MARKETING MANAGEMENT

Dr. B.R. AMBEDKAR OPEN UNIVERSITY

HYDERABAD

2017

COURSE TEAM

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First Published 2004 2006 2007 [redacted] 2017

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Lr. No.141/Dr.BRAOU/DMP/PTG/F.No.108/LO.291/2017-18/dated: 13-02-2018/No. of Copies: 600

Printed at ANU PRINTERS, Hyderabad

DR. B.R. AMBEDKAR OPEN UNIVERSITY

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MARKETING MANAGEMENT

CONTENTS

BLOCK - I : BASICS OF MARKETING

Welcome to this Marketing World. In this Block we are focusing on the management of exchange process between an organisation and its customers. We know that the organisations offer products or services to the customers who need them. The marketing process thus matches a company's offer with the customer's need.

The course on Marketing Management starts with this block entitled Basics of Marketing. This block has 6 units. The first Unit introduces the basic concepts of marketing, approaches to study marketing, marketing functions and then goes on to describe the various tasks of marketing management. The Unit - 2 of this block discusses the role of marketing in different sectors. While Unit - 3 attempts to establish the importance of marketing environment and includes a brief note on international marketing, Unit - 4 highlights on service marketing and its characteristics. Unit - 5 covers marketing planning, its importance and steps involved in marketing planning. The last unit i.e., Unit - 6 discusses the various types of marketing organizations.

UNIT – 1 : INTRODUCTION TO MARKETING

Aims and Objectives

The aim of this Unit, is to explain the concept of marketing, various approaches to study the marketing and relationship between marketing and selling.

After studying this Unit, you should be able to:

- understand the concept of marketing;
- explain the growing importance of marketing;
- discuss the relationship between exchange and marketing;
- learn the different approaches to understand the concept of marketing;
- distinguish between selling and marketing; and
- trace the evolution of marketing concept.

Structure

1.0 INTRODUCTION

Welcome to the Wonderland of Marketing. It is an exciting and rewarding journey that we begin to know more about marketing, a dynamic field of Management. It forms a part of everyone's life, affecting every facet of human life in many ways. When you switch on your Television you see umpteen number of advertisements promoting products and services in bewildering variety. When you come out of your home and see on the road, a series of wall posters, cut-outs and pamphlets make you mad. When you open a newspaper in the morning you see a number of advertisements. When you visit a super market, lots of variety of products with information displayed on shelves are ready to confuse you what to buy and what not to buy. Producers of these products and services try to influence you in many ways in favour of their goods and services. What are all these about? Undoubtedly this is a part of marketing.

In common parlance, marketing is selling and advertising. But it is not just that. It is much more than this.

In this unit let us make an attempt to understand what marketing is all about and why is it so important to all of us? We will also explore how marketing affects the quality of human life and in turn economic development of a nation.

1.1 MEANING OF MARKETING

Marketing is an exchange process performed by organisations and individuals with a wish to fulfil their needs. What do they exchange? They may be goods, services or ideas. Marketing is complete only when the following conditions are met:

- Exchange of Goods and Services takes place only when there are two or more organisations or individuals.
- There must be a need for exchange Ex: student needs a text book and seller needs money. Students pay for their books and seller gets money.
- Each of the parties should involve in exchange voluntarily.
- Exchange has to be mutually beneficial to both the parties, i.e., sellers and buyers.
- Communication between the parties is a prerequisite. Consumer must know about the product and seller also must communicate to the consumers about the products and features of the product.

Marketing occurs at any point of time when an individual or an organisation exchanges something of economic value with other individuals or organisations. Hence, marketing can be broadly described as the activities that facilitate exchanges in order to satisfy human needs and wants. In other words, marketing is a set of activities relating to design, price, promotion and distribution of products which satisfy human needs and wants.

Activity - I

What is marketing?

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1.2 EVOLUTION OF MARKETING

By now you are aware what marketing is all about. It is an exchange of goods, services ideas between buyers and sellers in order to satisfy human wants and needs in the mutual interest. It is difficult to identify the origin of marketing concept. Marketing has been existing since ages.

Let us know about the stages in the evolution of marketing.

1. **Barter Stage**

Exchange of commodities for commodities is barter. During Stone Age exchange rates were determined on the basis of labor embodied in accomplishing a job. It is difficult to kill a deer than a pig. Hence, flesh of a deer is more expensive than a pig. An individual can not produce all the goods and services that he/she wants. Hence one needs to depend on others for something or the other. Mechanisation led to excess production over and above the needs, called surpluses and exchanges became inevitable.

2. **Monetary Economy Stage**

Barter System has inherent disadvantages. Assume that a barber needs a pot. Pot maker wants milk as an exchange for his pots. Pot maker has no intension to avail barber's service as an exchange for pot and in turn milkman has intension to exchange a pot for milk. Hence no exchange takes place. The problem is precisely double coincidence of wants, meaning a person who is willing to offer to the other what he wants as an exchange for what he has. Similarly, the next problem is, how many pots are equal to one unit of milk? Indivisibility of products, storage of products are some of the difficulties in barter causing inconveniences in exchange and gave birth to a convenient commodity which has general acceptance called 'money' paving the way for growth of monetarised economy. This simplified the exchange process and barter was replaced with money – a convenient commodity. Money facilitated the production, exchange and distribution process but marketing did not change much as the emphasis was on pricing of products during this stage.

3. **Industrial Revolution Stage**

Due to advent of new technologies leading to industrial revolution production process has undergone a dramatic change. There is a clear shift from subsistence economy to surplus economy. In subsistence economy people used to produce for their self-consumption. Due to technological revolution production has grown leaps and bounds creating surpluses. What do we do with this surplus production which is over and above our consumption? We need to sell at a price. To do this you need to identify markets where there is demand for the products that you produce. Hence, discovering markets became an important issue. Due to new technology, mass production, and economies of large-scale production, prices of products decreased considerably. Mass production also empowered working community with greater purchasing power, creating a buying class charged with purchasing power. This led to an advent of variety of new products competing with each other causing fierce competition in the market for an increased market share.

4. **Competition**

The emergence of marketing Laissez-faire economies have empowered market forces to operate unabated. Producers gained freedom to produce anything that they want, due to free entry and exit into market and the role played by Govt. is very limited. This conducive environment encouraged producers to produce a variety of goods and services and consumers are also encouraged to choose from the bewildering variety of goods resulting in mass production. Due to fierce competition in the market to sell the products, producers had to identify new markets for disposing their huge surpluses. Owing to availability of variety of close substitutes in the market, consumers started choosing the best products with reasonable price. In the light of competition producers had to concentrate on consumers and not on just one time sale but to attract the customer repeatedly. Repeated buying was considered as an indication of success of sales. Growing population on the one hand with changing composition of population on the other, shares of children, adults and elderly people are altered. Between 1961 and 2001 share of children drastically decreased and that of older people has grown considerably altering the composition of population. This can be strictly attributable to medical advancements. It may be very appropriate to mention here that Hyderabad is emerging as Health Capital with the presence of mushrooming corporate Hospitals in recent times. Rising disposable incomes empowered consumers. On the other hand companies have to struggle to please consumer to sell their products making the consumer a real king. To make a customer happy, pre sales and post sales service gained ground. This assumes more importance in the light of growing cost of creating a customer. All of us know, to create a customer companies have to spend a lot of money in identifying right customers and right markets, promoting the products through marketing communications such as advertising, sales promotion etc. In some cases cost of production does not constitute even 50% of the price of the product. All this necessitated a conscious effort on the part of firms to create valued products which will be preferred to those of competitors. This challenge made marketing process a dynamic and exciting and more rewarding.

Activity - II

How did Industrial Revolution create competition and in turn the growth of marketing? Explain.

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1.3 APPROACHES TO STUDY MARKETING

It is difficult to understand the very focus and philosophy of marketing. It is imperative to understand three major constituents in market namely customers, organisation and society. All the three forces play their roles in marketing efforts. Quite often they have conflicting interests. What weight should be given to each of the three constituents is the fundamental question. Marketing is understood by different organisations differently. Their perceptions of marketing distinctly differ. This can be understood through the following approaches to marketing:

1) Exchange Concept
2) Production Concept
3) Product Concept
4) Selling Concept
5) Marketing Concept
6) Societal Marketing Concept.

Let us understand each of these approaches in detail.

1. Exchange concept

According to some experts marketing is merely a process of exchange of goods and services between buyers and sellers in the mutual interest in order to satisfy needs and wants. Major focus is on exchange, distribution and pricing of products. Most Economists advocate this philosophy.

A Critical analysis of exchange concept assumes that:

a) There is no dearth of goods and services.

b) Consumers are willing to buy all that the producers are producing indicating perfect match between customer needs and products.

c) Demand perfectly matches with supply.

d) Sellers invariably meet the buyers' expectations.

Exchange Concept does not focus on core marketing activity i.e., directing customer's choice towards a given product. It merely focuses on the consequence of marketing effort rather than the process or activity which leads to exchange.

2. Production concept

According to this philosophy of marketing, production is the core of marketing. Firms should concentrate on production and distribution aspects. Firms must concentrate on efficient methods of production through appropriate technology that ensures higher productivity and in turn lower costs. Due to uninterrupted supply of goods at affordable prices due to economies of scale, demand is automatic. This philosophy is built on the foundation of supply side economics which advocates that demand is automatic as supply creates its own demand, a theory propounded by John Baptist Say popularly known as JB Say's Law.

This approach also assumes that

a) Demand always exists hence firms should concentrate on more production.

b) Buyers buy what producers produce.

c) Low priced goods attract more demand.

d) Producers always meet consumer expectations.

However in real life all these are far from reality. If consumers are going to buy all that producers produce there is no need for marketing, only production and distribution departments are enough for the company. Low priced goods do not always attract demand. For instance despite rock bottom prices of Black & White Televisions and Radios, demand for these products is not that encouraging, rather declining. Despite low prices and sufficient supplies most agricultural products do not sell in the market. On the other hand highly priced cars like Mercedes Benz despite its premium price is most sought after car. Can anybody think of bargain for KOHINOOR Diamond price? Hence it is clear that mere production and low prices do not attract customers. The production is not the core of marketing. If consumers are willing to buy all that producers produce, why many companies fail to create the bottom line profit?

3. Product concept

Product Concept focuses on enhancing product quality and additional features of products. As we have seen in production concept, firms must concentrate on large scale production and affordable prices in order to create profit, the ultimate objective of an organisation. As against this, product concept emphasizes on achieving profit through superior quality products creating greater value chain by offering additional product features through continuous updation of products and innovation. This approach presumes that consumers always prefer superior quality products with greater performance and additional features.

Therefore firms should direct all its efforts in creating customer value through continuous product improvements.

A critical examination of this approach reveals that superior product always ensures market and in turn profitability of the company. It may be noted that many products which are highly sophisticated and technologically very advanced products with variety of features did not attract attention of the consumers and such products did not gain respect in the market. For instance Ball point Pens with multiple refills did not succeed for longer period despite its additional features. Vacuum cleaners with its too many features such as painting, dry cleaning features did not interest the customer much. Quite often consumers like simplicity of products. Too many additional features dilute the focus on core need and add complexity.

It is said that continuous product innovations and add-ons simply confuse the consumer. In the process we do not understand the very purpose, why a consumer needs to buy a product, ignoring consumer's core need for which they prefer. Unnecessary hype and unwanted trivial product benefits, lead to consumers' frustration. Most companies don't focus on the core of the product. For instance, recall our earlier example of Ball Point Pen. Most companies focus on appeal/attractiveness of the product, additional features and creating innate needs such as rubberized cushion, quality of cap etc. at the cost of good quality refill which is core of the product satisfying the customer need. This phenomenon is known as Marketing Myopia, a Pioneering work of Professor Theodore Levitt published in Harvard Business Review, explained how firms excessively concentrate and obsessed with product ignoring the customer with a colored perception of marketing. One needs to understand the dynamics of market and how it undergoes dramatic change over a time. According to him success depends on the ability of the firms to understand the core needs of the customers and fulfilling their needs effectively rather than over emphasizing on peripheral benefits and innate needs failing which companies crumble.

4. Selling Concept

Technology became core of production leading to increased production and in turn surpluses. Most companies started leveraging technology to enhance profitability. Due to communication revolution and liberalised environment of business, accessing technology became easier for most companies irrespective of its size. Every company had to concentrate on volume of production in order to reap the advantage of large-scale production through lower costs and high productivity causing over production. Volume game became the core of success of Business causing increased competition. As the surpluses became common more so due to mechanized process of production and automation, production uncertainties were reduced to minimum. This led to change in the focus of entrepreneurs from production to sale of the product. Due to fierce competition, Buyers started gaining power and sellers power started weakening leading to the emergence of buyers market. Consumers started choosing products due to availability of alternatives which are not just substitutes but very close substitutes causing the sellers markets crumble.

Sales concept advocates that the consumers do not purchase any specific product on their own due to alternatives available. Hence it is the responsibility of producers some-how to push the products into market by convincing customers through publicity, discounts, sales promotion and heavy dose of advertising. Problem is further accentuated due to imperfect marketing intelligence, as most consumers are not aware of the products and their uses.

It is clear from the above discussion that even sales concepts also do not attempt to understand the consumers' needs. As they have already produced products, some how they try to push product into the hands of consumers for exchange of money as quickly as possible without considering the need for consumer and value accrual and satisfaction that the consumer derives by consuming it. This also leads to marketing myopia as producers always think that it is possible to sell what they possess to every customer somehow.

5. Marketing Concept

Marketing is different from that of selling. A detailed discussion on the distinction between marketing and selling will continue in due course. Marketing starts with identification of needs and wants both present and future needs, explicit and innate needs. Innate needs are those which arise in order to satisfy the core need. For example pen is a must to satisfy the core need of writing. Cap hook or rubberized cushion for better grip is an innate need associated with core need. Marketing is essentially consumers' need satisfying process. In this process major focus is on consumer. The very approach keeps the consumer at core of the business and all business activities revolve around consumer – the real king. It is imperative to discuss about marketing process to understand marketing concept better.

Marketing Process constitutes the following:

a) Identification of Need and Want: In order to understand the crux of marketing, one needs to answer the questions like what consumers need – core need as well as associated needs, direct as well as innate needs - present needs and future needs, one time or recurring needs etc. Once we are clear about the need, we need to decide how does the consumer satisfy the needs. What are consumer wants? Need is a core but want mirrors the alternative products and what actually consumer wants. For instance business students need to read business daily but wanting to read Economic Times newspaper. An individual needs water to satisfy his thirst but he wants Kinley. Hence water is a need asking for Kinley-Mineral water is a want. Need reflects on necessity but want reflects on choice. Producers are expected to satisfy wants through better choices for the consumer. Apart from identification of needs, it may be necessary to create an arousal of need and stimulate further as consumers are unaware of their needs sometimes. If one identifies the consumer needs correctly, half the battle is won. For example every one needs entertainment. TV fulfils it but TV owners do not ask for remote to begin with but the producer created the need for remote Subsequently all consumers invariably kept asking for such facility. Can you now imagine a TV without a remote?

b) Designing products and services: As products and services satisfy the consumer needs one need to pursue how consumer wishes to satisfy needs. If there is a perfect match between perceptions of consumers and producers, it leads to products and services that best fit into the exact needs of the consumer and succeed in the market. Any mismatch leads to failure of products in satisfying the needs. It is said that the producers must step into the shoes of consumer and think how he wants to satisfy the needs and on that basis designing of the products should take place. Products and services designed must fit into the needs, not only in terms of their utilities but also the other aspects such as Affordability, Availability, Attractiveness and Acceptability, viz. 4 As.

c) Post Production activities: Marketing process is complete only when the product is successfully sold. Right diagnosis of consumer needs and carefully designed products may not always receive respect from consumers. Post sale comfort through close monitoring of markets by service department and promoting continuous customer support ensures better market and in turn profitability. Post purchase discomfort felt by consumer is known as 'Cognitive Dissonance' which keeps company's reputation at stake. This can be arrested through better Customer Relationship Management practices. Marketing Researchers will ensure identifying such problems and design appropriate solutions. Continuous customer support, ensuring availability of spare parts, replacement of products without asking any questions, effective and easy service availability also form part of marketing.

d) Consumer Orientation: Marketing always focuses on customer orientation. It is the consumers' needs and wants that guide the core of business and host of related activities and businesses. Business entities emerge to fulfil these needs effectively and efficiently. The former reflects on the gaps between what are the consumers expectations and to what extent they are actually realised. The later reflects on the efficiency in terms of input and output relationships focussing on at what cost these needs can be fulfilled. It is appropriate to bring Peter. F. Drulker's views on the role of consumer. "The purpose of any business is to create a customer. It is the customer who determines what a business is. It is a customer and he alone, who, though being willing to pay for a good or service convert economic resources into wealth, things into goods. What business think it produces is not of first importance – especially not to the future of business and to its success. What the customer thinks he is buying – what considers value, is decisive, it determines what a business is, what it produces and whether it will prosper".

e) Marketing – An integrated management function: Though each department such as production, inventory, warehousing, R&D, Finance, quality, MIS etc. sees its activities most important and tries to optimise their resources, all the departments must work together to provide customer satisfaction by fulfilling his needs most efficiently to create profit. Any company's survival and success essentially requires a profit. All Departments must dismantle all fences and stop creating water tight compartments between departments.

Customer satisfaction is the core of every department's ultimate goal. Concerted efforts and coordination across departments is a must to achieve success. Fig 1.1 depicts how each of the department is integrated with other departments to ensure customer satisfaction, in turn profitability of the organisation.

