such market and audiences.

(v) Digital technology (i.e., internet) has enhanced the development and practice of public relations.

19.6 SUMMARY

Marketing communication mix consists of advertising, sales promotions, events experiences, direct marketing, interactive marketing and personal selling. Marketing communication activities must be integrated to deliver a consistent message and achieve the strategic positioning. The starting point of planning marketing communication mix is an audit of all the potential modes of communication that customer in the target market may seek.

19.7 GLOSSARY

1. **Atmospheric:** Atmospheric denotes those components of a store which impact upon its atmosphere and which attract consumers to a store, including the merchandising plan, smell, lighting, architecture, product ranges and prices, access to the store and other sensory stimuli.

2. Sales Promotion: Sales promotion is a communication tool that adds value to product or service with the intention of encouraging people to buy now rather than at some point in future.

3. Telemarketing: Telemarketing or telesales is a form of non –store retailing where purchase occurs over the telephone.

19.8 SELF ASSESSMENT QUESTIONS

Q.1. Discuss the difference between publicity and public relation.

Q.2. Explain the various modes of advertising.

19.9 LESSON END EXERCISE

Q.1. How do advertising and sales promotions help in communicating about the product.

Q.2. Explain the merits of Public Relation.

19.10 SUGGESTED READINGS

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PLACE & PROMOTION MIX DECISIONS

Lesson No. 20 | **Unit-IV**

Semester-II | **M.Com-C254**

PUBLICITY, EVENTS & EXPERIENCES AND PERSONAL SELLING

STRUCTURE

20.1 INTRODUCTION

Technology is changing the way businesses and individuals communicate. Organizations use Integrated Marketing Communications (IMC) to deliver a consistent message across all components of the promotion mix. The promotion (communication) mix is composed of advertising, professional selling, public relations, sponsorships (events and experiences), sales promotion, direct marketing, and online media, including social media.We have spoken of what marketing communication is and how it can be done. While talking about the type of marketing communication the basic framework in which this communication can be achieved has already been discussed in the previous chapters.

The four methods in which marketing communication can be done is

1. One-to-one communication
2. One-to-many communication
3. Many-to-one communication and
4. Many-to-many communication

While the earlier chapter conveyed ways in which marketing communication can be done, there are some elements that are utilised by the marketer to make the communication. There are eight popular tools of marketing communication.The strategy which the Marketer formulates to arrive at the most optimal utilisation of these eight tools and make the most benefit for the organisation is the marketing communication mix.To summarise, there are many popular tools or elements of marketing communication and the proportion in which these tools can be used to hit the goals of marketing a product is known as the marketing communication mix.

Let us now look at the other elements of the marketing communication mix.

Publicity is the spread of the image of the brand. When people talk about products or services it creates a buzz and inspires others to do the same. A rightly designed strategy can leverage these conversations and make establish better communications. Several companies support events such as sports, entertainment, non-profit, and community activities with the goal of reinforcing their brand in the minds of customers and establishing long-term relationships.One Example of Experience-based communication is the popular ready to cook brand Licious organising stalls at famous locations and inviting customers to a tasting session. The experience thus provided here becomes a mode of communication. Personal selling is the most effective tool adopted by companies. It's a historically adopted method of reaching out to customers. In this method, salesmen approach the prospective customers directly and inform them about the goods and services they are selling.This falls under the category of one-to-one selling and has a very high conversion ratio of prospective customers to real customers. It is also an extremely reliable form of communication. An example of this can be the direct sales done via direct calls.

20.2 Objectives

After reading this chapter, you will be able to:

1. Clearly distinguish between publicity and public relations
2. Have a better understanding of Events & Experiences
3. Clearly demonstrate Personal Selling

20.3 PUBLICITY

Publicity is often confused with public relations, but publicity is only a type of PR. It is the generation of news about a person, product, or organization that appears in broadcasts or electronic media. It is also known as marketing public relations (MPR) and many companies are turning towards it so as to support corporate or product promotion and image making. Publicity or MPR is the task of securing editorial space as opposed to paid space in the print and broadcast media to promote or "hype a product, service, idea, place, person, or organization."

Marketers try to get positive publicity so as to get favourable customers responses. For this following aspects need to be considered.

(i) The information to be passed should be newsworthy and positive. However, negative information gains publicity quickly.

(ii) There is no cost for publicity by the media but has no obligation to use it also.

(iii) Publicity is cost effective when successful. A major publicity campaign can require an investment of 1 to 2 percent of sales as opposed to 5 to 19 percent for advertising.

Marketing Public Relations goes beyond simple publicity and plays an important role in following areas:

(a) Launching new products.

(b) Repositioning a mature product.

(c) Building interest in a product category.

(d) Influencing specific target groups.

(e) Defending product that have encountered public problems.

(f) Building the corporate image in a way that reflects favourably on its products.

Managers are now turning to MPR to build awareness and brand knowledge for both new and established products. It affects public awareness at a fraction of the cost of advertising. The firm doesn't pay for media space or time but only for a staff to develop and circulate the stories and mange certain events.

20.3.1 Marketing Public Relations Process:

For adopting MPR, management must establish the marketing objectives, selecting the message and vehicles, implementing the plan carefully and evaluate the results.

(1) Establishing Objective: MPR can build

(a) Awareness by placing stories in media about the product, service, person, organization or idea

(b) Credibility by communicating the message in an editorial context.

(c) Boost sales force and dealer enthusiasm with stories about a new product before it is launched.

(d) Reduced promotion cost as it cost less than other aspects of communication mix.

(2) Selecting Message and Vehicles: It is essential to choose the message / information that needs to be passed to the target audience and the medium of communication.

(3) Implementing the Plan and Evaluating Results:

MPR's contribution is however difficult to measure, as it is used along with other promotional tools. The objective is to reach the target audience. The easiest measure of MPR effectiveness is the number of exposures carried by the media. This however is not satisfying as it contains no indication of how many people actually read, recalled or thought about the message. A better measure is the change in product awareness, comprehension or attitude resulting from MPR campaign.

The main tools of MPR are publication, events, sponsorship news, speeches, public service activities and identity media (i.e., company logos, stationery, signs, brochures, business cards, dress codes, building etc.)

20.3.2 Working of Publicity

Traditional advertising has its limitations. It's expensive, and it can be difficult to know whether you're reaching your target audience.Publicity won't necessarily take the place of traditional advertising, but it can raise organisational profile. Even better, the best publicity strategies don't involve buying advertising time or space.

There are multiple ways to generate news stories about the business.

1. Press release: Use press releases to alert the media to newsworthy events or changes regarding your business. Press releases use a specific format, tend to be short, and lead with the most important information. You can find templates online to follow or hire a writer or publicist to craft one for you. Once your release is written, you can distribute it to local media outlets, put it on your website, and distribute it using a service like PR Newswire.

2. **Network**: Develop contacts within the media to increase coverage of your business. You can do this through networking, introducing yourself and your business, and getting in touch when you hear about newsworthy items, whether they involve your business or not.

3. **Volunteer**: Get involved in charity drives, local events, or industry milestones so your business will be mentioned in press coverage of those events.

4. **Self-promotion**: Pitch yourself as an expert source for news stories using resources like HARO. Journalists are often looking for people to contribute their knowledge for news articles. Keep in mind that you can't directly promote your product or service when acting as a source. Instead, you're promoting your expertise, which helps potential customers see you as an authority in your field.

Publicity vs. Marketing

Publicity	**Marketing**
Often free	Involves paying for advertising
Not promotional	Direct promotion of a product or service
Has a broader audience	Has a targeted audience

While publicity may be a component of your marketing strategy, it's different from marketing because there is no message beyond letting an audience know that the product or service in question exists.Marketing involves communicating specific benefits and emotions to potential customers to persuade them to make a purchase. Publicity is designed to make a person, product, or brand more visible.Marketing is almost always directed at a business's target audience. Publicity typically targets a broader audience.

20.3.3 Types of Publicity

Your business can pursue several types of publicity, including:

1. **Social media**: Platforms such as Facebook, Instagram, TikTok, and Twitter allow you to connect with your potential customers. A strong social media

presence keeps your brand in your followers' minds. Rather than trying to make a single post that goes viral, focus on building an interested audience slowly and steadily by offering posts that educate, entertain, or both.