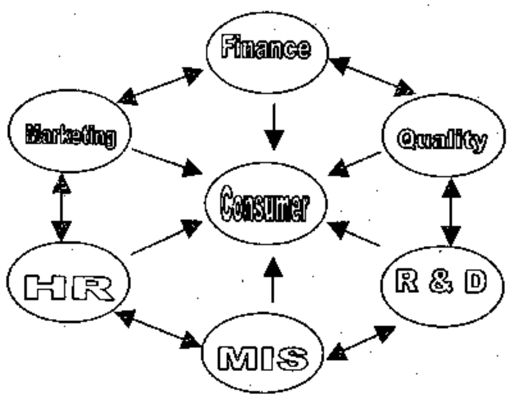

Figure 1.1
Integration of Departments

Marketing revolves around 3 components consumers, producers and society.

i) Consumers: Consumers reap the maximum benefit. Marketing concept empowers consumers as the core business activities revolve around customer. As producers compete in fierce competition in satisfying customer needs in the best way, consumers enjoy greater choice of products at prices that customers can afford. Integrated management and functional activities refocus their planning on customer interests consciously leading to consumer sovereignty

ii) Producers: Producing organisations consciously channelise all their resources and efforts into most productive channels where there is a greater demand. This leads to optimum utilisation of company's efforts avoiding unnecessary wastage. As customer need is the basis for product / service designs, it is likely that the mismatch between what customer expects and what company's produce will be very minimal. Marketing smoothens selling process. As the focus is on customer satisfaction, the concentrated effort of the company will be rightly used. Companies need not produce products blindly and exert pains in pushing the products somehow by thrusting upon the customer. Hence companies will be paid profits through every genuine effort of producing what consumers want.

iii) Society: Producers indirectly shoulder greater responsibility by producing what customer wants. Channeling productive resources of the company into right process of production leads to optimum use of resources. This can avoid wastage of resources by producing most wanted products. Customers and producers work in great harmony in the mutual interest. It is understood that both the parties are rational as the former is to maximise his benefits by paying minimum price and the later by producing maximum output with a minimum cost and satisfy customer needs to realise company's objective of profit. (Please see figure 1.2)

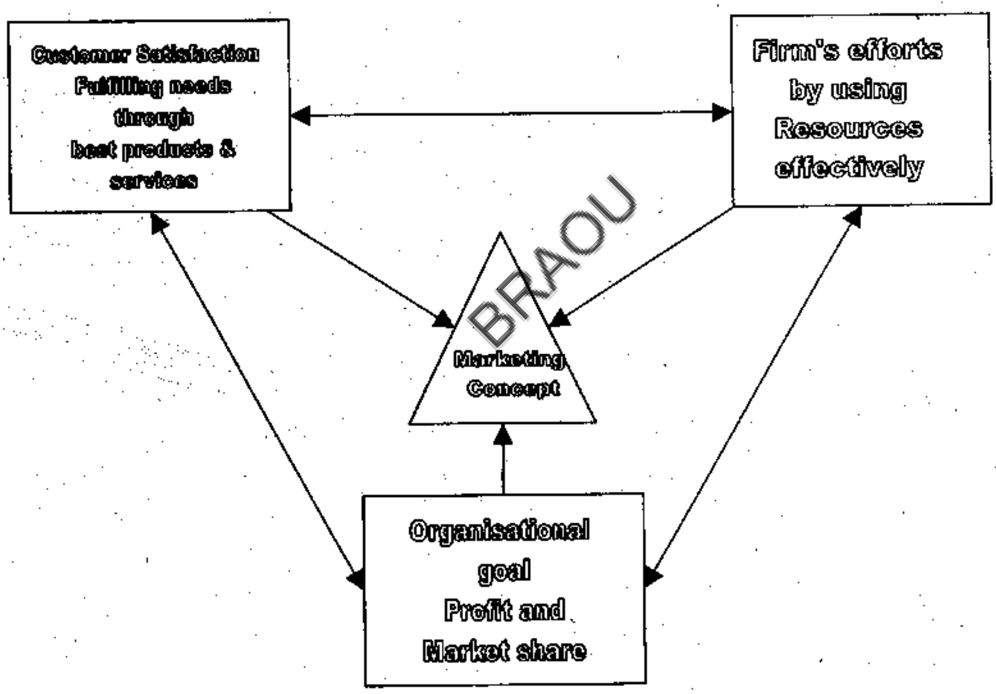

Figure 1.2
Organisations with Marketing approach

Having understood the Marketing Concept now it is appropriate to discuss the distinction between Selling and Marketing in detail:

Distinction between Selling and Marketing

	Selling	Marketing
1.	Selling presumes that there is a buyer for every thing that we produce.	Marketing presumes that the goods and services that can satisfy consumer will only sell in market.

2.	Problem here is how to dispose surpluses which are not sold	No surpluses because we produce according to the needs of consumers and their tastes. Supply always matches with demand.
3.	Focus is on exchange process.	Focus is on satisfying needs of the Consumer.
4.	Marketing mix is designed on the basis of sellers' convenience.	Marketing mix is determined on the basis of consumers' convenience.
5.	Producers concentrate on somehow pushing the products into market.	Producers focus on needs and wants of consumers, their likes and dislikes.
6.	Aims at short run benefits	Long term benefits through relationship building.
7.	All Depts. function in isolation	All Depts., Work with cooperation leading to integrated actions.
8.	Selling is the end of business activity	Marketing leads to sale. Marketing includes post sale activities too, such as customer support.
9.	Selling depends on tricks and tactics of sellers	Depends on scientific analysis and understanding of market requirements through continuous market research.
10.	Product is the core of business.	Consumer is the core of business.

6. Societal marketing and social responsibility

Having discussed the importance of marketing, it is appropriate to know about societal marketing. It is an idea that the organisations concentrate on marketing activities such as identification of needs and wants and interests of target markets and deliver products and services that satisfy customer needs to promote and improve social wellbeing.

All activities of marketing must get well with social objectives. There will not be any sort of conflict between social welfare and marketing activities. This concept gained ground in the recent years owing to Laissez-faire economies where private business entrepreneurs are free to use natural resources at their will without much of consideration for people, more so in developing countries. Marketing mostly operates in determination of price. Companies always try to maximise production and reduce costs at any cost on economic grounds rather by ignoring social considerations due to free entry and exit. People are free to start any business of their choice in free market economies resulting in most profitable businesses though they are socially harmful. For example, tobacco based products like cigarettes, gutka & timber business etc., may be very lucrative and producers may supply these products at most economical prices but are detrimental to society. In bringing down the costs to serve the customer at very low price, they may ignore environmental concerns causing pollution. It is said that all marketing activities must promote social welfare is the essence of societal marketing. A new concept like Green Marketing, i.e., marketing of eco friendly products is an example of societal marketing. Ethical advertising, upholding the dignity of women while showing them in advertising etc. forms part of societal marketing.

It is appropriate to make a mention of social responsibility and business ethics at this juncture. All marketing activities must be ethical.

Activity - III

i) What brand of soap do you use every day? Why? Describe briefly your relationship with your recent purchase.

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ii) Distinguish between Selling and Marketing.

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1.4 MARKETING GOALS

Marketing effort must result in measurable benefits. First of all we must understand what is it that we would like to achieve through marketing? Is it merely profit? Answer is certainly not. Profit is one of the goals of marketing. If it is merely profit, why do non profit organisations and voluntary organisations, NGOs like Churches, Tirumala Tirupati Devasthanam, Family Planning Departments of Govt. etc., indulge in marketing? The ultimate objective of marketing is satisfying customers by creating value that the consumer clearly perceives. Satisfying customers for monetary benefits like profit or non monetary benefit such as welfare. Secondly, marketing focuses more on volume game, selling more and more, more than their competitors. Capturing market share at the cost of competitors is also an important goal so as to maximise profit and long term sustainability in the business. Identification and segmentation of customers to serve the better target groups to enhance the customer value, is yet another goal.

To sum up marketing aims as:

1. maximization of profit and minimization of costs.
2. to render a useful service.
3. to ensure optimum use of organisational resources.
4. to perform all the marketing activities such as product plan and design, price, promotion and distribution efficiently.
5. to act as mediator between the company and consumer by carrying the products/ideas to consumers and carry back feedback for further design and redesign of products.
6. to build customer relationship, in turn loyalty towards its brands to ensure long term customer loyalty.
7. constantly scanning markets and discovering potential markets through efficient marketing and sales teams.

Activity - IV

What is the job of marketers? Is it to ensure more profit or better market share? Explain your answer in brief.

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1.5 MARKETING FUNCTIONS

Marketing functions deal with what are the activities that marketing is expected to perform. It focuses on the constituents of marketing activities. The concept of functional approach to marketing makes it more clear. Core activities of marketing include:

1. Identification of customer needs, designing products and selling them. This is possible through close monitoring of markets, customer preferences mostly through Market Research and scientific analysis of markets.

2. Production process is complete only when sale occurs but marketing does not end there. It also includes outbound activities (post sale activities) such as customer support, relationship marketing, etc. Retaining customers, building brands, promoting brand loyalty etc. are also marketing activities.

Marketing functions also include all those post production activities such as package, storage, transport, finance, delivery, etc. Precisely, all the activities that smoothens the process of handing over the product from the producer to consumer by creating value and customer satisfaction at every level. Functional approach to Marketing is advocated by Weld, Shaw and Cherington.

1.6 THE MARKETING MIX

By now you must have understood that the very purpose of marketing is to fulfil the needs of consumers in an acceptable way in consonance with organizational goals. Needs differ from consumer to consumer. To satisfy divergent needs of consumers, variety of products and services are a must. Mere creation of products can not automatically sell themselves. They must be with in the reach of consumers both in terms of economic reach and geographical reach. The former reflects on the affordability and the later on physical availability to the consumer at the desired time and place. Hence marketing must ensure physical distribution and affordable price to the consumers. Due to imperfect knowledge about markets with regard to the product quality, prices and availability of product, consumers may not be able to access the product. Those market imperfections necessitate marketing communications and in turn promotion of product in the light of emerging competitive products. In the process of winning customers the firm has to concentrate all its efforts to manage four important elements of marketing namely Product, Price, Promotion and Place.

James Culliton, the American Marketing expert used the expression "Marketing Mix" for the first time. He is of the opinion that every marketing manager is a mix of ingredients. Subsequently Neil.H.Borden popularised the concept of marketing mix. Later it was Jerome Mc Carthy who described four marketing elements as Product, Price, Promotion and Place (Distribution) starting first letter with alphabet P coining the expression of four Ps of marketing. Let us see each of the elements in detail:

Product

After identifying the exact need of the consumer, one need to design the product which exactly matches with customer need. Product is an entity which satisfies the need. In a narrow sense, product is a set of attributes composed in a recognizable form and identified usually with a unique name (or generic name) for example, pens, entertainment, shoes, health care etc., Product attributes such as brand name, trade mark, post & pre sales service etc., are not included in the narrow definition. Hence product is not just a set of physical attributes. It is much more than that. Product is both Tangible and Intangible. Product is a complex mix of core basic constituents of product, associated needs, brand name, package, label put together, known as product personality which determine the product. It can be better explained with the help of a diagram. See Fig. 1.3

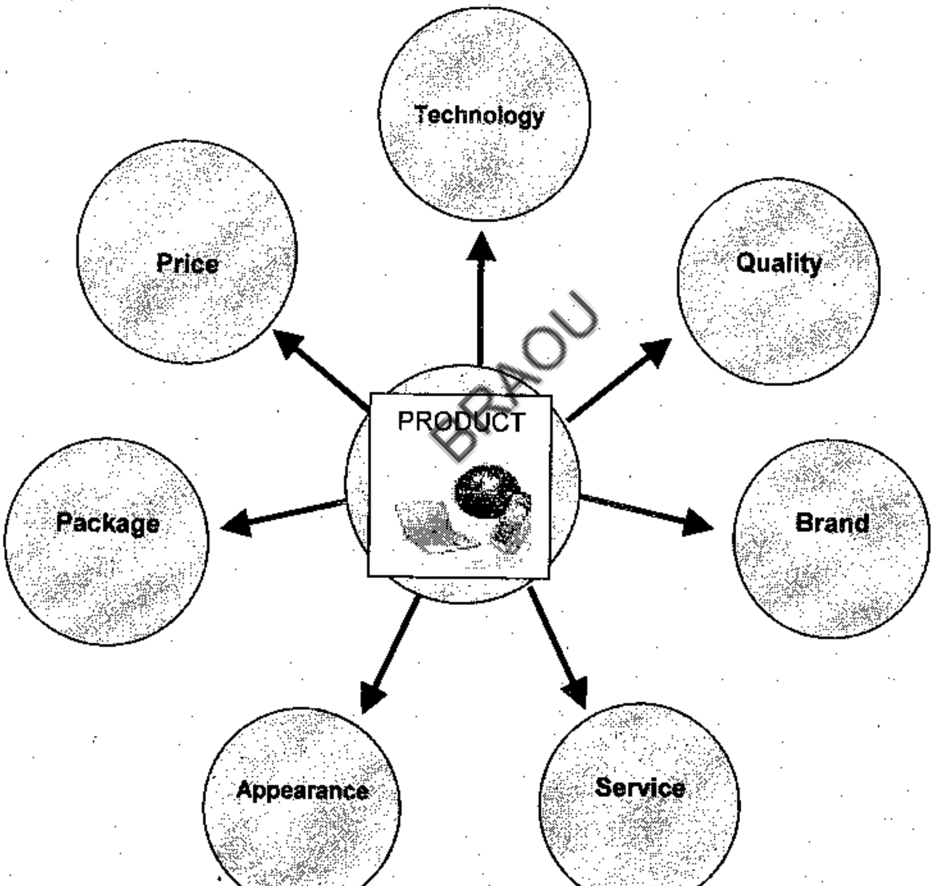

Figure 1.3
Characteristics of Products

Price

With regard to price, a firm has to concentrate on price related variables such as pricing policy of the firm, margins, discounts and rebates, payment and credit terms, delivery terms, insurance etc. Firm has to be very clear about the determination of price. As we all know, the core of business is profit which in turn is determined by revenues and costs. Revenues in turn depend on two crucial variables, viz., price and quantity of sale (demand). Fixing a very low price may not cover the costs causing losses. Very high price may not attract customers due to competition in the market. Price has to be mutually acceptable to both buyer and sellers. Hence price is also an important variable in the marketing mix. Price is not merely the cost of production. Profit is also embodied in it. Apart from profit it also includes insurance, service warranty, transportation, packaging, storage, promotional costs etc. Price is influenced by various host of factors such as technology, level of production, company's objectives, competitors, market environment etc. Price is viewed as a powerful weapon in the hands of the company to manipulate market.

Place or Distribution

Usually place is always referred as place of availability of products to the customer. But it is not just that. It refers to the channel through which desired product reaches from producer to consumer and it includes all those activities that are essential in passing on the product to consumer. It deals with channels of distribution, intermediaries, channel design, location of outlets, dealer - principal relationships and associated benefits such as dealer margins etc. It also includes transportation, ware -housing inventory, physical distribution, order processing, recovery management etc. Transportation of products/services from one place to the other creates place utility. Movement of products/services from abundant areas to scarce areas enhances the value of products. For instance, transporting sand from river site to construction site enhances value. Migration of software professionals from AP to USA creates place utility as their services are paid higher rewards in USA than in India. Storage avoids spoilage and can create time utility. Ex: storing milk or vegetables in refrigerator enhances the utility by enhancing the shelf life.

As the firm can't undertake all these activities on its own it has to depend on someone who has expertise in it. That is why many transport companies and warehouses emerged to support the firms. Firms also can't efficiently organize these activities because its core business is something different. Hence outsourcing these inbound and outbound logistics will give an opportunity to the firm to concentrate on its core business and efficiently organize rest of the activities through outsourcing. For example most Business Processes Outsourcing (BPOs) Companies concentrate on their core business and leave ancillary activities such as transport and canteen facilities to outsiders on sub contract who can efficiently deliver the service and it is proved to be more economical too. Municipal Corporation of Hyderabad assigned the road clearing and cleaning activities, on subcontract to private organizations is a live example.

Choosing channel partner is another example. Channel partners also play a vital role in realizing organization goals. Dealer margins also form part of price which in turn affect sales. Hence right channel and right channel partners ensure success of the organization.

Promotion

Promotion plays a vital role in marketing. It includes all those activities that lead to arousal of consumer need and stimulates the consumer to buy a product. Promotion constitutes 4 important elements described as promotional mix. (a) Personal Selling (b) Advertising (c) Sales Promotion and (d) Publicity.

It is important to understand each of these in brief. Personal selling refers to face to face selling. Salesman directly sells the product to the customer. The salesmanship and the abilities of the sales force are crucial in selling successfully.

Advertising is telling and selling. It is described as a paid form of non personal presentation and promotion of ideas or products of services by an identified sponsor. Advertising through different media such as Print and Electronic will help in greater coverage.

Sales promotion refers to all those activities which supplement advertising and personal selling through displays, demonstrations, free offers, exhibitions, trade fairs, etc., mostly to stimulate quick sales and realize short term objectives of sales promotion.

Publicity is the fourth major tool in promotion and it refers to unpaid form of communication by an identified sponsor. Advertising, sales promotion and personal selling are under the control of organization but publicity is not under its control. Publicity can be either positive or negative. Positive publicity helps the Organisation effectively in promoting products. Negative publicity spoils the image of the company and it is uncontrollable. Ex: News papers carrying news about companies, Cinema Reviews in news papers. Newspapers reporting about pesticide residues in soft drinks created a rough weather in soft drinks market is a live example for negative publicity.

Marketing mix can be better portrayed with the help of a diagram. See figure 1.4.

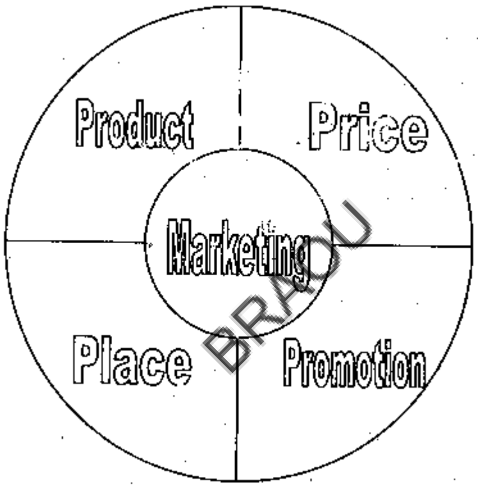

Fig 1.4
Marketing Mix

Activity - V

State the characteristics of a product.