2. **Product placement**: Send free products or offer free services to public figures, bloggers, or other media personalities. Your products may end up being featured in their blogs, social media posts, or other public content.

3. **Partnerships**: Working with other brands or businesses can allow you to get your brand in front of a wider audience and generate publicity. Approach potential partners about collaborations, product swaps, or offering your products and services as a free bonus to some of their customers.

4. **Promotional swag**: Branded items such as calendars, pens, notepads, tote bags, and phone cases can put your brand name and logo in front of a wide audience. However, you have no guarantee that your target audience will be the one seeing this swag. Think of swag as a fun bonus for customers, rather than a guaranteed way to generate publicity, and budget accordingly.

20.3. 4 Objective of Publicity

The main objective of publicity to garner public exposure, awareness, and attention to channelise the information about a brand or an offering to build its goodwill, stimulate demand, or change public opinion.

Besides this, publicity aims to:

1. **Build Brand Image:** Publicity aims at communicating brand values, mission, and vision through trustable channels like news outlets, blogs, and opinion leaders. This helps the company build its brand image organically.

2. **Remove Misunderstanding:** Often, a company may be a victim of misunderstanding or misinformation among the target audience. Publicity aims at removing such misunderstanding and maintaining the goodwill of the company.

3. **Stimulate Interest and Demand:** When the product information reaches the target audience organically, it automatically stimulates their interest and increases the product's demand.

4. **Communicate Reliable Information:** There are certain information that can't be communicated through advertisements. Such information is often propagated through publicity.

20.3.5 Characteristics Of Publicity

Publicity has the following five characteristics:

1. **Non-Paid Form:** Publicity is a non-paid form of promotion. All of the media coverage is organic.
2. **Driven By Media:** Publicity depends on media outlets that give a viral blow to the shared information by publicising it.
3. **No Control:** The brand has no control over message, time, frequency, information, and medium.
4. **Focuses On Broader Audience:** Publicity isn't targeted marketing. It focuses on the shotgun approach, where the information is publicised to a broader audience.
5. **Credible:** The target audience considers publicity to be a more credible form of communication as it uses trustworthy channels like news outlets.
6. **Short-Term Focus:** Publicity is a promotional strategy focused on fulfilling short-term goals like a product launch, event promotion, etc.

20.3.6 Importance of Publicity

Publicity adds credibility to the overall communication message. It gives the target audience a reason to talk about the brand and, in turn, increases the effectiveness of word of mouth and viral marketing.

Publicity is considered an important promotional tool. This free placement of message in the media creates public awareness and attention around a brand that develops brand image, stimulates demand, and assists sales efforts.

Publicity Examples

Every day, news comes out with a new example of publicity – a brand holds a press conference, releases a new product, distributes a press release, does a social activity, or gets famous just because of that one tweet.

Here are a few examples of publicity that explain the concept better.

Reebok Backing Shakira Tour

Reebok held a press conference in 2002 to let the world know that the company would sponsor Shakira's worldwide concert tour.In return, Shakira became the brand ambassador of the brand and did some advertisements for them.

Star Wars: Passing The Baton

Till 2018, Star Wars had the record for the biggest opening weekend. But Avengers broke the record by collecting over $250 million. Instead of being bitter, LucasFilm congratulated Avengers by posting a tweet with a picture handing over a baton.This heart-warming tweet earned the respect of movie lovers and media alike.

ALS Ice Bucket Challenge

ALS association's Ice bucket challenge is probably the best example of publicity till now. The organisation succeeded in giving rise to a viral trend where people would dump a bucket of ice water over their heads to raise money for the ALS Association and research on the disease. Over 2.4 million people took part in the challenge and helped the organisation raise more than $115 million.

20.4 EVENTS AND EXPERIENCES

Sponsoring events is becoming a fast aspect of communication mix. Sponsoring events provide companies with opportunities to obtain and in influencing attitudes towards brands. Sponsorship of sports is a big business in India. The Board of Control for Cricket in India

(BCCI) enters into contracts (deals) such as kit sponsorship by Nike, Team sponsorship by Sahara, awarding media rights to telecast matches etc., and has become one of the richest sports bodies in the world. By associating with popular events (eg., Olympics, Common-Wealth Games, Miss Universe context, Miss India contest etc), brands gets visibility among the general public. Becoming part of a personally relevant moment in consumers' lives helps in strengthening company's relationship with the target market.

In business to business context also, sponsorship is important to obtain visibility and positive word of mouth. NASSCOM'S annual conference, called the India leadership Forum, provides opportunities to IT and IT enabled companies around the world to broaden their relationship with the relevant target audience. Firms also sponsor local festivals and events which helps them in associating their brands with the festivals spirit of the event .In sponsoring an event, the communicator gets undivided attention for his product, brand or message.

Daily encounters with brands may also affect consumer's brand attitudes and beliefs. Atmospherics refer to "packaged environment "that creates or reinforces the buyers perception of the firm and its products. For e.g., Johnson and Johnson maintains excellent and clear gardens and has a pure white building in Mumbai. The entire atmospherics and environment there reinforces Johnson and Johnson's image of care, tenderness and health.

Companies are quick in adopting this mode of communication mix. For eg., sponsorships of Miss world contest, Femina Ms India and Mr India contests, musical concerts (Coke studio), Film festivals , Youth festivals and Sports events are done by several leading consumer product companies like Parle, the UB group, Reliance, ITC etc.

20.4.1 Reasons for Events Sponsorship

The major objectives of marketers in sponsoring events are:

1. It helps to identify with a particular target market or lifestyle. Customers can be targeted geographically, demographically, psychographically, or behaviorally according to events.

2. It increases awareness of company or products name. Sponsorship often offers sustained exposure to a brand so as to build brand recognition and enhances brand recall.

3. It creates or reinforces perceptions of key brand image association. MRF Tyres participates in car rallies to obtain brand visibility and to develop an image of superior equality and high performances.

4. It enhances the corporate image of the firm. Sponsorships can bring positive perception regarding the company's image.

5. It creates experiences and evokes feelings. The feelings engendered by an exciting or rewarding event may indirectly link to the brand e.g., ITC Hotels, Welcome Group, medical tourism, adventure tourism etc., offers experience beyond expectations .

6. It helps in expressing commitment for a social issue such as cause related marketing, nonprofit marketing and charities e.g ITC contributes Rs.1 to its rural development initiative that supports among other project primary education in village for every four classmates notebooks sold.

7. It provides promotional opportunity for the firm. Many marketers offers contests or sweep stakes, direct response or other marketing activities with an event. Many of the popular television programme are sponsored by well know brands. (for eg., Cadbury Bournvita Quiz contest has helped in building brand recognition).

20.4.2 Event Decisions:

Success of events as an aspect of communication mix depends upon following decisions:

1. Choosing events: The event selected for sponsorship should meet the marketing objection and communication strategy followed by the brand. The audience must match the target market and should be capable of creating desired effect. It should be cost effective and enhance the sponsor's corporate image.

2. Designing sponsorship programme : Generally it is the marketing programme which determines events success. Event creation is an important skill in publicising fund- raising drives for non project organizations. No sooner one type of event is created (eg walkathon) that competitors come with new versions (eg., readathones, bikeathons and jogathons etc).

3. Measuring sponsorship activities: It is difficult to measure the success of events. The supply–side measurement method focuses on potential exposure to the brand by assessing the extent of media coverage and the demand side method focuses on reported exposure from consumers. The supply side methods approximate the amount of time or space devoted to media coverage of an event. It provides quantifiable measures, equating media coverage with advertising exposures ignore the content of the respective communications. The demand –side method identifies the effect sponsorship has on consumers brand knowledge.

20.4.3 Experiences:

Generally marketing is experiential marketing which not only communicates features and benefits but also connects a product or service with unique and interesting experiences. The concept of creating experiences is not only to sell something but to demonstrate how a brand can provide experiences which can enrich a customer's life. In present era, it is important to sell an experience to the customer for using a product or service. Firms are strategically manage a customer's entire experience with a product or company. Providing experience is more engaging than all other forms of communications. Experiential marketing provides more information to the customers and would make them spread a positive word of mouth for the brand.