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1.7 EXTERNAL ENVIRONMENT OF MARKETING

Marketing is influenced by both internal environment and external environment. Internal environment is exclusive to the firm which is mostly controllable. But external environment is decided by a host of factors such as customers, competition, trade practices, economic, and socio-politico-cultural variables. Customer related factors include: number of customers, buying behavior, market size, purchasing power, life styles, etc which influence the market.

Competition variables include level of competition in the market, nature of products, availability of substitutes, price wars, segmentation, spread of competitors etc.

Trade variables relate to existing trade practices, types of intermediaries and their interests etc. Environmental variables describe level of Technology, Government policy, social environment, cultural environment, legal environment.

1.8 MARKETING PROCESS

Interaction between internal and external environment is the marketing process. Internal environment is decided by marketing mix variables and external environment is decided by customers, competition, trade and socio - economic - political environment.

See Fig. 1.5.

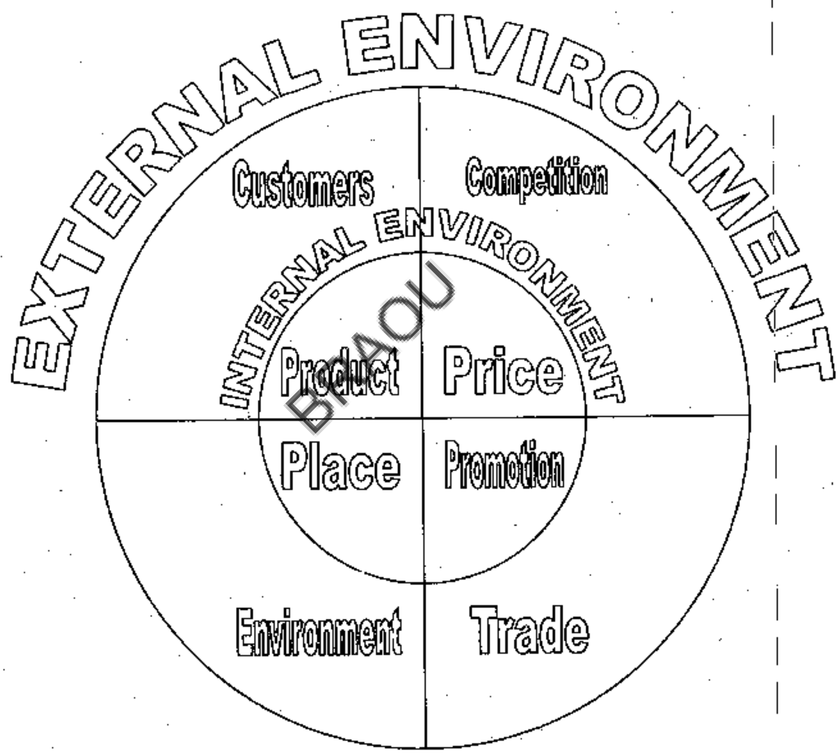

Fig. 1.5
MARKETING PROCESS

1.9 TASKS OF MARKETING MANAGER

Marketing manager is essentially a decision maker through maneuvering the 4 Ps. In what proportions each of marketing mix element has to be assembled is the crucial job of the Marketing Manager. What is ideal combination of 4 Ps? There is no single answer to the question. Ideal mix or Optimum Mix differs from company to company. It also differs from time to time depending upon the changes in external environmental variables. As external environment changes, internal environment also undergoes a change. To adapt to changes in external environment, internal mix also undergoes change. Competitors constantly influence the market through price variations, sales promotion techniques, technology adoptions, new product designs and developments etc., which will have a bearing on the competitors and in turn on their mix strategies. There is no optimum mix which suits forever. No single time solution is there to the problem. What is optimum mix, today may not be optimum tomorrow due to changes in external environment. Hence Marketing manager has to be on the toes all the time to go well with change. Due to dynamism of the markets, such as changes in population its composition, customer preferences, their purchasing capacities, life styles, fashions, habits, political will, legal environment, culture, trade practices etc. Markets constantly undergo change causing marketing strategies. However in the light of frequent changes in business environment long term business strategies will not work and short term policies need to be formulated to manage crises.

Activity - VI

How would you use the marketing mix (4 Ps) in promoting a new course on fashion designing to be launched by a University like Dr.BRAOU?

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1.10 MARKETING IN A GLOBALISED ECONOMY

Globalisation – Lessening Importance of 4 Ps

Product

Recent changes in the Economy under the epithet of Liberalization, Privatization and Globalization Popularly known as LPG, Marketing Environment has shown dramatic change. MNCs are entering into developing nations with vide variety of products which are very close substitutes to the indigenous products. Due to competition a wide variety of products are emerging with negligible product differences which consumers are not able to perceive the difference. Due to low product differentiation most people tend to treat those products as more or less homogenous and emerge as commodities, killing the power of product. Hence product as a marketing mix variable becomes less impotent. It is clear that as many close substitutes emerge the differences in products become so negligible that consumers don't perceive the difference clearly, particularly due to poor Socio-Economic profile of the customer.

Price

As products are very close substitutes with negligible product differentiation or no differentiation, consumers tend to treat them as commodities and don't wish to pay differential prices. Even if price differentials exist, they are very negligible and can't drive a customer towards a particular product decision. Hence prices are more or less same. So price can't be a major variable in marketing mix, killing the power of price.

Promotion

As there is not much of differentiation in product and price, there is nothing much that one can promote, advertise about products. As most products are same in terms of quality and price, promotional measures don't make customers choice towards a given product. It is not possible to allocate huge investments on advertisements. Digitalization makes this promotion cheaper through marketing with wider coverage. Hence this facility is accessible to every one. Hence, manufacturers don't spend money on advertisement causing the death of promotion.

Even if one advertises heavily and tries to attract customers from competitors, it is going to be a futile exercise as customers don't see any uniqueness of products. They perceive them as more or less commodities. Hence promotion becomes a dormant variable.

Place or Distribution

Due to availability of a large number of substitutes spread to every nook and corner of distribution channels make them loose their identity. This is further supported by the presence of large MNC players concentrating even on smaller niche markets. Penetrating into rural markets will dilute the power of place.

The fierce competition, presence of MNCs, digitalization and more homogenous products make the 4 Ps less important. Marketing mix is mostly supported by CRM.

1.11 SUMMARY

Marketing is a dynamic and challenging field of management. It is a process of exchange of goods and services between individuals and organisations to satisfy human needs and wants.

Marketing evolution started with barter followed by monetary economy stage, industrial economy to competition stage. Marketing is a different thing for different people. For some it is a mere exchange, for some others it is Production, Product, Selling, Marketing, Societal Benefit etc. There are different approaches to study marketing. Marketers use 4Ps viz. Product, Price, Promotion and Place as powerful tools to manipulate markets to achieve the ultimate goal of marketing, to earn profit through market share. In the light of Globalisation the 4Ps become dormant variables replaced by quality variables like Customer Relationship Management.

1.12 SELF ASSESSMENT QUESTIONS

I. Short Answer Questions

1. Define Marketing.
2. Explain the concept of 'Marketing' with suitable examples.
3. Describe different stages in Evolution of Marketing?
4. What do you mean by Marketing Process?
5. What is societal marketing and social responsibility?
6. State the marketing functions.

II. Long Answer Questions

1. What are the different approaches to Marketing? Which approach do you consider as the best and why?
2. Discuss in detail the differences between Selling and Marketing?
3. Critically analyse the tools of Marketing? If you are a Marketing Manager of a Pharmaceutical Company, how would you go about with marketing mix? Illustrate your answers with suitable examples.
4. What are the marketing goals? Explain.

1.13 FURTHER READINGS

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1.14 KEY WORDS

Need	: State of feeling to acquire or state of feeling of lacking something.
Barter System	: Exchange of commodities for commodities.
Product	: An entity that can satisfy the need of a consumer usually offered by a firm.
Service	: An activity of exchanging of something which has value between two individuals/ groups which is usually intangible
Exchange	: Transfer of ownership of goods and services in the mutual benefit.
Purchasing power	: Affordability of the consumer. It is determined by disposable income and customer's ability to pay.
Laissez-faire economics	: Free market economies where market forces guide the market with minimum interference from Government.
Marketing concept	: It is a belief or philosophy that achieving organisational goals depends on proper identification and understanding of consumer needs and wants and satisfying these needs and wants efficiently than the competitors.
Societal Marketing Concept	: It is a belief that every marketing activity must ensure societal benefit.
Marketing Myopia	: Phenomena showing overemphasis on product, ignoring the customer in the process.
Potential Market	: Market that a company can match its products with the consumers requirements in terms of 4 Ps.

2.7 Self Assessment Questions

2.8 Further Readings

2.9 Keywords

2.0 INTRODUCTION

: Market where consumers have choice to choose from at their convenient prices.

: Post purchase discomfort of a consumer.

: Situation where consumer is treated as a king. Consumer has greater choice of products and get every thing he wants at his convenience.

: Set of controllable marketing tools viz. Product, Price, Place and Promotion.

The role of marketing in economic development is emphasized from the following dimensions.

1. Balanced Regional Development

The concept of balanced growth ensures that all sectors of the economy should grow simultaneously through heavy investment to produce a very wide variety of products. Investment activities will increase in all mutually complementary sectors in different phases of growth. Marketing activities would stimulate for balanced development of all sectors.

Every developing economy is likely to encounter the problems of imbalances in respect of economic development. The people living in different regions will have different levels of income and standard of living due to haphazard industrial development and marketing activities.

2. Standard of Living

Standard of living depends on consumption and expenditure. A good marketing sector ensures improvement in standards of living. The most important cause for low standard of living is the inadequate development of marketing. This arises due to lack of proper adjustment, sales promotion and distribution network. So the root cause for low standard of living can be attributed to the poor marketing development. It is the role of marketing to raise living standards of the people in the country through expanded production and distribution.

3. Employment Potential

The marketing sector has capacity of generating many employment opportunities. The marketing sector and variety of its functions like advertising, selling, distribution etc., are labour intensive which provides employment to variety of professionals. So an investment in service sector is likely to provide more employment in short run and long run. The role of marketing is a very important factor for under-developed country like India where millions of people are unemployed and under-employed.

The marketing sector solves the problem of variety of unemployment problems such as cyclical unemployment, technical unemployment, seasonal unemployment and educated unemployment.

4. Contribution to National Income

Marketing activities belong to the category of service sector. The marketing sector has been contributing a large share to national income in recent years. Only with the industrialisation of the country the share of service sector has gone up in national income. The proportion of the

6. Maximum Use of Resources

The basic principle of economic development is maximum use of resources and minimum wastage. The guiding principle in economic development is sustained use in the case of renewable resources and multi-purpose use of resources. This can be achieved by producing and marketing a variety of products required by the consumers. It is always advisable to explore and exploit wider marketing territories in the interest of economic development.

7. Resource Allocation

Mobilisation of resources is the starting point in the process of economic development. The marketing role in mobilisation of resources alone is not sufficient but should be allocated into activities that are productive and profitable.

Then only the balanced regional development and equal distribution of wealth and income enhance the pace of economic development. It is here that marketing plays an important role. Developing economies suffer due to lack of raw material and improper distribution of resources. Consequently, production capacity in those industries or areas remains underutilised resulting high cost of production. A scientific marketing management would help augmentation and allocation of scarce resources rationally and help in balanced economic development.

8. Foreign Exchange Earning

Foreign trade has a vital role to play in economic development of any country. This has assumed enormous importance and significance in modern days because of globalisation, removal of restrictions on international marketing and more interdependence of economies. Global marketing assumes greater importance because it maximizes real income. Foreign trade enables developing countries exploit their own resources.

The GATT, the UNCTAD, the ECM, the CCA, the WTO, and other foreign trade agreements are designed for economic development of various countries. The international marketing improves foreign exchange reserves and balance of payment.

9. Capital Formation

The role of marketing in economic development can be examined from the angle of capital formation. Marketing will contribute to increase the rate of capital formation. According to Nurkse: "Capital formation is the diversion of a part of society's currently available resources to the purpose of increasing the stock of capital goods so as to make possible an expansion of consumable output in the future". It is the accumulation of capital which is the crux of the problem of economic development and no economy can grow without having produced means of capital. The problem in under-developed countries is the lack of capital investment in services marketing.

An expanding economy cannot afford to save and invest a large proportion of its output. When income increases, people are in a position to save and invest a large proportion of their net income. This gives fillip to further expansion of the economy.

10. Economic Equality

The primary problem of under-developed countries is inequality in income. It is here that marketing sector comes to play a crucial role in removing inequality. The revenue coming to the exchequer would be available for economic development, concentration of economic power and wealth would be reduced considerably and a climate for economic equality is created. The economic resources are expected to be utilised in such a way not detrimental to the general interest and prejudicial to the public interest.

11. Mobilisation and Utilisation

The natural resources of an economy can be fully utilised. The developing economies are rich in natural resources like minerals. The role of marketing would be that these resources would be fully tapped. The marketing activities would help in proper utilisation due to accessibility, availability of technical knowledge and plenty of capital.

Yet another role of marketing in economic development is to give a great fillip to resource mobilisation particularly resources for production of goods for mass consumption. In the matters of resource mobilisation the role of marketing is claimed as a tremendous success as the increase in resource mobilisation is due to large scale industrialisation.

Resource mobilisation, however, remains a sphere in which much is required to be done by marketing sector.

12. International Economic Equilibrium

Different countries of the world are endowed with different natural resources and hence there are differences in the levels of economic development of various countries. Inequality is glaring among the different countries. To remove international economic inequality, marketing sector has been selected as one of the workable solutions whereby the balance of payments of the nations should be brought into equilibrium and wide disparities and deficiencies can be avoided. This can be brought about by adapting a liberal international marketing, policy. Liberatlisation of trade policies, removal of restrictions and boundaries would improve the international economic ineqalities.

13. Development of Backward Areas

Another role of marketing can be the deliberate development of backward areas and under-developed areas. This objective is implicit in an industrialized economy. It may appear as a primary or secondary objective or as a by-product of other objectives. In many developed countries it appears as one of the basic objectives of industrial development. Distribution mechanism attempts towards development of backward areas. Hence, to develop backward areas and to ensure economic inequality, it is essential to consider and adapt marketing as one of the tools of economic development.

14. Formulating Product-Mix

Like allocation of national resources is an important as well as difficult taste of formulation and reshuffling of product mixes in different sectors of economy. After task touches upon the decisions regarding the kind of 'Product Mix' a specific economic activity must be offered to the nation. For instance Automoble Industry has an optices of producing vehicles for commercial and non-commercial purposes.

15. Solving consumption problems of production

This is may be the problem related to production activities and economy which is concerned to unsalability of product owing primarily to consumer resistance to accept product and services offered by in appropriate distribution channels. These aspects result in circumulation of stock, under utilization of production capacity, return of investment deelainned and consequently leads to unemployment, lower living standards, when these problems arises and result in whole economy in the reverse gear.

The role of Marketing in development of economy, shows the functions play in this process. Therefore, what is needed to increase the country's economy towards development and at the same time produce a valid Marketing System.

Activity - III

Do you think that the marketing sector is essential for economic development? Discuss.

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2.4 MARKETING IN INDIA

In India marketing today has become exciting and challenging to marketers. Marketing activities first started with self-sufficiency to satisfy their wants for food, clothing and shelter. The system of simple barter evolved where people bartered goods which they do not produce themselves. Marketing activities were considered only as a peripheral because of subsistence economies. The introduction of money, industrial revolution etc., have brought along with them the acctivities of production, distribution, specialisation, etc.

The modern marketing activity was started only at the end of 20th century. Marketing of agricultural produce has become primary activity and the subject of marketing of agricultural produced has been introduced in colleges and universities. After 1940s marketing experts emerged and developed a body of marketing thought. Attention has been devoted to the study of consumer behaviour. Advertising agents began to rebuild the discipline in what that came close to the modern concept of marketing.

People benefited much from a great surge in demand for consumer goods. Rapid industrialisation, expansion of production capabilities and increase in competition took place. As a result India became the cradle of marketing thinking. All these developments encouraged the modern marketing in its modern fashion. Efforts were also diverted on extensive use of market research to know the needs and wants of the customers. By 1970s the emphasis on marketing further substantiated with quantitative research and arrival of professionals.

Marketing thus received as a common activity as a service sector and became an important function of management. Later the dawn of **strategic concept** has brought a revolutionary change in the history of marketing thought. Marketers in India began to shift emphasis from old concept of product and production to external environment. Knowing about the demands of the customers is not top important but knowing the strategies of the competitors and designing counter strategies have received priority.

The limitations of traditional marketing techniques have been well recognised, changes are witnessed in application concept of marketing. Marketers in India became more responsive to new social demands and realities. Marketers have been increasingly recognised as a key change agent to improve the quality of life, standard of product and customer satisfaction. For instance, one can observe at the current trends of transformation of the changing markets; one can look at the many new changes confronting the marketers.

In the area of social responsibility, ethical values, Government of India has enacted a number of legislations touching the marketing front. The marketing managers are necessarily adapting rules and provisions of various Acts. New laws are intended to be at the forefront of social transformation. The problems have become ever more complex for the marketers when they are confronting with many special provisions like the customer protection Act, MRTP Act, etc.

India is a land characterised by multi-cultural, multi-religious and multi-lingual features and the marketers are facing the problem of multi-cultural and cross culture communication environment with differing multi-legal systems. Other problems associated with marketing are intellectual property rights, objectionable advertisements, trade marks, patent laws etc. In addition the fast marketing is characterised by fast changes in tastes and habits and new expectations of customers. Every marketer today in India has become sensitive and dynamic. The modern marketing management professionals are implementing new gospels to meet the competition and to survive.