20.5 PERSONAL SELLING

Personal selling is interpersonal communication in which one person attempts to secure a purchase from another person. It is a highly potent form of communication because messages can be adapted to meet the requirement of both parties meeting face to face as the communication develops. It represents dyadic communication i.e, two persons are involved in communication process. Sales people can target their messages to customers and the personal interaction helps in overcoming objections, convenience and demonstrations can also be sought. Personal selling messages can be tailored and made much more personal than any other method of the communication mix. It is especially appropriate for very expensive and complex products and services. Sales personnel provide a source of information for buyers so that they can make the right purchase decision. Feedback and evaluation of transmitted messages are more or less instantaneously possible so that personal selling messages can be tailored and made much more customised than any other form.

Personal selling concerns interpersonal communication and its role can encompass the whole spectrum of the attitude construct. It provides information, develops positive feelings and stimulates behavior in a positive way. The main role of personal selling is the development, organization and completion of a sale and representation. It provides vital links between the needs of their own organization and the needs of their customers. Representation thus refers to face to face encounters between people from different organization.

The major drawback of personal selling is that it is expensive because it involves training and compensating the sales people. Also, it is difficult for the marketing or sales manager to control what happens in the sales encounter.

20.5.1 Process of Personal Selling:

The major steps involved in effective selling are:

1) Prospecting and qualifying: This step involves identifying and qualifying the prospective customers.

2) Preapproach: The sales person needs to learn as much as possible about the prospects company and its buyer's characteristics and buying styles.

3) Presentation and Demonstration: The salesperson tells about the product to the buyer using a features, advantages, benefits and value approach.

4) Overcoming objections: Sales people are trained to handle the objections so as to

gather, positive approach.

5) Closing: Closing signs from the buyer include physical actions, statement or comments and questions.

6) Follow up and Maintenance: Follow up and maintenance are necessary to ensure customer satisfaction and repeat business.

20.5.2 Objectives of Personal Selling:

The major objectives of salesmanship are as follows:

(i) Attracting the Prospective Customers:

The first and foremost objective of a salesperson is to attract the attention of people who might be interested to buy the product he is selling.

(ii) Educating the Prospective Customers:

The salesman provides information about the features, price and uses of the product to the people. He handles their queries and removes their doubts about the product. He educates them as to how their needs could be satisfied by using the product.

(iii) Creating Desire to Buy:

The salesman creates a desire among the prospective customers to buy the product to satisfy specific needs.

(iv) Concluding Sales:

The ultimate objective of personal selling is to win the confidence of customers and make them buy the product. Creation of customers is the index of effectiveness of any salesperson.

(v) Getting Repeat Orders:

A good salesperson aims to create permanent customers by helping them satisfy their needs and providing them product support services, if required. He tries for repeat orders from the customers.

20.5.3 Role and Importance of Personal Selling:

Personal selling consists of individual and personal communication with the customers in contrast to the mass and impersonal communication through advertising. Because of this characteristic, personal selling has the advantage of being more flexible in operation.

A salesperson can tailor his sales presentation to fit the needs, motives, and behaviour of individual customers. He can observe the customer's reaction to a particular sales approach and then make necessary adjustment on the spot. Thus, personal selling involves a minimum of wasteful efforts. The salesperson can select and concentrate on the prospective customers.

Personal selling helps in sales promotion. It is very important to manufacturers and traders because it helps them to sell their products. It also helps them in knowing the tastes, habits, attitudes and reactions of the people.

The manufacturer can concentrate on producing those goods which are required by the customers. This will further promote the sales. Moreover, a good salesman is able to establish personal support with customers. This way, the business gains permanent customers.

20.5.4 Functions of Personal Selling:

The important functions of a salesperson are as follows:

1. Personal selling is an important method of demonstrating the product to the prospective customers and giving them full information about the product. It is easier to persuade a person to buy a product through face-to-face explanation.

2. In most of the situations, there is a need of explaining the quality, uses and price of the product to the buyer to help him purchase the want satisfying product. Thus, salesmanship is also very important from the point of the buyers.

3. A good salesperson educates and guides the customers about the features and utility of the product.

4. If a product cannot fully satisfy the needs of the customers, the information is transmitted to the manufacturer who will take appropriate steps.