The arrival of information technology has transformed the marketing process resulting in restructuring of strategies and the ways of doing business. Telemarketing, teleshopping, e-commerce, EDI etc., have affected the entire marketing strategy framework and relationship between customers and marketers requires a new look. The internal organisation and customer relationship management are demanding re-engineering the process of the whole marketing structure. Never before has it been so easy for customers world wide to establish a direct contact with the marketers. Never before has it become possible to establish contacts with the customers to negotiate and settle so quickly and accurately as today.

Marketers are just entering the new era in terms of application of new technology. The e-marketing today helps the firms to gather, track, cross reference and dissemination of information.

It is predicted that internet based marketing has been increasing many fold. Indian marketers are speeding up the process of adoption of new technological innovations in marketing which has direct bearing on efficiency, effectiveness, profitability, competitiveness and cost effectiveness of marketing activities. It is opening new horizons in marketing field.

2.5 RELEVANCE OF MARKETING IN DIFFERENT SECTORS

Every economy has different sectors like agriculture, industry etc. Accordingly, their marketing structures, channels of distribution, marketing organisations are also different. Hence, it is a relevant to study the marketing systems of all sectors. We are aware that we have mentioned earlier that the consumer goods marketing, industrial goods marketing and services marketing are all equally necessary to bring about economic development.

We will now discuss how all these sectors will bring about a change in socio-economic development. We discuss the structures and relevance of marketing to different sectors. We will now introduce you to come to the important issues of marketing which the developing countries are facing and how these need to be attended to.

2.5.1 AGRICULTURAL MARKETING

Structure of Agricultural Marketing

There are many types by which the farmer may dispose of his produce. The markets are classified as follows :

1. Money Lender - cum-Trader

This is the oldest method and very common in rural markets. The farmers will sell away their surplus produce to the village money lenders. They act as money lenders as well as traders who buy from the farmers.

2. Primary Wholesale Markets

The first and the most common method to sell away his surplus produce is to primary wholesale markets. To this market large quantities of goods will come from villages. These markets are organised periodically either once in a week or twice a week.

3. Secondary Wholesale Market

These markets are called mandis covering a wide area of about 20- kilometers. Secondary wholesale markets are generally located in the districts, urban headquarters, near railway stations. The business in these markets is usually between wholesaler and retailers.

4. Terminal Market

Under this system the agricultural products are finally sold to consumers or to processors for further processing or shifted to shipment area for export.

5. Fairs

It is common to hold fairs on religious occasions at pilgrim centres, periodically. In these fairs, buffaloes, sheep, goats, horses and other animals are sold.

Features of Agricultural Marketing

The following are the basic characteristic features of agricultural marketing :

1. The agricultural produce is bulky for its value.
2. High cost of storage, warehousing, transport, etc.
3. Agricultural production is seasonal in character.
4. The demand for these goods by the consumers is spread over the entire year.
5. The market system has to adjust-itself to balance suitably the seasonal outflow of the produce from the farm to the consumer markets.
6. The individual marketable surplus is very small.

7. The collection of the produce is a complicated process, particularly as the consumers are generally concentrated in urban areas.

8. The farm produce suffers loss and determination in quality during storage and transport.

9. The marketing is more difficult in respect of certain produces like tea, coffee, rubber and cinchona whose production is highly centralised but consumption is wide-spread.

2.5.2 CO-OPERATIVE MARKETING

The word marketing is used differently for different purposes. Agricultural marketing is a process of functions involved in the preparation and movement of agricultural produce to the final consuming market. Co-operative agricultural marketing means undertaking of agricultural produce by the co-operative sector according to the principles of co-operation and philosophy.

An agricultural country like India, derives much income from agricultural produce wherein the significance of co-operative marketing is paramount. The role of agricultural marketing has broadened, considerably in modern days. The old concept of marketing includes only purchase and sale of agricultural produce. But actually modern marketing involves various other series of ancillary activities also to make the product fit to marketing or saleable and to mobilise the goods from the farms to the consumers.

Marketing of agricultural produce, however, does not mean to procure and sell across the counters like other consumer goods, but it actually starts in the field where they are produced. The mobilisation of produce from the cultivators involve processing, grading, standardization, storage, packing, transport and selling to the ultimate consumers. The individual and poor farmers may not undertake all these activities because all these activities involve capital, organisation and trade cycles.

Need for Co-operative Marketing

Co-operative marketing is another reform advocated to save the cultivators from the evils of present marketing system. Co-operative form of marketing activities is the best way of improving the marketing interest of the cultivators.

The need for co-operative marketing cannot be overemphasised and its utility arises from various factors. These factors are, in the first instance, connected with the defects and malpractices in the existing system of agricultural marketing.

If the producers organise co-operative societies by themselves they can undertake the activities of preparation, purchase, sale of their produce which may ultimately promote their economic interest leading to better production and better business. The Royal Commission on Agriculture rightly remarked that "...... agriculturist realizes that as a seller of produce he must study the art of sale either as an individual or through combination of other products, it is inevitable that he should come off second best in the contest with the highly specialised knowledge and vastly superior resources of those who purchase his produce".

Co-operative agricultural marketing reduces the price spread between the cultivators and consumers and thereby ensure reasonable return to the producers and at the same time protecting the interest of the consumers.

Objectives of Co-operative Marketing

However, the Report of the Committee on Co-operative Marketing states the objectives of the co-operative marketing societies which are as follows :

1. To arrange for the sale of agricultural produce of the members or purchased by the societies and for this purpose :

   a) to prepare the produce of marketing by setting grading, packing and repacking; and

   b) to transport the produce from members' residence, farms or godowns to markets;

2. To encourage members to grow improved and standarised varieties of produce;

3. To accept deposits and to borrow funds from the co-operative central banks to which it is affiliated;

4. To advance loans to members on the security of their produce of raw materials.

5. To rent or own godowns; processing yards and cold storage to facilitate storage, processing and sale of goods;

6. To process raw materials belonging to the members purchased by the society and for that purpose to own or hire processing plants and machinery;

7. To produce and supply to members, fertilizers, manures, seeds, implements etc., and essential domestic requirements;

8. To act as agent for the Governments for the procurement of agricultural produce and supply of requisites of agricultural production;

9. To encourage thrift, self-help and co-operation among its members.

2.5.3 REGULATED MARKETING

Features

The Royal Commission on Agriculture as early as in 1928 recommended the establishment of regulated markets. The purpose of regulated markets is to remove the defects, malpractices and evils in the agricultural marketing. Consequently, a number of provinces or states have passed separate legislations for establishment and administration of regulated markets.

Under the regulations, regulated markets are administrated by a Market Committee. The committee consists of representatives of producers, traders, local bodies, co-operative societies and Government. Thus a Market Committee represents the interest of all the concerned people.

The system of regulated markets is found very useful in removing the market malpractices and the role of middlemen and money lenders. The main object of regulated market is to facilitate to dispose the farmer's produce at a reasonable price.

Advantages

Farmer member will avail many services from the market such as storage, market information, price information, etc. The following are advantages of regulated markets

1. The committee fixes market charges like commission; unnecessary and unwanted charges are removed.

2. Under regulations, market practices and procedures are regulated and systematized.

3. It prevents unauthorized deductions from the price payable to the farmers.

4. Ensures correct weights and measures as they are periodically inspected and verified.

5. The committee arranges arbitration procedures or other legal and democratic means for the settlements of marketing activities.

6. Timely and reliable market information are made available to the farmers.

7. Markets ensure fair price to the products and no threat of cheating and other exploitative practices.

8. Markets facilitate classification, grading and standalization of products.

9. Database relating to arrivals of stocks and prices are maintained.

2.5.4 INDUSTRIAL MARKETING

Industrial markets are also called as business markets. They are markets meant for producer goods. Their activities relate to the production of goods required by the manufacturing companies. Buying and selling of goods and services for the following purposes is called industrial market.

1. Goods used for producing other goods.

2. Reselling goods to other business users like wholesalers and retailers.

3. Institutional buyers like the departments of the Government, educational institutions, hospitals, service organisations like bank and insurance and consultancy services.

4. Farmers and agro business organisations such as food processing enterprises

5. Mining, fishing, timber concerns. etc.,

Nature of Industrial Activities

The word industry refers to that part of business activity primarily concerned itself with the:

- Raising ;
- Production ;
- Processing ;
- Fabrication.

The industiral products may be used either by the final consumers or by another industrial undertaking for further processing or re-processing.

2.6 SUMMERY

In this unit, we have examined the role of marketing in economic development. The marketing physiography is not a neutral or passive agent in economic growth but a catalyst which accelerates the pace of development and facilitates the process of economic and social change. Further it emphasises the relevance of marketing to different sectors like agriculture, industrial and service sectors.

All the sectors of the economy are equally relevant to overall economic growth at all stages of economic development. The structure of marketing of agricultural produce is also analysed. We have described the structure of marketing for industrial products.

2.7 SELF ASSESSMENT QUESTIONS

I Short Answer Questions

1. Classify various types of industiral goods.
2. What are the advantages of Co-operative Marketing?
3. Explain the features of industrial marketing.
4. Define regulated marketing?

II. Long Answer Questions

1. Explain the concept of economic development and the structure of it.
2. Discuss the popular parameters to measure economic development?
3. Describe various stages of evolution of marketing.
4. Discuss the role of marketing in economic development.
5. What are the advantages of regulated markets? Explain with examples.

2.8 FURTHER READINGS

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2.9 KEY WORDS

Structure of Economy : The economic structure consists of three sectors namely primary sector, secondary sector and tertiary sector.

Agricultural Market	:	Marketing system, concerning agricultural produce.
Co-operative Marketing	:	Agricultural produced are marketed.
Regulated Markets	:	Rural marketing operated through regulations and a committee.
Business Markets	:	Industrial markets are now called, business markets.

UNIT – 3 : MARKETING ENVIRONMENT

Aims and Objectives

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

- understand the concept of marketing environment;
- explain the importance of Marketing environment,
- know the technique and application of SWOT analysis;
- explain the forces operating in micro environment;
- discuss the factors of macro environment, and
- explain the concept and importance of international marketing.

Structure

3.0 INTRODUCTION

In this unit you are introduced to the subject of marketing environment. The environment surrounding the marketer consists of different layers. So an understanding of environment is necessary. The marketer has to identify the opportunities and threats prevailing in the market place. The technique of SWOT analysis is also proposed to be discussed in detail in its application to marketing environment.

Furthermore, the environment is classified into micro and macro and various factors working in them and their impact on marketing strategy is intended to be covered in this unit. After understanding these dimensions the unit also will discuss the concept and importance of international marketing.

3.1 MEANING OF MARKETING ENVIRONMENT

The word environment refers to a condition or circumstances affecting people's lives. It may include land, air, water, in which we live. The term environment with reference to marketing management implies to the factors and conditions internal to the organisation and external to the organisation affecting marketing activities, influencing on profitability. Environment is an important system of the marketing structure of every business enterprise.

It covers interacting and inter-dependent variables in marketing operations of a business enterprise. The internal and external environmental factors are acting as parameters and constraints within which the marketing function is expected to operate.

There are some factors which are controllable while some others are uncontrollable.

The marketing must operate within a framework of environment composed of economic, political, social and technological factors surrounding the marketing structure. External environment factors which are uncontrollable by a firm also constitute a part of environment of marketing. So every firm has to work out a strategy in the form of marketing management So external factors cannot be ignored in formulating marketing planning and strategies.

There are several inter-related environmental forces which influence the marketing management, a function of business management. Each firm is operating in an environment composed of several inter-related groups of people working in the business such as competitors, suppliers, customers, trade associations etc. Social and cultural expectations, heritage, customs, practices, law and regulations etc.. greatly control the nature, the scope and limits and marketing organisation's relationship within the environment.

A marketer's plans and operations are mostly dependent on the vagaries of external factors of environment. The controllable external environment is posing new challenges, which are not only dynamic but also changing fast. For instance, a business enterprise may adapt emerging technological changes like, computers and other information technology supported equipments. Sometimes external environment factors are difficult to predict with certainty and their impact on marketability and profitability.

The pace of speed and visibility are very fast which are not very familiar to a firm. Unless a firm is well aware of external environment and its impact on operations, it cannot adjust suitably to the changing conditions. If a firm is not dynamic and scan the environment from time to time, it may have to face serious repercussions in marketing activities.

Considering the current status of environment, changing components of environment and their impact on performance, collection of data and information, analysis, correction, and selection of events are all equally necessary in formulating a marketing strategy. Every marketer has to keep in mind the two fundamental factors like capabilities and strategies of the competitors, and response and reaction of the competitors to the firm's plans and strategies.

Many firms neglect to scan the outside world. They ignore and unconcern the external socio-economic factors. Such firms have passed through turbulent, difficult and unknown consequences by ignoring the macro environmental factors. Trends of market, the phases of business cycle and the changing signals should continuously be tracked and opportunities should be explored. It is the major responsibility of the marketing organisation along with his team of various specialists and with the help of research and development expertise to observe and analyse the outside environment.

The economic reforms of privatisation, liberatalisation and globalisation have brought many changes and moved the marketing in a new direction. On the other hand, the information technology has revolutionized the way of doing marketing in national and international markets. The dawn of internet, e-commerce, on-line marketing, mobile communication, new media and channel of connectivity to the world market have major implications in marketing. Many customers, particularly in developed countries, have been doing online marketing.

The successful marketing management function is based on the knowledge of the society to whom the marketing efforts are directed. So the society is composed of many components like social, cultural, political, economic and technological. An adequate knowledge of several social capabilities includes at least an awareness of their impact, an appreciation of how they usually influence marketing decisions and an understanding of the direction in which these decisions are implemented.

3.2 IMPORTANCE OF MARKETING ENVIRONMENT

The objective of every business enterprise is to understand internal, external and general factors influencing marketing performance. The field of marketing environment emphasizes how external environment of business and internal factors of environment of business would considerably influence the marketing operation. Understanding external environment is very essential, but never a simple task.

Their operations are motivated and guided by their own considerations and characteristics. They may behave in one way today and another way tomorrow. They do not have close touch with the organisation and not concerned about the profitability of the company.

It is the responsibility of every marketing manager to scan outside environment.

The importance of analysing environment can be emphasized from the following **dimensions.**

1. Studying environmental forces provide clues for developing new products, new features, price strategy, channel decisions, etc.
2. Scanning environment offers a series of new opportunities to explore.
3. Gives scope to know the threats and weaknesses to encounter.
4. Timely steps and actions can be taken up to counteract or quickly respond to the competitor's plan and strategies.
5. Knowledge of external environment enables to have a glimpse of trend seeking and opportunity seeking.
6. A marketing manager is an environmentalist and has to move always according to weather conditions, to take timely decisions.
7. Environmental analysis reminds the social responsibility of the business. It is a subject of social control, as it exerts and influences on our lifestyles.
8. Understanding environment is necessary since the marketer is responsible to a very great extent for our quality and standard of living.

9. Knowing external environment enables to understanding in advance the current changes taking place in the environment which have significant bearing on the marketing operations.

10. Strategic decision making will not be effective if environmental analysis is not continuously carried on.

11. Just collection of data and information is not sufficient but they should be co-related and selected strategically to use for strategic decisions.

12. Environment scanning even facilitates and fosters strategic thinking and consciousness in the organisation, creates new ideas, and understanding the current living environment within which a firm operates.

13. Helps to formulate effective broad strategies, long term policies and plans.

14. Knowledge of marketing environment assists the marketing manager to prepare action plans, adapt course of action to deal with any factor of external change like technological, ecological and political.

15. To forestall and analyse competitor's strategies and plan of action and formulate an effective reactive measures.

16. Finally scanning the environment reduces the impact of social and economic changes locally, regionally, nationally and internationally and improves a company's profitability, stability, competitiveness and efficiency.

Activity - I

What do you understand by environment with reference to marketing? Discuss its importance.

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3.3 IDENTIFYING OPPORTUNITIES AND THREATS IN THE MARKET PLACE (SWOT ANALYSIS)

The acronym SWOT as popularly used stands for :

S - Strenghts

W - Weaknesses

O - Opportunities

T - Threats

Every environment has the above four elements. The application of the technique to the marketing and analysis of SWOT has a very dynamic role to play in strategic decision making. A look at the strategic marketing management process would enable us to understand the nature of realities and the impact of external and internal factors in more clear terms. When a firm's strengths, weaknesses, opportunities and threats are analysed, it is called SWOT analysis of marketing operations.

In this analysis the marketing manager's responsibility is to identify :

- main opportunities and threats.

- strengths and weaknesses of the product.

An effective marketing plan, strategy, policy cannot be formulated unless marketing manager identifies opportunities and proceeds in the environment in which a firm is operating in the market. SWOT analysis is an effective tool to identify the strengths and weaknesses of the product. Further course of action would depend upon the results found out of the application of SWOT analysis.

Marketing environment has composed of economic, political, social, cultural and technological factors which may offer many profitable opportunities from time to time. These opportunities cannot be explored unless a company has capabilities to take advantage of the environment. It means a firm must have strengths to explore the opportunities, being offered by the environment. A firm must have strengths to :

- explore opportunities
- meet threats

Unless a company applies SWOT analysis it cannot proceed to develop specific goal for a plan period.

Opportunities and Threats (External Environment Analysis)

The external environment gives opportunities to exploit and threat to face. The macro environmental constraints include demographic, technological and socio-economic forces. All these factors should be scanned because they have influence on marketing operations. On the other hand, the impact of opportunities and threats should not ignore to monitor micro environment actors such as customers, suppliers, etc.

Example

1. Opportunities

1. Customers' liking of a particular design or brand,
2. Distribution channel and additional advertising support.
3. Higher discount rate motivates the customers to buy.

2. A product which has poor representation in mass market stores and stores giving discount.
3. Government regulations on safety, advertising, consumer protection, etc.

1. Marketing Opportunities

A marketing opportunity is a favourable time, condition, occasion, or set of circumstances creating an opportunity to produce a product which is in need or has demand and performs profitability. It is taking a favourable time to undertake production. It is identifying, recognition and use of favourable time to undertake marketing operations.