5. Salespersons can also handle the objections of the customers. Creative salesman are always ready to help the customers to arrive at correct decisions while buying certain products.

6. There is direct fact-to-face interaction between the seller and the buyer. The salesperson can receive feedback directly from the customer on a continuous basis. This would help him in modifying his presentation and taking other steps to sell satisfaction to the buyer.

20.5.5 Requisites of Effective Personal Selling:

It is not possible to describe exactly the kind of person who will make a good salesperson. Sales skill has no clear correlation to any combination of appearance, education, technical expertise, or even persuasiveness. There have been successful salesmen who knew little about the technical qualities of the product.

On the other hand, there are many examples of technical champs who could not sell. However, in the modern era of severe competition in the market, it is not easy to become an effective salesman. A business enterprise can develop effective salesman to promote its sales.

In order to achieve effective personal selling, the following requirements must be fulfilled:

1. Personal Qualities:

An effective salesman must possess certain physical, mental, social and vocational qualities.

2. Training and Motivation:

In order to achieve effective personal selling, it is essential to train and motivate the sales persons. The training programme for the sales persons should be designed keeping in view the requirements of the business. The training programme should also aim at imparting knowledge of various selling programme should also aim at imparting knowledge of various selling techniques among the trainees.

For instance, a salesman must be trained how to understand the nature of a customer, how to arouse his interest in the product, and how to close the sales. It is also essential that the person selected for selling has aptitude for this vocation. He has the inner motivation of developing himself into a good salesman. The employer can also motivate him by providing financial and non-financial incentives.

3. Wide Knowledge:

A salesman should have wide knowledge about the following:

(a) Self:

The salesman must know himself in order to make use of his personality in selling the products. He should try to know his strong arid week points and remove his weak points through training and experience. He should continuously undertake his self-assessment to know what he requires in order to be an effective salesman.

(b) Employer:

The salesman is a representative of his employer. He should have a thorough knowledge of the origin and growth of the employer's business. He must know objects, policies and organisational structure of the employer's firm. This will enable the salesman to make use of the plus points of the firm selling the product.

(c) Product:

The salesman must have full knowledge about the product he sells. He must know what the product is and what are its special features and uses. He should also know the whole process of production so that he may be able to answer the customer's queries and objections satisfactorily. Mostly, the customers are ignorant about the features, technical details, and benefits of the product and they expect the salesman to give them sufficient information about it.

(d) Competitors' Products:

The salesman must have complete knowledge about the competitive products because buyers often compare several products before purchasing one of them. The salesman should know the positive and negative features of the various substitutes so that he is in a position to prove the superiority of his product.

(e) Customers:

Before selling something, a salesman must have sufficient knowledge about the customers to whom he is going to sell. He must try to understand the nature of customers, their habits and their buying motives if he is to win permanent customers. There are a number of considerations which make the prospect to buy a particular product.

These considerations may be grouped under two categories of motives, namely (i) product motives and (ii) patronage motives. Product motives explain why customers buy certain products and patronage motives determine why customers buy from specific dealers. A salesman can understand the motives of the customers by his intelligence and experience.

He should deal with the customer according to his nature. He can mix with a customer who is extrovert and remain reserved with a customer who is introvert. He should also try to know whether a customer intends to purchase for personal use or for business use.

20.5.6 Advantages of Personal Selling:

1. The key advantage personal selling has over other promotional methods is that it is a two-way form of communication. In selling situations the message sender (e.g., salesperson) can adjust the message as they gain feedback from message receivers (e.g., customer).

So if a customer does not understand the initial message (e.g., doesn't fully understand how the product works) the salesperson can make adjustments to address questions or concerns.

Many non- personal forms of promotion, such as a radio advertisement, are inflexible, at least in the short-term, and cannot be easily adjusted to address audience questions.

2. The interactive nature of personal selling also makes it the most effective promotional method for building relationships with customers, particularly in the business-to-business market.

This is especially important for companies that either sell expensive products or sell lower cost but high volume products (i.e., buyer must purchase in large quantities) that rely heavily on customers making repeat purchases.

Because such purchases may take a considerable amount of time to complete and may involve the input of many people at the purchasing company (i.e., buying center), sales success often requires the marketer develop and maintain strong relationships with members of the purchasing company.