A marketing manager has to identify the need of the buyer for a product and explore the opportunity to produce a customer needed product and earn profit. An opportunity analysis, identification of buyer's need and competition are the important elements.

Again opportunities can broadly be classified into the following **two types.** (Philip Kotler).

1. Attractiveness of the product.
2. Success probability.

The following figure indicates opportunity matrix.

Opportunity Matrix

Succes Probability

Attractiveness		High	Low
	High	1	2
	Low	3	4

Opportunities

1. Company develops a more powerful lighting system.
2. Company develops a device for measuring the energy efficiency of any lighting system.
3. Company develops a device for measuring illumination level.
4. Company develops a software program to teach lighting fundamentals to TV studio personnel.

2. Environmental Threats

A threat is an indication or warning of future danger of marketing activity. A time or an occasion regarded as likely to cause trouble, or difficulties to the marketing operations. In marketing sense it refers to unfavourable trend which may lead to decline in sales or profit.

The following figure shows threat matrix (Philip Kotler)

Threat Matrix

Probability of Occurance

Seriousness		High	Low
	High	1	2
	Low	3	4

Threats

1. Competitor develops a superior lighting system
2. Major prolonged economic depression.
3. Higher costs.
4. Legislation to reduce number of TV studio licenses.

Strengths and Weaknesses (Internal Environment)

Though opportunities are always available to a firm, it must have capacity to achieve them. It is the responsibility of every marketing manager to identify and recognise the internal strengths and weaknesses. Strengths with reference to internal environment is a quality of being strong enough from different dimensions of functional areas to take challenge of opportunities available.

The element of analysis of weaknesses reveals inadequate or lacking of strengths or power to take challenge of new opportunities in which a firm can perform profitably. Sometimes a firm does not work better because of lack of required strengths.

"Clearly, the business does not have to correct all the weaknesses, nor should it gloat about all its strengths. The big question is whether the business should limit itself to those opportunities where it posseses the required strengths or should consider better opportunities where it might have to acquire or develop certain strengths (Phillip Kotler).

Example : Strength and weaknesses

1. **Strengths**

   a) Wide brand awareness, image, impression.

   b) Efficient distribution mechanism like dealers.

   c) Quick after sales service.

2. **Weaknesses**

   a. Poor quality of the product comparing the competitor's product

   b. Low budget allocation for advertising and sales promotion.

   c. Not positioning the product clearly.

   d. High price without any additional distinctive quality features.

Strengths are analysed from two dimensions, namely:

i) Major strengths

ii) Minor strengths.

Similarly weaknesses

i) Major weaknesses

ii) Minor weaknesses

Marketing strengths and weaknesses can be analysed from various functional operations like marketing, finance, manufacturing and organisation.

Philip Kotler has identified and included the following variables in the check list for performing strengths/weaknesses analysis under the four functional areas.

Checklist for Performing Strengths / Weaknesses Analysis Performance

		Major Strength	Minor Strength	Neutral	Minor Weaknesses	Major Weak nesses
Marketing						
1.	Company reputations	--	--	--	--	--
2.	Market share	--	--	--	--	--
3.	Customer satisfaction	--	--	--	--	--
4.	Customer retention	--	--	--	--	--
5.	Product quality	--	--	--	--	--
6.	Service qualtiy	--	--	--	--	--
7.	Pricing effectiveness	--	--	--	--	--
8.	Distribution effectiveness	--	--	--	--	--
9.	Promotion effectiveness	--	--	--	--	--
10.	Salesforce effectiveness	--	--	--	--	--
11.	Innovation effectiveness	--	--	--	--	--
12.	Geogaphical Coverage	--	--	--	--	--
Finance						
13.	Cost or availability of capital	--	--	--	--	--
14.	Cash flow	--	--	--	--	--
15.	Financial stability	--	--	--	--	--
Manufacturing						
16.	Facilities	--	--	--	--	--
17.	Economies of scale	--	--	--	--	--
18	Capacity	--	--	--	--	--
19.	Able, dedicated workforce	--	--	--	--	--

20.	Ability to produce to time	--	--	--	--	--
21.	Technical manufacturing skill	--	--	--	--	--
Organisation						
22.	Visionary, capable leadership	--	--	--	--	--
23.	Dedicated employees	--	--	--	--	--
24.	Entrepreneurial orientation	--	--	--	--	--
25.	Flexible or responsible	--	--	--	--	--

Activity - II

What do you understand by SWOT analysis? Explain its components.

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3.4 TYPES OF MARKETING ENVIRONMENT

Based on the degree of intimacy of factors with a company, a marketing environment is classified into the following two types :

1. Internal Environment : Factors internal to the organisation.

2. External Environment : Factors external to the organisation.

Marketing Environment

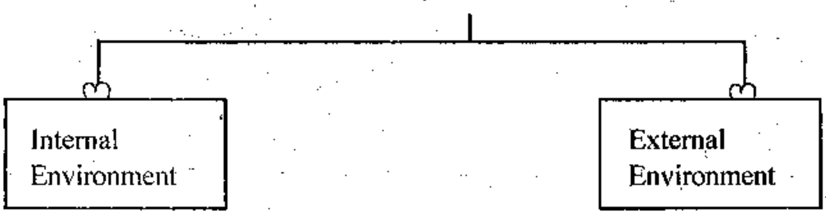


Fig. 3.1

We will discuss each of these types and sub-factors operating in the market.

1. Internal Environment

There are some factors which are purely internal to the organisation but having strong bearing on marketing decision making. Generally these factors are controllable because they are within the hands of the company. Internal factors focus on activities which are absolutely related to and controllable totally within the organisation. Such **factors** are :

- value system.
- objectives, philosophy and mission
- professional and non-professional management
- role of informal communication
- organisational relationship between top level and middle level.
- quality of human resources like morale, skills, quality, commitment, initiative, decisiveness, leadership, etc.
- company impression and image.
- the state of technology.
- research and development
- strength of marketing organisation created based on product, geography, market, etc.
- able sales force and after sales service.

2. External Environment

External environment consists of both micro and macro environment. It comprised those factors, systems, competitors which are exclusively outside the jurisdiction of the company on which it has no control. The external features generally will have important and powerful impact on the marketing efforts of the organisation.

The external factors put together are called as STEP :

S - Socio-cultural

T - Technology

E - Economic

P - Poltiical / Legal.

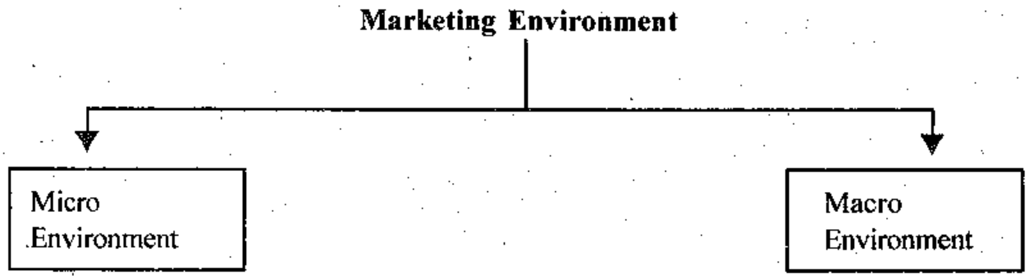
Marketing Environment

Internal	External	
	Micro Environment	Macro Environment
Firm Suppliers		
Consumers	Customers	Demographic
Competitors	Suppliers	Economic
Market	Competitors	Cultural

Intermediaries	Publics	Technological
Objectives and mission	Market Intermediaries	Political
Human resources	Financiers	Social
Market capabilities		Global
Brand equity		
Research and development		
Infrastructure/assets.		

Micro and Macro Environment

A company's marketing environment is again classified into the following types :



1. Micro Environment

It refers to smaller part of environment, which consists of forces or factors close to the company. The various parts of micro environment may include customers, suppliers, competitors, publics, market intermediaries etc.

2. Macro Environment

Environment concerning larger part of the society is called macro environment. It relates larger social forces that affects macro environment. It consists of demographic, cultural, economic, political, legal and natural factors.

3.5 MICRO ENVIRONMENT

The micro environment consists of the actors which have the close intimacy with the company. Such actors are

1. Company
2. Customers
3. Competitors
4. Suppliers
5. Marketing Intermediaries
6. Publics
7. Financiers

1. Company

The first level of micro environment is the company itself, which through its market organisation operates in the market. A business enterprise is an organisation with a group of specialists and functions which offers products. The nature and character of a given company largely determines the environment taking place within it.

Some of the factors which contribute to this overall characteristics relate to various functions in the organisation, their interrelationship, structure, etc. In every organisation there are several groups operating and while designing a marketing plan and strategy, marketing managers have to take into account all the groups. The groups or functional departments include top management, finance, research and development, stores, advertising, accounting, etc.

All these groups or functions and their inter-relationships constitute internal environment. The executive level or middle level marketing management must make decisions within the boundaries of policies formulated by top management.

Thus internal environment of the company is presented in the following figure.

Internal Environment

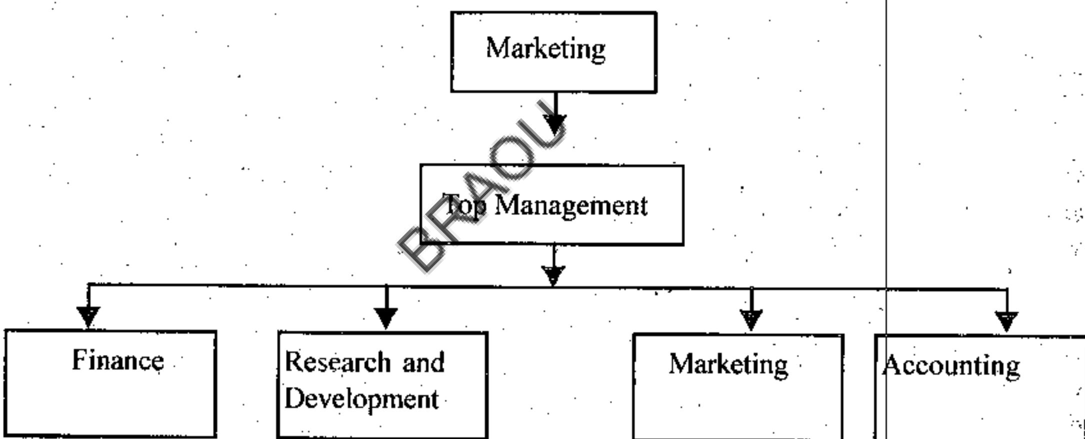


Fig. 3.2

The internal value systems, objectives and mission, management structure and level, internal power relationship, human resources, image and impression, brand equity, physical assets, facilities, research and development etc., constitute internal environment of a company.

2. Customers

Customers are the very basic group of internal environment. The marketer has to study its customer markets closely. It is very sensitive and difficult to know the buying behaviour which is influenced by various factors. The impact of changing habits, tastes and life styles is very significant in the performance of profits.

The rapid growth of civilization, migration and immigration, urbanisation, introduction of international products have already overtaken and consumers are also preferring to buy them due to comparative price advantage. The company has to study its customers, markets as well as competitors; market closely.

There are five types of consumer markets namely

1. **Consumer Markets :** Individuals, households etc., who buy goods and services for personal consumption.

2. **Business Markets :** Manufacturers and others who buy goods and services for further processing.

3. **Reseller Markets :** Those buyers who buy goods and services for the purpose of reselling for profit.

4. **Government Markets :** Consist of Government agencies, departments, who buy goods and services to produce public services.

5. **International Markets :** A market of exports. Under this the buyers in other countries including consumers, producers, resellers and Government.

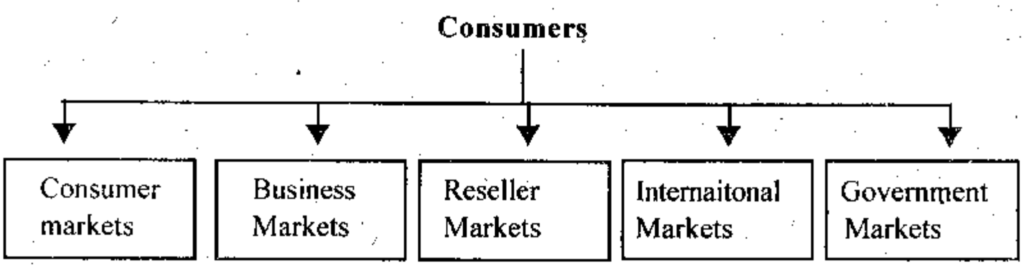


Fig. 3.3

Scanning of various customer groups and their behaviours is proved in many cases as successful in marketing efforts. A number of other factors like profitability, dependability, stability of demand and growth prospects and completion factors are all considered as internal environmental factors.

In view of globalisation the consumer environment has widened in scope and even became global. Products of different countries are available in other countries at cheaper rate and markets have become open and consumers are becoming more global consumers. In addition to the above, consumers behaviour is influenced by such other social factors like family, reference group, social roles and statuses.

The cultural, social, personal and psychological factors too are equally influencing in marketing operations. The lifestyle patterns of the consumer also should be analysed.

3. Competitors

A company's internal marketing environment also includes anlaysis of competitors. Competitors mean a group of marketers producing substitute products selling to the same target group of consumers. Every marketer is expected to know about their environment of competition, competitors, as to who are primary competitors, strong, weak and remote competitors.

The environment of competitors should be scanned relating to their strategies, objectives, plans, strengths and weaknesses, and to device a competitive market intelligence system. Marketing environmentalists strongly advocate that the companies should not ignore the competitors and at the same time to satisfy the needs and requirements of the customers better than his competitors do.

It is not sufficient just to meet the needs of the existing target customers, but to capture existing customers of the competitors and to extend the areas of operation. In view of globalisation and privatiation in India, the competitive environment has been undergoing a tremendous change. So every marketer has to endeavour to create primary and selective demand for the produce and accordingly to formulate strategies.

A competition may again be analysed into as a product form competition, brand competition, generic competition and design competition, etc. It is the responsibility of every marketing manager to consider its own marketing strategy best suitable to the company and superior compared to competitors' strategies.

The criterion to be adopted is to gain firstly strategic adjustments by positioning their offerings strongly against competitors offering in the minds of the consumers. The customers needs are satisfied by any means. The strategy lies in differentiating the actual competitors and potential competitors.

After identifying the group of competitors producing substitute products targetting same consumers, the company has to scan their characteristics separately for each competitor on strategies, objectives, strengths and weaknesses. In this connection the tool of SWOT analysis will help a firm to take a strategic decision. Share of market, share of mind and share of heart of the consumer are the crucial factors to monitor competitors' strategies.

Different strategies are required to deal with different competitors, because their strategies are not uniform. For instance, there are competitors who do not react quickly and strongly, while some competitors react only to certain types of attacks, some others do not exhibit visible reactive patterns.

4. Suppliers

Every company engaged in manufacturing a product or rendering service may need different types of resources to carry out its production activity. Suppliers constitute as an important internal group and the company has to monitor their behaviour also.

An individual, firm, company or any other body of association doing business of supplying materials, machinery, tools, components and other resources needed by the company to produce its own goods or services constitute a group of suppliers. Supplier's marketing behaviour also greatly and seriously influence on buyers marketing management. In this environment a marketer has to analyse various issues like supply, availability, shortage, delay, cost, short term and long term supply, delivery, inventory, economic order quantity, terms of delivery dependability and stability in the supply of material.

5. Marketing Intermediaries

The role of intermediaries in distribution cannot be totally ignored. They are persons who act as a means between two or more other marketers. Marketing intermediaries are firms which participate in the marketing activities of the company to promote, sell and distribute its goods and services to the final buyers. It is also a part of company's immediate internal environment.

Marketing intermediaries are various types that include middlemen, agents, merchants, physical distribution firms, marketing service agents and financial intermediaries. It also includes advertising agencies, warehouse and transportation firms, marketing research firms, media firms and consulting firms.

The distribution firms act as middlemen who help the company to find customers or make sales to them. They include retailors, wholesalers who buy and resell to the consumers in the market place. For the purpose of moving the goods and stocking goods from their point of origin to their destinations, physical distribution firms will come into the resource of the company. Warehouse firms render service of storage and protect goods till they are sent to next destination.

Transportation intermediaries include rail roads, trucking firms, airlines and other large companies whose main line of business is moving goods from one location to another location. Banks, credit companies, insurance companies, etc. will come under the category of financial intermediaries in the marketing management.

Market analyst, market research firms, advertising agencies, media agencies, consulting firms are called marketing service agencies.

6. Publics

In recent decade human society has become so complicated and differentiated that a company is no longer able to survive without depending on various segments of the society. It certainly would not be able to live well without using and getting support from all. The internal marketing environment of a company includes various publics also, with which a company has to interact.

What is public? A group of similar individuals, an assortment of persons having the same interest, problems, circumstances and goals. Public is a varied creature. Public comes in many forms and sizes.

For instance, media make for a public, and the Government another public. The important groups of public are :

- Financial public
- Media public
- Government public
- Citizen action public
- Local public
- General public
- Internal public
- External public

There has been a misconceived opinion about the scope or field of publics who are important component of internal environment. It is here public relations profession has entered into the field to improve and support marketing management.

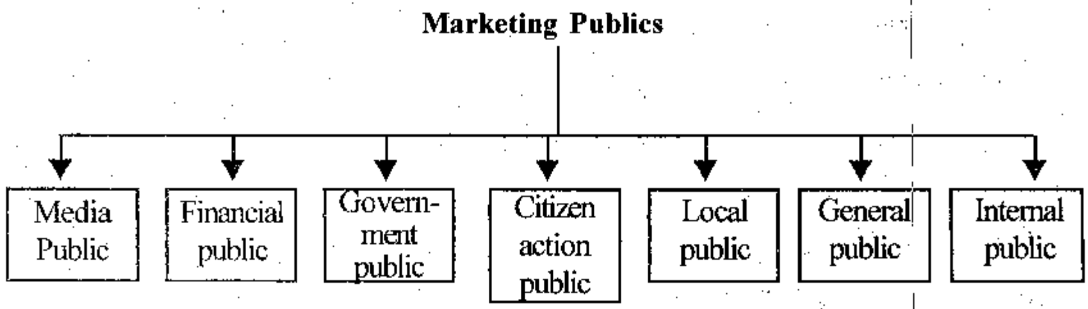


Fig. 3.4

7. Financiers

They are financial intermediaries who extend financial facilities to the companies. They include banks, credit companies, insurance companies and other business houses that help financial transactions as well as they have the capability to extend non-financial support.