3. Finally, personal selling is the most practical promotional option for reaching customers who are not easily reached through other methods. The best example is in selling to the business market where, compared to the consumer market, advertising, public relations and sales promotions are often not well received.

20.5.7 Disadvantages of Personal Selling:

1. Possibly the biggest disadvantage of selling is the degree to which this promotional method is misunderstood. Most people have had some bad experiences with salespeople who they perceived were overly aggressive or even downright annoying.

While there are certainly many salespeople who fall into this category, the truth is salespeople are most successful when they focus their efforts on satisfying customers over the long term and not focusing own their own selfish interests.

2. A second disadvantage of personal selling is the high cost in maintaining this type of promotional effort.

Costs incurred in personal selling include:

(i) High Cost-Per-Action (CPA):

CPA can be an important measure of the success of promotion spending. Since personal selling involves person-to-person contact, the money spent to support a sales staff (i.e., sales force) can be steep. For instance, in some industries it costs well over (US) $300 each time a salesperson contacts a potential customer.

This cost is incurred whether a sale is made or not! These costs include compensation (e.g., salary, commission, and bonus), providing sales support materials, allowances for entertainment spending, office supplies, telecommunication and much more. With such high cost for maintaining a sales force, selling is often not a practical option for selling products that do not generate a large amount of revenue.

(ii) Training Costs:

Most forms of personal selling require the sales staff be extensively trained on product knowledge, industry information and selling skills. For companies that require their salespeople attend formal training programs, the cost of training can be quite high and include such expenses as travel, hotel, meals, and training equipment while also paying the trainees' salaries while they attend.

3. A third disadvantage is that personal selling is not for everyone. Job turnover in sales is often much higher than other marketing positions. For companies that assign salespeople to handle certain customer groups (e.g., geographic territory), turnover may leave a company without representation in a customer group for an extended period of time while the company recruits and trains a replacement.

20.5.8 Challenges in Personal Selling:

(i) At first personal selling is dyadic in nature. Dyadic simply means of or relating to two people. Thus, personal selling revolves around a marketing relationship developed between two people. Frequently, personal salespeople enlist the help of others in their organizations to sell to and service customers.

And just as frequently, personal salespeople find themselves making presentations to small groups of people or working with multiple individuals within customers' firms. However, ultimately a successful marketing relationship is built by two people one person selling and person buying. Successful salespeople identify that person early on and work to win their trust and confidence.

(ii) Secondly personal selling is a process, not a single activity. And done correctly, the process continues indefinitely. Salespeople, sales managers, and others inside the seller's organization frequently see the selling process as culminating or ending with a signed order.

However, in these days of so-called "relationship marketing" and "customer relationship management" successful organizations recognize that signed orders simply represent one point of positive feedback in an ongoing and continuous process.

(iii) Third, personal selling is highly interactive. In advertising, information flow occurs initially in a one-way direction. What feedback the advertiser receives arrives late well after an advertisement has aired.

Moreover, without costly research, the attitudinal effects of advertising may never be known. In personal selling, feedback is largely Personal Selling instantaneous and continuous.

The two-way flow of information that characterizes personal selling creates a communication channel rich with information, much of it nonverbal. Effective personal salespeople become adept at interpreting this information quickly and adapting their responses to it.

(iv) Personal selling is about problem solving. As the marketing concept is adopted by more and more firms, the emphasis of personal salespeople will be more on identifying customers with a true need for the firm's products and applying those products to solve customer problems. Less emphasis will be placed on simply making a sale.

The focus on problem solving in personal selling reflects a larger trend toward building relationships between customers and clients. Marketers know that to develop these relationships, they must be willing to forego short term gains, particularly when the salesperson realizes that at that moment a purchase might not be in the customer's best interests.

20.6 SUMMARY

Today's market is so saturated that sponsored forms of communications like advertising, sponsorships, and direct marketing find it hard to get the needed attention the brand pays for.

However, there's a non-paid form of promotion that finds its way to get people's attention through organic media reach. It's an element of public relations called publicity.