Activity - III

What is micro environment ? State its factors.

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3.6 MACRO ENVIRONMENT

The other terms used to represent macro environment are general environment or remote environment. Macro environment is usually an external environment which includes factors of micro environment. The factors operating in macro environment are uncontrollable in the sense that the forces are not within the hands of the company and as such outside the jurisdiction. So a company has just to identify and recognise the macro environment factors and accordingly adjust strategies, plans and actions to perform profits.

The extent of success or failure of a company would depend to a great extent upon external factors of environment also and to adjust and adapt to the changing uncontrollable environment.

There are many actors operating in a large macro environment which shapes the operations and directions of the market and pose even threats to the strategies.

The following are the major forces operating in macro environment.

1. Demographic Environment
2. Economic Environment
3. Natural Environment
4. Technological Environment
5. Political Environment

6. Socio-cultural Environment

7. Legal Environment

Macro Environment

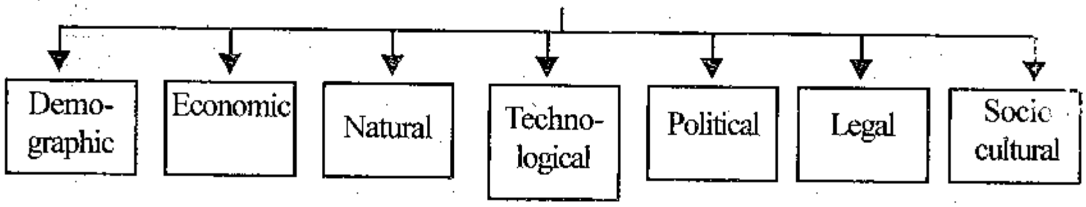

fig. 3.5

1. Demographic Environment

Demography is the study of statistics relating to births, deaths, diseases, size, density, location, age structure, sex, race, religion, social class, occupation, family life cycle, income distribution, woman population etc.,. Demography is a marketing environment factor that the marketer has to scan. It is the population who are the consumers who make up the market. The size and composition of population and their other behaviours and characteristics like their location, cities, nations, age distribution, social, cultural and ethnic mix, educational levels, household patterns, settlement, and their movement. all will have influence on marketing activities.

The Indian population is growing at an explosive rate and similar is the world trend. The population growth at an exponential rate is a serious issue throughout the world. Its continuous growth creates a problem or shortage of resources to maintain the human beings like food, shelter, clothing, fuel, medicine and other essentials which are limited in their availability. The resources may get exhausted after certain time.

The other problems of explosive growth of population are depletion of minerals and other resources, over crowding, pollution, housing problems, and overall deterioration of quality of life of people. The rate of growth of population in under-developed countries is higher compared to developed countries. On an average growth rate is 2 per cent but in developed countries it is much less than this. Due to this the Governments could not meet increasing needs.

On the other hand, the death rate remained constant because of health-awareness, improved medicine, life saving drugs etc. All these have a significant impact on marketing. The population size analysis is essential which has a great impact on demand for product. In one sense growing population is a favourable indication for marketing activities because it creates additional demand for the product. The explosive growth of populations is generally attractive to marketing to introduce new products.

A population age mix of various age groups also should be analysed. They have powerful forces shaping the market place. Markets also vary based on ethnic and racial make-up. In some countries population from different countries migrated and settled in other countries in big cities like cosmopolitan and metropolitan cities. The citizens of these countries have different consuming behaviours and buying patterns in respect of food, clothing, shelter, furniture and conveyance vehicles.

The educational qualifications of the consumers should be classified into illiterates, primary, secondary, upper primary, higher education, graduates, and professional educational background. Each group has a separate set of needs and buying habits and preferences. So the educational backgrounds of the consumers have major implications on marketing operations.

The household patterns also should be scanned and classified as traditional households and modern households. Marketers should invariably consider the special needs and requirements of traditional as well as modern households whose size is growing very rapidly in recent years. Geographical shift in population within the country, between countries, migration from rural to urban and from urban to sub-urban areas and to cities in search of jobs, services have considerable impact in formulating marketing strategy.

2. Economic Environment

Marketing operations equally thrives squarely on economic environment also, which constitute the real market world. The marketers are also affected by shift in economic factors of purchasing power, real income, nominal income, savings, prices, consumer credit etc. A firm's consumers base is no longer restricted to any one economic indicator of income or price alone. The economic environment has also been affected greatly by powerful effects of employment, balanced regional economic development and income distribution.

Every marketer must scan major trends in income and wealth distribution of a particular region as well as consumers spending pattern, purchasing power and propensity to consume. In subsistence oriented economie people do not have much purchasing power, as whatever is produced either of industrial or agriculture is meant for subsistence.

Marketing opportunities are very limited in these economies because transactions are based mainly on barter system. Areas where industries are concentrated have wide market potentialities for various consumer and durable products from middle class families. The affluent societies and sections of people offer wide marketing scope for all sorts of goods and services. The geographical regions can be classified as developed, under-developed and un-developed regions and to work out marketing strategies accordingly.

Based on income and wealth distribution markets can conveniently be classified as low income, middle income, very high income consumers. Affluent consumers buy prestigious and expensive goods and services, while the middle class and lower income group generally prefer discount stores, cooperative stores and lower quality products.

The factors of marketing significance are employment opportunities, increase in purchasing power, change in habits and tastes and lifestyles of the consumers. Economic environment consisting of savings, debt, consumer credit, etc., should also receive equal attention by the marketers.

In some countries or in some areas within the country saving habits of the people may vary widely and accordingly the buying behaviors. Availability of liberal consumer credit for consumable and domestic goods offer market potential to be effectively explored. Similarly, consumption loans at lower rate of interest creates demand for some products. Indian consumers have low debt - consumption ratio. In advanced countries consumer credit is available liberally at lower rate to lower income borrowers.

Marketers should analyse the trends and changes in income. Cost of living, inflation, savings, interest rates and Government regulations and intervention etc., have considerable influence on marketing.

The working class consumers, lower income people., daily earners' buying patterns and spending patterns are directed to food, clothing, shelter and finally a small proportion for saving. A shift in income and in spending patterns of income brings a change in marketing environment.

The structure and composition of economic sectors like primary, secondary, tertiary, small, medium and large are important indicators to the direction of marketing because they indicate the prospects for different types of products. The impact of economic policies like industrial policy, wage policy, price policy, foreign exchange policy, monetory policy and fiscal policy is very great on marketing. Some policies may create favourable opportunities for marketing as they create demand for some new products and services.

The global economic conditions should not be ignored as an important component of economic environment. The economic reforms like globalisation, privatisation have brought about a revolutionary sea change in business theory creating a great potential for marketing.

3. Natural Environment

Marketers also equally have to consider and need to be aware of the natural environment, in which a firm is operating. Different economic regions have been endowed with different natural resources. The term natural includes the whole universe and every endowed resources but not man made. It includes minerals, air, forests, mountains, mines of oil, coal, etc.

The natural resoruces endowment may also include weather, climate, topographical locations, terrestrial things, port facilities, global environment etc., which affect marketing activities.

Thus the given natural environment is the ultimate source and supply of everything, which is the earth. All these natural resources are used by the marketers as inputs to produce products. Thus nature also affect marketing activities to a considerable extent. Further utilisation of locally available resoruces creates opportunity to produce products and services and as a result marketing activities progress.

Lack of or shortage of natural resoruces would adversely affect marketing operations. Infinite raw material availability generates a continuous economic activities. Forests and foods are renewable resoruces. Oil, coal, silver and other products of extractive industries are nonrenewable products. To that extent they limit marketing activities.

Marketers should analyse seriously the threats and opportunities of natural environment. For instance, depletion and deterioration of natural environment is a major concern of every company today throughout the globe. Air, water, noise pollutions and industrial waste are major problems in cities, causing various types of health problems. Industrial wastes, chemical and gases emission by factories, smoke etc., are injurious to national health.

Companies producing these products should consider these problems; otherwise their prospects will decline. We are also aware of forming a hole in the ozone layer producing green house effects which is caused due to chemicals, as a result of producing heat to the earth.

Many companies are investing heavy budget in pollution control activities, emission controls, etc. Marketers should consider all these factors relating to nature in producing products and making marketable strategy. Marketing activities are affected by the shortage of natural resources, population control, and increasing intervention of the Government in the matters of natural environment.

Many Governments have enacted pollution control legislations and initiated regulatory measures to promote a clean environment. Maintenance of pollution free and clear environment requires not only huge funds but also political will and public awareness. It has increasingly become a social responsibility of every company to control pollution and maintain clear and natural environment.

The industrial wastes and pollutions are dangerous causing damage to the quality of natural environment. Chemical emissions, sounds, disposal of wastes, nuclear wastes, increasing mercury levels, plastic bottle, packing materials, etc., are all collectively responsible for deteriorating the quality of environment.

The existing natural resources needed to support growing population are naturally limited and may exhaust at any point of time. The shortage of natural resources is due to exhausting natural endowments. So marketing activities are invariably influenced by the factors of natural environment. So they present the impulsive potentialities for marketing.

The natural environment and its behaviour determine the extent of marketing decision and strategy. Therefore, marketing environment determines the direction and scope of marketing functions. Natural resources endowment in different environments would determine and is the fundamental factor to be considered in designing marketing structure. Marketing mix may also differ between markets because of difference in natural endowment.

4. Technological Environment

The impact of technology in external environment cannot be ignored. It is one of the important determinant of marketing success of an enterprise. The word technology includes machines, plants, tools, components, hardware, software and knowledge used for manufacturing products. So technology includes not only material things but it includes entrepreneurial abilities and professional skills.

The Global Competitiveness report considered technology as one of the 8 factors to evaluate the global competitiveness of nations. For instance, internet, e-commerce allowed for much more extensive and wide market coverage. In a global economy the competitiveness of market is closely linked with the extent of adapting new technology.

Profitability, efficiency and cost effectiveness factors also would depend on technology use. Similarly, the rapid growth of information technology supported communication devices like fax, cellular phones, modem, mobile communication system, pager etc., demonstrate the changes in fast communication, to take advantage of global marketing opportunities. Its advancement has tremendously global market which is a facilitating factor for a global system.

For instance, adoption of new technologies is likely to ease introduction of products in world market. Early birds reap the benefits of the market. If new technology is not adapted global competitiveness for market share may decline. The new technologies have brought about revolutionary changes in the way of marketing operations. The online marketing or tele-marketing are greatly affecting the marketing strategy, customer relationship, communication system etc. Developing countries are late in entering in the new era of IT in terms of its application in marketing priceless.

Technology has thus resulted in introduction of such wonders like super speciality hospitals, monitoring the conditions of the patients in intensive care unit, monitoring nuclear reactor, computer aided design, satellite launching, computer controlled robotic manufacturing process, companies which have not adapted new technologies faced the problem of decline in sales.

The trends in technology should be analysed in relation to the pace of change, the opportunities for innovation, research and development, Government regulations etc. Many of the modern information technology based electronic products were not available a few decades ago. Many people have not seen micro-computers, cellular phones, pagers, fax, video telephony, internet telephony etc.

The modern tele-commute facility enables to do office work at home which resulted not using of own vehicles, reduce pollutions, save of energy and more time to spend with family members. All these technological improvements and innovations will have substantial impact in shaping marketing startegies. The unlimited opportunities for innovations will introduce new product which have great demand in the market.

Government also have been increasingly participating in regulating unsafe and products which are dangerous and hazardous to health. Consumer organisations and other social institutions are greatly concerned with certain products like food, medicine, clothing, shelter etc., A marketer cannot launch a new product without the knowledge of technological changes.

5. Political Environment

Political environment also plays a critical role in marketing success. Even best thought out plans and design of strategies can go ineffective as a result of unexpected political changes. The political uncertaininities may result in failure to anticipate marketing trends. Politics may affect marketing activities through their legislation and regulations. The economic and business policies are formulated by the ruling political party according to their idealogy and manifesto.

Marketers need to know about the major political events taking place in the country. They need to be aware of the political events at the local level, regional level, national level and international level. The political environment to be scanned includes such factors of identifying manifestoes of political parties, characteristics and policies of political parties. The nature and structure of the Constitution of India, Government system and Government environment concerning economic and business policies should be analysed.

All industrial and economic policy decisions have political implications. The principle of socialistic pattern of society has its socio-economic philosophy.

Marketing decisions are greatly affected by political developments. But at the same time political situations sometimes also create new opportunities for marketing. So marketers must have a good and seasonal working knowledge of politics in a country. The impact of political environment in marketing is enormous. It is the political system prevailing in a particular country that decides, promotes, fosters, directs and regulates marketing activities.

Analysis of political philosophies is also necessary. The most commonly found political philosophies are democracy, totalitarian, communism, socialism, military, etc.

In democratic political system there exist the following three types of institutions.

- **Legislative** : Making law and policy.
- **Executive** : Administration and implementation.
- **Judiciary** : Interprets law, settles legal disputes, review and advice.

The preamble to the Indian Constitution states that "we the people of India having solemnly resolved to sensitive ourselves into a Sovereign, Socialist, Secular, Democratic, Republic and to secure to all citizens".

6. Socio - Cultural Environment

The society is a system wherein people live together in organised communities, a social way of living. It is a particular grouping of humanity with shared customs, law and practices. The word Socio refers to society. On the other hand the word culture indicates refined understanding and appreciation of art, literature, a state of intellectual part of the society, containing customs, art, social institutions of a particular group or people.

So a cultural environment is made up of several forces, institutions that affect a society's basic values, perceptions, preference and behaviour. It is a social environment that shapes people's behaviour, values, customs, practices, etc. People observe and follow them transferred from one generation to another generation.

This environment has its own behaviour and characteristics that effect marketing strategies and decision making. Therefore, socio-cultural environment cannot easily be ignored as it has significant influence on marketing activities. The socio-cultural set-ups, changes in them should be considered which have considerable impact on marketers supplying goods and services.

In recent years, for instance we observe tremendous changes in socio-cultural behaviour of the people. The rapid rate of industrialisation, urbanisation, civilization, increased rate of literacy have resulted in many changes in socio-cultural life system of the society.

The life styles, change in habits and tastes, living ways, place of living, patterns of their earnings and spending, demands should be considered to formulate strategies and plans to satisfy their changing needs. Knowledge of socio-economic shifts is crucial for the marketers to win competitors and exploit new marketing opportunities and threats. The most basic values of the public decide consumption pattern.

There is a clear shift in basic values, beliefs and customs prevailing among the new generation people, who replaced traditional values to some extent, and placing greater emphasis on such goods and services which meet their modern needs.

Accordingly, the markters have to read just priorities and activities of the marketing. Some of the re-adjustments, prioritisation, which the marketers have to make in response to socio-cultural change should include refilling, re-cyclable products, plastic package and labels, carry bags, electronic goods, impulse buying etc., Living and consumption patterns of people and babies born in 21st century are quite different.

People of every society may have some beliefs. A belief is a feeling or opinion of something which is true or real, trust and confidence in them and holds about something. It may be based on knowledge, opinion or faith. A belief may be of two types. They are :

1. Core belief, and
2. Secondary belief.

The core beliefs and values have high degree of persistence. These beliefs are passed from parents to children while the secondary beliefs are subject and open to change.

A marketer's strategies are greatly influenced by cultural factors also, as they exercise powerful force in decision making. It has a sub-culture which is smaller set of culture that include nationality, religious, racial groups, geographical regions, etc. So subcultures also make up a market segment. So marketers can design products and services accordingly to suit different subcultures as opportunities.

A society may have a number of social classes known as social stratification. It exists in the form of caste systems; people have their membership in their respective castes, a homogeneous division. They have their own norms, laws and practices. They have their own dress pattern, linguistic, economic, occupations and value orientation.

Marketers have to scan as to product and brand preference based on classes. Buying patterns, purchasing power of class people differ both in clothing, shelter, furniture, saving, spending, etc. So marketers should focus their strategies and plans on social class basis.

7. Legal Environment

The political and legal environments are not distinct but both are inter-dependent. The political environment includes law, Government agencies and pressure groups that influence and limit the activities of individuals in a given country. Government is a body constituted by politics which makes the law. Marketing decisions are greatly affected by developments in the political environment. Political decisions and Government legislations also sometimes offer new opportunities for business.

For example, information technology policy in India has given a major boost and spurred the creation of many new IT based companies to emerge to produce new products. The plans, strategies and actions of the marketers should be within the framework and broarder objectives of legal framework formulated by the political parties ruling the country.

Government is the ultimate authority to regulate and control the business activities such as prices, raw material, stocking, movement, unfair trade practices, environmental protection, product safety, objectionable advertisements, packaging and other important areas.

There are many legislations and regulations which are not designed especially to address marketing issues. But there are many provisions within many legislations which have major impact on fixing marketing strategies and plans. Drugs and Magic Remedies (Objectionable Advertisements) Act, for example affects sales promotion activities. Similarly many commercial laws significantly affect the pricing, distribution, stocking, labelling and packaging activities.

On the other hand, the Intellectual Property Laws may affect research and development and investment. Many issues of marketing transactions are covered by one or another type of legislation like Contract Act. Law of Indemnity and Guarantee, Sale of Goods

Act, Evidence Act etc., So the marketers must analyse the legal environment and aware of legal aspects that directly affect the marketing operations. The impact of law on marketing may vary from one country to another country. The sugar industry, for instance is driven by Government regulations and controls right from cane cultivation, pricing of cane, production, stocking, pricing of finished products, movement and marketing. Similarly, the financial markets may operate under the jurisdiction of SEBI and its regulations. The recent economic reforms of deregulation, globalisation and privatisation, for example, have major implications in designing marketing strategy in many areas of diverse consumer goods and financial services.

The reforms have brought new entrants and introduced new products into the market and old marketers went out of field. Because of change in political structure, philosophy, idealogy, more new laws have come and old ones repealed. Marketers necessarily have to accept and interpret laws. The situation of coalition cannot be ignored, it has its own impact on business. The policy makers, and legislators are well influenced by lobbyists and well connected with individuals and firms. Government is also entering into marketing activities wherein lobbyists are well connected with people who have major roles in marketing decisions.

Marketers must watch all these above mentioned issues and issues not touched upon while making marketing plans and strategies. They must be aware of major legal issues pertaining to marketing, competition, consumers and society. Marketers are required understand the laws at local, regional, state, national and global context.

The law is meant to protect companies from unfair competition, to protect consumers and to protect the interest of the society in general. In these respects legislations affecting marketing have been increasing over the years.

Activity - IV

Discuss the external factors which influence in marketing operations.

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3.7 INTERNATIONAL MARKETING - CONCEPT

The world has become a global village. The world is changed with the advent of information technology. The distance is whisked away, communications criss-crossing the bounderies of the nations, faster satellite communication facilitating to do business fastly, from anywhere to anywhere at anytime. We are now shifting towards transnational market or global market. In this the whole world is one market. International supply, international demand, global market, global brand, global company, global advertisement are the features of the market due to preferences for foreign products, diminishing cultural differences and followup of similar life styles.

International market in true sense is a way of internationalisation of world economy. This type of market is called borderless market. The electronic technology facilitating fast communication by cellular phone, pager, fax, internet telepony and other mobile communication systems.

International market is a segment of overall marketing operations in which strategic plans of the firm are targeted to operate in other countries. In this marketing, national marketers are affected by global market strategies. It means marketers operate in more than one country. Firms doing international marketing are involved in formulation of strategies, plans and programmes, operate and co-ordinate their activities world wide. The entire geography is a market where the consumers are there. Marketing activities would criss-cross the political boundaries of various countries.

The products or services of the firm of a company are sold in other countries. Companies prefer to go to global market where their products and service are demanded. When planned to go to world market, the marketers have to define objectives, policies and strategies, and countries to enter. A company doing international marketing has its own marketing organisation.

In international market there are five market entry strategies namely direct exporting, indirect exporting, licenses, joint ventures and direct investment.

The **features** are :

1. **Active exporting** The passive level of export is called occasional exporting. When a firm attempts to expand its market in a particular market, it is called active exporting.
2. **Indirect exporting** When exporting takes place through intermediaries it is termed as **indirect exporting** For instance an export merchant who buys goods of a producer and sell outside. Export agents are involved to negotiate foreign purchases.
3. **Under licensing system** a licensor to a foreign company to his production process, trade market, patent, trade secret.
4. **In joint venturing** system, foreign investors join hands with local investors to create a joint venture company for doing international market.
5. **Direct ownership** in foreign based production facilities is called direct investment. There are some other forms of doing international market.

The marketing organisation of international marketing consist of various forms namely:

- **Export department**

In case of export department method, the international marketers first export goods when there is demand for the product. A separate export department is created with sales mangers and a few assistant sales managers.

- **International division**

When a company has several intranational markets it creates separate international division to carry out international market. It consists of several functional specialists.

- **Global organisation**

Global organisation method signifies world wide production facilities, marketing policies, logistics etc. World class professionals trained in world wide marketing operations are appointed to manage the affairs of market. In this the whole world is treated as a single market and it may have a global strategy.

Most of the countries and their regulations are dismantled; restrictions have been removed. Freedom to investment, free trade zones, virtual markets all have contributed for rapid growth of international market.

So intranational marketing means integrating the market of a country with world wide or global market. It means market of a particular country is opened to all marketers of the world to sell their products. Imports and exports are liberalised, boundaries are removed, economic policies support such markets. The new Economic Policy of India, 1991, for instance has emphasized international market.

Activity - V

State the features of International Marketing ?

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3.8 IMPORTANCE OF INTERNATIONAL MARKETING

International marketing can benefit the marketers, nation and citizens in several ways. There have been several reasons which have given rise to the importance of international market certain specific advantages emerge from international marketing. The **importance** of international marketing can be understood from the following dimensions.

1. **Standardized products and services** on a global base will create an integrated value based marketing management.

2. **Products** are made available to the customers **at a lower price** because of comparative cost advantage of manufacturing.

3. International marketing, through e-commerce, internet or online marketing would **eliminate market intermediaries.**

4. Even small and medium sized firms can enter into global market through new technology. The **system widens** consumer base and wider coverage of markets.

5. **It encourages foreign private investment** as well as institutional investment.

6. **To create global society.** International marketing ensures a sustained **development of a global society**, stabilizes and strengthens inter-dependence and promotes international understanding. Today the country cannot remain allow of itself totally from the rest of the globe.

7. Marketers operating in international market are the vehicles for **transfer of technology, market, capital, investment** etc.

8. It also kindles a managerial revolution through professional marketing management of world class characterised by **highly sophisticated management** professionals.

9. A balance can be struck between exports and imports easily and the **problem of balance of payment can be solved.**

10. The enormous resources of the marketers enable them to undertake a qualitative and **efficient research and development activities.**

Activity - VI

How is International Marketing Important ?

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3.9 SUMMARY

In this unit, we have indicated the concept of marketing environment and its importance to the marketers . We briefly discussed the general factors like clues, threats, competitors, social responsibility, standard of living, strategic thinking, policy formulations etc., that tend to emphasise the importance of the subject of marketing environment.

In addition, we have discussed the opportunities and threats in market place. The technique of SWOT analysis is applied to examine the opportunities available to the marketers and threats to face. The discussion also has thrown light on the threats and weaknesses.

After identifying the types of marketing environment the study proceeded for detailed discussion of micro and macro environment. Finally the unit is concluded with an introduction to the concept of international marketing and its importance.

3.10 SELF ASSESSMENT QUESTIONS

I. Short Answer Questions

1. Explain the concept of marketing environment.
2. Discuss the importance of marketing environment.
3. Classify the environment.
4. State the external factors.
5. What do you mean by Inernational Marketing?

II. Long Answer Questions

1. Identify the opportunities and threats in a market place.
2. What is SWOT Analysis? Explain its application in marketing environment
3. What is micro environment? Who are the actors of micro environment?
4. Explain the concept of macro environment? Identify and discuss the major forces of macro environment.
5. What do you understand by international marketing? Explain its features.
6. Discuss the importance of international marketing in recent years.

3.11 FURTHER READINGS

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3.12 KEY WORDS

Marketing Environment	:	Conditions influencing marketing operations.
SWOT Analysis	:	A technique of marketing scanning on opportunities, threats, strengths and weaknesses.
Internal Environment	:	Factors exclusively internal to the organisation influencing decision making.
Micro Environment	:	Consists of forces or factors close to the organisation.
Customers	:	Source of buyers; includes consumers, business resellers, Government etc.,
Competitors	:	A group of marketers producing substitute products targeting same group of consumers.

UNIT – 4 : SERVICES MARKETING

Aims and Objectives

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

- understand the concept of service;
- discuss the reasons for growth of service sector;
- explain the characterstics of services; and
- describe the elements of marketing mix in services marketing.

Structure

4.0 INTRODUCTION

Services sector, both in public and private sectors, is a new area of modern marketing management. Not unexpectectedly, services continue to be an ever more important dimension of modern marketing. Healthcare, tourism, insurance, banking, transport, hotel, personnel care, entertainment, tele-communications and similar services are vital and attract the profession of marketing.

Yet relatively little has been written about the marketing profession in services sector compared to the marketing of tangible products. The marketing strategy to create customer satisfaction in the delivery of services is dramatically different. A few years back the perception of services was confined to only work and advice with service motto. But today, the services have been commercialised.

It is against this background that the private and public sectors have been found making sincere efforts to explore this sector to generate and earn profit. There exist a fierce competition among service providers. Thus the service providers are found giving a top priority to the public relations driven, and user friendly marketing of services. So far we have concentrated on marketing of goods and therefore, the market in services sector could not be promoted in right direction.

In developed countries, multi-national corporations availed the benefits of services sector. Even in India, we find many organisations creating separate professionals to provide quality services. Unless we create a separate cadre of professionals in the service sector, the providers would hardly be successful in delivering the services.

Both the sectors, public as well as private, need to understand the new marketing culture in which the professionals need to have personal commitment.

4.1 THE CONCEPT OF SERVICES

The concept of services marketing, holds that the task of a concern is to determine the needs and wants and interests of users and to satisfy the customers. Marketing of services implies the functions by which the marketers are supposed to influence and satisfy not only the physical satisfaction but also non-physical components of satisfaction of the customers or users.

Service is a system or arrangement that meets the needs of customers especially for other than physical products. For example, services include health services, communication services, banking services, insurance services, hotel services etc. The new dimension of service marketing emphasises selling of services in the best interest of users. A concern generating services identifies the interest of the users and give importance to the users. It is something intangible and sometimes invisible service which meets the requirements of the customers from which they derive satisfaction.

In marketing of services, the product features include both services as well as physical goods. Thus services and marketing of physical products are interlinked sub-systems. There are many business enterprises who basically sell only the services to the customers. For instance, insurance services in which the insurance company renders services to the prospects.

Services marketing may be undertaken by the organisations with a primary object of making profits, while some other organisations render marketing services with non-profit objective. Such type of organisations are called non-profit organisations. For instance, educational institutions, political and social organisations are the examples of non-profit making concerns rendering services.

The word service is rather wide and general in concept and it embraces a wide variety of services. There are the national, multi-national, private, public, professional and consultancy services such as advertising, computer programming, legal, medical services, public utilities like electricity, water supply, transport and communication services. Then there are services which come under the broad category of leisure and recreation meant for reasons of satisfaction and psychological needs of the users. Such services may he marketed by cinema houses, clubs, video game parlours, beauty parlors etc.

The **American Marketing Association** defines services as : "Services are activities, benefits or satisfaction which are offered for sale and are provided in connection with the sale of goods "

Sir William Beveridge Opines that the "Services refer to social efforts which include even Government to fight five giant evils, e.g., want, disease, ignorance, squalor, and illness in the society".

Rao, A.V.S., another expert says : "Services can also be defined as a human effort which provides succor to the needy. It may be food to a hungry person, water to a thirsty person, medical services to an ailing person and education to a student, loan to a farmer, transport to a consumer, communication aid to persons who want to share a thought, pleasure or pain".

According to william J. Stanton : "Services are those separately identifiable, essentially intangible activities, which provide want satisfaction when marketed to consumers and/or industrial uses and which are not necessarily tied to the sale of a product or another service".

According to Kotler and Armstrong : "A service is an activity or benefit that one party can offer to another that is essentially intelligible and does not result in the [illegible] of anything. Its production may or may not be tied to a physical product".

Activity - I

Explain the concept of Services.

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4.2 SERVICE SECTOR

The industrial revolution brought many changes in financial and industrial sector. Without the emergence of service sectors, the economic benefits of mass production could not have been realised. There has been a steady rise in the service based enterprises. It is a new revolution wherein individuals and organisations have been spending greater portion of their income to avail services.

In advanced countries, their economies have changed towards se[illegible] from the goods dominance. Services sector is now accounting for more employment, GDP and more consumption. So the trend indicates that still there is a brighter [illegible] to the services sector. Many firms are now drastically altering their goods and services [illegible] to take advantage of the changing consumer expenditure mix. In all seasons consumer e[illegible]ure for services tend to increase than expenditure for durable goods.

It is against this background that we propose to study the [illegible] the present global marketing context. It is not expected that a concern can [illegible]. To be more specific, when we are in competitive sector, characterised by [illegible] information technology, we do not find any sense in continuing with the conventional [illegible]ogies and physical products alone. Information technologies have emerged as an important and dominating service sector.

What Constitutes Services Sector ?

There are many emerging key services in recent years. The sky is the limit in services sector. This made the task of marketing services complex. So it demands expertise, innovative efforts, more and more competition which requires marketing professionalism to [illegible] competition. Today we see a number of services offered to customers with innovative marketing strategies.

The Services sector includes :

- Banking services
- Insurance services

- Transport services
- Tourism services
- Hotel services
- Consultancy services
- Personal care services
- Educational services
- Hospital services
- Entertainment services
- Telecommunications services, etc.

Activity - II

What constitutes services sector ? Explain.

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4.3 REASONS FOR GROWTH OF SERVICE SECTOR

The industrial revolution has brought revolutionary changes not only in production and marketing of physical products but also introduced inter-connected services and marketing of services. It is the emergence of service sectors which is responsible for realisation of economic benefits from production and distribution of products.

Not only in India but also in other countries there is a glaring evidence of decline in the conventional process of manufacturing of products. Service sector grew tremendously because they produced intangible goods which satisfy users' psychological and emotional needs. As a result of increase in the demand for services, service industries have emerged. Service industries are referred to as the second industrial revolution. The consumers/ users have been spending increasingly on availing services like leisure, recreation, communication, health, insurance etc.

Today service sector has been providing more employment opportunities, and greater contribution to Gross Domestic Product (GDP). For instance, in the USA the percentage share of service sector to GDP is 75 per cent, in Australia 72 per cent and in Canada 70 per cent.

The following facts make it clear for various reasons for the growth of service sector :

1. Affluent Society

One of the reasons for the growth in service industries is that the society is heading to increasing affluence. The characteristic features of an affluent society is plenty of money, goods or property enjoying both materials and services. In an affluent society people live a life of affluence, an affluent life style. An affluent society is one in which most people have a high standard of living. People in such a society require more services. There is always an increasing demand for services such as household services, comforts, luxury, interior decorations and people live in an environment of comparative prestige.

2. Complexity of Life

The increasing complexity of life composed of legal, social, economic organs [illegible] necessarily involves service providers to solve the problem. The society is made up of several closely connected and related sub-systems. Hence life has become an increasingly complex system. An increasing complexity of life is a situation, difficult to understand or explain because there are many connected things. Hence, it demands special types of services.

As a result, the demand is witnessed for specialists in taxation, labour laws, legal matters, social matters like marriage counselling, employment services, etc. A number of consultancy services organisations have emerged. They provide services of legal, technical, financial management, advertisement, leadership, projects, tax planning, etc. There is a growing significance of specialised and professionalised knowl edge and expertise.

3. More Leisure Time

A transformation in the economic pursuits, life styles is clearly witnessed in post industrial era. More people work in service sector. As a result they enjoy more leisure time. People who have leisure time require special types of services to satisfy themselves. This reason creates greater demand for recreation and entertainment. Increasing affluence created a desire to utilise leisure time for recreation. This has led to the phenomenon of facilities for travel resorts.

Hence there is an increasing demand for tourism service which is a pleasure activity in which money earned in one economic activity is spent on recreation and entertainment. It demands other services such as self improvement, adult education, extension and continuing education.

4. Increasing Health Consciousness

Health is wealth. There is an increasing healthcare consciousness among the people. There is greater demand for quality medicare services. Advancement and innovations and research in medical sciences have designed a number of medicare services to attack a number of diseases. Medicare services are in great demand for greater life expectancy, greater demand for nursing homes, corporate hospitals and super speciality healthcare services.

Hospital and healthcare services of various types and demand [illegible] has been increasing. The document of the World Health Organisation (WHO) [illegible] greatly emphasised the healthcare services, both curative and preventive, [illegible] of social system.

5. Increase in Purchasing Power

Of late, we find a phenomenal change in disposable [illegible]. The positive developments, awareness of quality of living, standards of living, change in habits and tastes etc., have opened doors for new services along with [illegible] in purchasing power. Accordingly, we witness rapid development of services sector. The cut throat competition is at its peak and this necessitates application of public relations principles and professionalism.

6. Professionalisation and Specialization

These are the days of specialisation and professionalisation of various functions. The technological sophistication, large scale industries, complexity of organisations, behavioural problems and other aspects demand specialisation to handle any area of operation. The firms are engaged in specialists for almost all the functions.

So professionals, consultants, experts and technocrats play an important role in managing affairs. In service sectors, the importance of public relations specialists has been greatly recognised. The service organisations would require a new culture to promote good relations.

7. Information

We cannot ignore information explosion factor to answer why information for service sector. Information highways, information super highways, the concept of global village have changed the dimensions of information. It is in this context that we will find it necessary to practice PR principles in service sector, so that information system plays a positive role in improving economic performance. Decision support systems, executive information systems, databases, networking etc. require professionals to handle.

8. State Interference

The increasing role of Government in almost all sectors of economy and all areas of operation have made ways for the increasing importance of world class service professionals. These and some other facts make it clear that services have a bright future. In a number of service generating organisations like tourism, hotel, hospital, entertainment, the role of Government has been increasing.

9. Styles and Fashions

We are living in an age of civilization in which change in styles and fashions resulted in a basic change in the lifestyles. This makes it clear that we think in favour of providing a variety of services to meet the changing needs of the consumers.

10. Technological Revolution

The advancement in sophisticated information technology has brought many changes in socio-economic [illegible] styles of an individual, group, society, countries and the world at large. A number [illegible] and services have emerged. The electronic technology sparked development [illegible] industries like time sharing, programming, software development, repairs [illegible] services, etc.

The technology [illegible] convergence of various communication technologies [illegible] services like mobile services, pager, cellular, video conferencing [illegible]. The invention of internet has resulted in increasing [illegible] like e-banking, e-commerce, [illegible] services, ATM, credit card, etc.

Activity - III

Give the reasons for growth of the service sector.

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4.4 CHARACTERISTICS OF SERVICES

There are some special features of services, which are quite different from those found in physical product. The special features of services demand a new vision, innovation, a distinctive strategy and a class of professional excellence to market services effectively and profitably. The marketers who are not well aware of the features of services sector find it difficult to make decisions. In view of this, we should study the features of services and services sector.

Following are the important characteristics.