Publicity is the communication about a brand, offering, or a business by placing commercially significant news about it in the media without paying for time and space directly.In simple terms, publicity is the movement of information to the public via media coverage and other non-paid mass media sources.Publicity is not a process but a result of a good public relations strategy where the marketers succeed in providing favourable information to media and other third-party outlets like bloggers, vloggers, podcasters, etc.

Event and experiences marketing is a strategy marketers use to promote their brand, product, or service with an in-person or real-time engagement. These events can be online or offline, and companies can participate as hosts, participants or sponsors. Marketers use both inbound and outbound event marketing strategies for promotional purposes.

The US Bureau of Labor Statistics predicts that the event industry will grow by 44% from 2010 to 2020, exceeding most growth predictions for other industries. So why is the event industry growing so quickly and why has it become such an integral part of successful marketing strategies?

Event marketing is one of the best ways to:

1. Build brand awareness
2. Increase customer engagement
3. Generate leads
4. Educate prospects and customers

5. Upsell customers

Personal selling is an act of convincing the prospects to buy a given product or service. It is the most effective and costly promotional method. It is effective because there is face to face conversation between the buyer and seller and seller can change its promotional techniques according to the needs of situation. It is basically the science and art of understanding human desires and showing the ways through which these desires could be fulfilled.According to American Marketing Association, "Personal selling is the oral presentation in a conversation with one or more prospective purchasers for the purpose of making sale; it is the ability to persuade the people to buy goods and services at a profit to the seller and benefit to the buyer".In the word of Professor William J. Stanton, "Personal selling consists in individual; personal communication, in contrast to mass relatively impersonal communication of advertising; sales promotion and other promotional tools".Personal selling is a different form of promotion, involving two-way face-to-face communications between the salesmen and the prospect. The result of such interaction depends upon how deep each has gone into one another and reached the height of the common understanding. Basically, the essence of personal selling is the interpretation of products and services benefits and features to the buyer and persuading the buyer to buy these products and services.

20.7 GLOSSARY

1. **Publicity:** Publicity is media attention for product, service, or business. It can include traditional news sources, like news shows and newspapers, and new media, like podcasts, blogs, and websites. Publicity raises awareness of the business, and can often be generated for free. Publicity is different from marketing; it's general and doesn't carry a specific message. Marketing is promoting product or service. Organisation can generate publicity through social media, product placements, strategic partnerships, and promotional swag.

2 **Experiential Marketing:** It is a strategy that engages consumers using branded experiences. Sometimes referred to as "live marketing" or "event marketing experience," the idea is to create a memorable impact on the consumer. One that will inspire them to share with their friends both online and off. These experiences could

include an event, a part of an event, or a pop-up activation not tied to any event.At its core, experiential marketing is all about immersing consumers in live experiences. It's likely a similar approach you already use when crafting your event experience.

3. Events: Events most often overlap with experiential marketing campaigns in two ways. Events can be part of a larger experiential campaign, like the grand opening of a pop-up shop. Smaller brand activations can exist in individual experiential activations like on-site art installations.

4. Personal Selling: Personal selling is also known as face-to-face selling in which one person who is the salesman tries to convince the customer in buying a product. It is a promotional method by which the salesperson uses his or her skills and abilities in an attempt to make a sale.

20.8 SELF-ASSESSMENT QUESTIONS

Q.1. Distinguish between Publicity and Public Relations?

Q.2. Distinguish between Sales Promotion and Personal Selling?

Q.3. How do events influence the turnover of organisations?

20.9 LESSON END EXERCISE

Q.1. How is event and experiences different from experiential marketing?

Q.2. Discuss various strategies adopted by organisations for events and experiences.

Q.3. Discuss the process of publicity and personal selling in detail.

20.10 SUGGESTED READINGS

1. T.K Panda, Marketing Management: Text and Cases, Excel Books.
2. P. Kotler and Armstrong, Principles of Marketing, Prentice Hall India.
3. Douglas, K Hoffman, et al., Marketing Best Practices, Thomas South – Western
4. R. Saxena, Marketing Management, Tata McGraw Hill.
5. Rusell S. Winer, Marketing Management, Pearson Education.
6. F. Robert Dwyer and John F. Tanner, Business Marketing, The Mc Graw – Hill Companies.
7. Paul Baines, Chris Fill, Kelly Page, Marketing Oxford University Press.