1. Intangibility

Services are intangible, as opposed to goods which are tangible. Service cannot be perceived by seeing, feeling, tasting or hearing. Intangibility is the basic feature of services. The functional responsibility of a marketer is quite different in influencing and motivating the customers. The intangibility feature complicates the role of marketing professionals. Mostly the concerns find it difficult to demonstrate and display the positive and negative opinions regarding the services. The benefits and satisfaction nature of services demand different outlook.

2. Inseparability

As we are aware, services are created and consumed simultaneously and generally they cannot be separated. A product includes service which cannot be separated. The inseparability feature complicates the function of marketer while marketing the services.

3. Heterogeneity

There is no standard of quality uniformly applied. So different consumers may perceive quality according to different attributes of service quality. Time and place are the deciding factors on which services depend. Services vary according to time and place, for example, personal care services, hotel room accommodation, or swimming pool. In this feature, the marketing personnel find it difficult because there is no scope for transfer of ownership in the process of providing services. The marketing professionals thus need to be more careful in marketing services.

4. Perishability

Since services are perishable and not fit to be stored for long, they are subject to perish unless consumed on time. Services of this type are made for simultaneous consumption. For instance, empty seats in a cinema hall, unsold air craft seats, unbooked rooms in a hotel etc. If not sold, they are lost, and hence no revenue.

The perishability nature of services complicates the functioning of marketing professionals. This makes it essential that marketing executives by using their professionalism minimise the waste and avoid loss. The customers come but service providers need to capitalise and optimise by using professional excellence. Regularity and the consistency are the important factors.

5. Ownership

Another feature is ownership. In case of marketing of services, when services are sold the ownership is not transferred. The clients have only an access to service. The ownership remains with the providers only eventhough the services are sold. Examples are personal care services, medical care services, swimming pool, hotel rooms, etc. In these cases, the ownership is not affected in the process of marketing of services. The marketing professionals have a quite distinct experience in this field as there is no scope for the transfer of ownership. It needs a world class professionalism.

6. Simultaneity

The time and cost and energy factors cannot be ignored in marketing of services. The users of services have to go to the service centres, because services cannot be provided to the user. There is no recognised channel of distribution. The feature is that either the service provider must go to the user, or the user must go to the provider. For instance swimming pool cannot be brought to the user. hotel rooms cannot be brought to the user, etc. On the other hand, in case of medicare services a doctor can go to a patient.

This makes it essential that service providers by using their professionalism promote with the customers good relations. They need to be more careful while marketing of services.

Activity - IV

State the characteristics of services.

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4.5 ELEMENTS OF MARKETING MIX IN SERVICES MARKETING

The term mix with reference to marketing, either of product or service, composed of different marketing elements, which constitute the marketing as a whole. In other words marketing mix in service marketing contains several elements. It means marketing mix contains various elements which become involved in or connected with market.

The core of marketing of service and its strategy is the marketing mix. Like marketing mix for a product, service marketing too has mix. They are called the elements of service marketing mix. Marketing mix in service marketing refers to diverse marketing variables.

According to **Neil H. Bordon** : "The marketing mix refers to the effort, the combination, the designing and the integration of the elements of marketing into a programme of mix which on the basis of an appraisal of the market forces will best achieve the objectives of an enterprise at a given time".

The marketing mix with reference to services marketing refers to a combination of several elements which in their totality constitutes a service provider's marketing system. The elements in the case of marketing of physical products are different to the of elements involved in marketing mix in service marketing.

The mix is comprehensive for service marketing. It combines elements involved in marketing of products as well as it covers some additional elements. For marketing of products, the marketing mix includes **four elements** such as :

1. Product
2. Price
3. Place (Distribution)
4. Promotion.

In the case of marketing mix of service marketing, there are three additional elements. They are :

1. People
2. Process
3. Physical evidence

Thus there are in all 7 elements of marketing mix in services marketing. Hence it is called 7 Ps of marketing mix.

Thus, the 7 Ps of marketing mix are as follows :

1. Product
2. Price
3. Promotion
4. Place
5. People
6. Process
7. Physical evidence

We shall now take up each of these elements for discussion.

1. Product

The product in service marketing is called service product. The product refers to different classes of service products in different product lines. The service provider has to plan that its services are suitable in a particular market of target users, it has selected. It is the responsibility of the service provider to understand the nature of benefits and satisfaction the consumers or users are seeking from the service product. A service product must satisfy two basic factors of balancing between the customer's point of view and the supplier's point of view. There must be a marketing planning for service products similar to that of marketing planning of physical products.

The nature of service product is perishable, the provider has to plan world class excellence in determining product mix. According to Kotler, there are five levels of product.

They are :

i) Core services

ii) Generic product

iii) Expected services

iv) Augmented or peripheral services

v) Potential services.

2. Price

The term price is used both for physical products and service products. But pricing element in marketing of services has distinct features. Price is a value fixed by the service provider and attached to the service product. Price is applied for all kinds of physical products like textiles, consumables, comforts, domestic appliances etc. In the case of services different terms are used for different services.

The price terminology is different for different service products. Thus there are different words used and some are quite distinct. Every service organisation has to formulate its own pricing policy so that commercial viability of the concern is promoted.

Some of the pricing words used in marketing of services are as follows :

- Rate of interest
- Commission
- Fee
- Royalty
- Premium
- Honorarium
- Tuition fee
- Tariff
- Fare
- Freight
- Rent
- Dividend
- Salaries etc.

These are some of the pricing terms used in marketing of services. There are no hard and fast rules and methods of pricing for services. The value of services are variable and changes from time to time. The pricing of a service generally depends on quality of service and goodwill of the service provider.

A few examples :

Services	Price terms
• Doctors, Consultants, Lawyers, Auditors, etc.	• Fee
• Sales, Brokerage	• Commission
• Educational Institution	• Tuition fee, Term fee
• Use of property or land	• Royalty
• Transport services like bus, train, ship	• Fare
• Insurance, Life insurance, Fire insurance, general insurance, etc.	• Premium
• Use of money	• Interest, dividend

3. Promotion

In the case of physical products, the term promotion is different to that of sales promotion of marketing of services. The customers in using service relies more on subjective impressions rather than the tangibility, physical structure and concrete evidence. The service providers must keep in mind this fundamental feature in designing the promotion strategy for services. This is because of intangibility and perishability of services. In some cases both tangibility and intangibility characteristic features are found.

Secondly, the customer is likely to judge the goodwill, reputation, competency of service on the basis of the provider rather than the actual service. The tools of sales promotion of services may include :

- gift
- contest
- discount
- commission
- entertainment
- free travel
- resort tours
- fairs and shows.

Marketing of services also include adoption of traditional promotional mix such as :

- advertising
- sales promotion
- personal selling
- public relations
- publicity

Certain service providers also use cinema theatre, newspaper, magazine, radio, T.V. etc., to promote their services.

4. Place

The next element in the marketing mix of services is place. Place is also an equally important component of the marketing mix. The strategy of the place mix refers to the accessibility to the customers provided by the seller. It is a place of physical location decision. The place mix decisions may include where to place the service to be provided to the ultimate users.

The location of the service is the important component in the distribution strategy. The right location or place from which service is extended will attract maximum number of customers. It is a place where the consumers go for the services. In deciding where to locate a service, a number of factors should be considered. A place which is inconvenient, not accessible, distantly located leads the buyer to avoid buying, postponing buying or going to a competitor. For instance, for services like dry cleaning, doctors, beauty parlors, etc., importance of location is very great. So the place must be flexible, accessible, convenient, time and cost saving. In the case of complementary services and technology based services, location of the service is a crucial consideration.

Another issue in respect of distribution strategy is whether to sell the service through intermediaries or directly. Direct sale is preferable in the case of inseparable services. But still there are some services, the marketing of them may operate through intermediaries. In services like hotels, the intermediates are travel agents, tour operators etc. Similarly, agents are intermediaries in the case of life insurance, stock brokers in shares and banks and financial institutions in financial services.

5. People

The role of people cannot be ignored in the marketing of services. People play a crucial role in any organization providing services. Their role appears from two dimensions namely as performers of service and as customers. In service package, human beings constitute an intrinsic part. Service personnel and customers constitute core of the people mix in the service marketing. People in the organisation have to render quality service and customer oriented service.

Good communication skills, public relations skills, attitude, latent behavior and other qualities attract customers. Most services may imply active and involved customers. Present customers will influence future customers. In the case of many professional services one satisfied customer will lead to a chain of reaction bringing a wave of new customers. Therefore, complete satisfaction of the existing customers is the important task of the marketer of services.

The prospective customers attracted by a service provider exerts an important influence on future and prospective customers.

6. Process

The word process with reference to services marketing involves a series of steps in an orderly way of providing services, which constitute the process. So, process element deals with delivery of services. This includes the design and steps needed to provide services.

The process of delivery is to be analysed, implemented and monitored. For instance in bank services the process comprises taking tokens at one counter and receiving cash at another counter. This service constitutes a process. The process involved in a manufacturing unit producing physical product which is quite distinct wherein there is a clear cut operations of input, intermediary activities, and output.

There are three kinds of delivery processes in marketing mix of service products namely : a) Line operations ii) Job ship operations and iii) Intermittent operations.

i) **On Line operations** : The best example of online operations are self-service restaurants and shops

ii) **Job Shop Operations** : The job shop kind of delivery process exists when customers require a combination of services involving various sequences. Hospitals, educational institutions are the instances wherein job shop operations are involved.

iii) **Intermittent Operations :** The third kind of delivery process involves when the type of service is not repeatedly required. Advertising agencies and consultants for the projects have this type of delivery process.

7. Physical Evidence

A consumer or user cannot make a rational judgement of a service before it is consumed or used. The reason for this is that a service product is perishable and intangible in nature. So there is a clear element of risk involved in buying decision. So the strategy to be followed for successful marketing of services is to provide tangible evidence about the service.

The physical setting is an important marketing mix. The environment of service have great impact upon the evaluation of a service. The nature and quality of service is exhibited by way of physical setting. For instance cleanness, appearance, convenience are the physical evidence of the service. They are tangible indications of the service.

There are two kinds of physical evidence. They are :

i) Peripheral evidence

ii) Essential evidence.

i) Peripheral Evidence : This evidence is actually possessed as a part of the purchase of service. This component adds value of essential evidence. The examples of peripheral evidence are airline tickets, cheque book, confirmed reservations in hotels, and availability of match box, writing pad, pen, complementary flowers and drinks which the customers may take away. So peripheral evidence is possessed and taken away by the customers.

ii) Essential Evidence : This evidence is quite opposite to that of peripheral evidence. It means the essential evidence is not possessed and taken away by the customer. It is a crucial input in determining the atmosphere and environment of the service organisation.

The instance of such evidences are the building, size, design, interior layout, interior decorations, logo and economic device of the provider of the constituents of the essential evidence.

In general the following are some of the physical settings.

- visual
- old factory

- perceptions
- colours
- brightness of the surroundings
- the volume and pitch of the sounds at the setting
- the scent and freshness of the air
- spacious accommodation
- style of furnishing
- grand entrance manned by liveried doorman
- credit card service
- dress for staff for identification

All the above and various other aspects of physical settings and environment have powerful influence on buying services, as they provide the customers all tangible cues and indication of service.

Activity - V

Marketing mix in service marketing is distinct and comprehensive compared to product marketing mix. Do you agree? Explain.

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4.5 SUMMARY

An organisation's design of a service product is a function of the objectives which it has to accomplish, the diversity and complexity of the tasks to be performed in this new marketing environment. The objective of the marketer is to determine the needs and wants of the user and satisfy them. Marketing of services is a new area of study in which the marketers have been endeavouring to influence and satisfy the users.

Service is a system or arrangement that meets the needs of the users. The word service is wide and includes a wide variety of services. The services sector include banking, insurance, transport, tourism, hotel, personal care, hospital, etc. There are diversified reasons for growth of the service sector. The industrial revolution has brought revolutionary changes in production of service products and marketing. The strong reasons for the growth of services sector are emerging of affluence society, complexity of life, more leisure time, purchasing power, change in the styles and fashions.

There are distinctive characteristic features in service products namely intangibility, inseparability, heterogeneity, perishability, ownership, etc. The service provider has to combine the various elements of marketing mix. The elements of marketing mix are product, price, promotion, place, people, process and physical existence.

4.6 SELF ASSESSMENT QUESTIONS

I. Short Answer questions

1. Define the term services.
2. List out the examples of services sector.
3. How services are intangible in nature ?
4. What is services Marketing Mix ?
5. What do you understand by marketing mix ?

II. Long Answer Questions

1. Explain the concept of service and service sector.
2. Briefly explain the key characteristics of service.
3. Distinguish between product and service.
4. Discuss the reasons for growth in service sector.
5. Identify and describe various types of services in brief.

4.7 FURTHER READINGS

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4.8 KEY WORDS

Services	:	Non physical products. They are legal, medical, health, banking, insurance, hotel, advertising, educational institutions, tourism services, etc.

Inseparability	:	A service which cannot be separated from the person providing it.
Perishability	:	Services which are likely to decay or perish quickly. In other words services cannot be stored and hence subject to perish.
Price	:	Value fixed to services which is quite different in case of service products. The price terminology is different, eg., the word premium is used for insurance service, fare is used for transport.
Physical Evidence	:	Physical setting and environment of service quality. Cleanliness in doctor's clinic, interior decorations of restaurants are the instances of physical evidence.

UNIT – 5 : MARKETING PLANNING

Aims and Objectives

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

- understand the meaning of the terms 'plan' and 'Planning';
- examine the implications involved in various definitions of marketing planning;
- describe the nature of marketing planning;
- explain the benefits and the importance of marketing planning; and
- know the steps involved in marketing planning.

Structure

5.0 INTRODUCTION

Meaning of Marketing Planning

Planning of marketing prevents costly mistakes and makes the sales organisation more effective. Marketing planning involves thinking before acting and it is needed at every stage of the marketing process. Planning is the determination of course of action to achieve desired results.

Planning involves thinking through the general form and details of work so that it can be accomplished with greatest certainty and economy. Since planning is an anticipation of something yet to happen, it is at best a prognostication. The human intellect has a limited ability to foresee the future, even with the aid of mechanical computing and analysing devices. Consequently, the accuracy of plans decreases inversely with time elapsed.

Planning is the determination of course of action to achieve the desired results. It is one of the functions of management. The process of marketing planning can be considered in four parts: **First,** analysis of factors affecting the future; **Second,** forecasting the future environment; **Third**, preparing the plan (including establishment of objectives); **Fourth**, installing the plan.

The purpose of marketing plan is to adjust internal conditions to the predicted environment and thus obtain for the company the greatest advantage from the environment. The plan's long range phases should be sufficiently flexible to meet subsequent unforeseen conditions.

Unless some planning is done, there will be too many or too few salesmen, too many or too few clerks or servicemen. Again, planning is necessary to enable work to be accomplished effectively by the sales organisation.

5.1 PLAN AND PLANNING

'Plans are nothing, planning is everything'. A distinction is sometimes required between a plan and planning. It is possible for a company to have a plan without any real attempt at planning, while other company may have planning without a plan. Plan refers to a formal paper plan and document.

A plan is a product of planning. Planning is a process of making plans. Thus the word planning carries a wider meaning. It refers to not only to the process of formulation of plans but also the strategy to achieve. A company may have a formal plan but no proper strategy to implement. Similarly a company may have well designed plan process but may not have a formal paper plan. What is said to be more important is planning than a plan. There are examples of many companies which have formal plans but no planning in the real sense of the term.

5.2 DEFINITIONS OF MARKETING PLANNING

Generally speaking, planning is deciding in advance what is to be done, in the future.

According to **Phillip Kotler,** " Planning is deciding to the present what to do in future. It comprises both the determination of a desired future and the necessary steps to bring about. It is the process whereby companies reconcile their resources with their objectives and opportunities".

M.E. Herley " Planning is deciding in advance what is to be done. It involves the selection of objectives, policies and procedures and programmes from among alternatives".

The American Marketing Association defined that " Marketing planning is the work of setting up objectives for marketing activity and of determining and scheduling the steps necessary to achieve such objectives".

In the words of **Czinkota,** " A broad set of guidelines as to how the firm is going to accomplish its strategic goals, a living document that guides the company throughout the year, a blue print for future activity. It is a coordinated, integrated outline of everything that will be done by a firm in each of the marketing functions such as research, planning, advertising, public relations, sales promotion, direct marketing, sales management, product development, pricing and delivery channel management-to support the firm's strategic plan and business plan".

George R. Terry " Planning is the selecting and relating of facts and the making and using of assumptions regarding the future in the visualisation and formulation of proposed activities believed necessary to achieve desired results".

Activity - I

Define Marketing Planning.

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5.3 NATURE OF MARKETING PLANNING

The nature of planning can be highlighted by studying the following characteristics.

1. Planning is a Mental Activity

Planning is thinking about work thoroughly before it is performed. It is the thinking that precedes the actual performance of work which involves the use of intellectual faculties and thought processes. It requires imagination, foresight, sound judgement and embraces such activities as the identification and evaluation of business opportunities and hazards, the determination of the objectives of a business, division or department to achieve maximum profits or effectiveness.

2. Planning involves Steps

It can also be included under planning the determination of the steps required to accomplish the goals, once they have been established. Planning is the foundation of business security. To plan is to determine a forward programme for governing the future affairs of an enterprise.

3. Planning is a Process of Futurity

The planning process starts with the assumption that the future will be different from the present, and it attempts to determine how the enterprise can take advantage of the difference. Planning thus becomes a device for change to meet the future. Planning calls for an open mind and for elimination of the type of prejudice which says: "Men tend to close their eyes to facts which disturb them". Planning requires a 'feel of the future'. This 'feel' may be psychic sense, but it is found in greater abundance among people who are well grounded in the past and who understand the forces at work in the present.

A plan should provide a spring board from the present; it should take conditions from where they are, to where they ought to be. A veteran hiker lost in the woods instinctively ' fixes' his location before attempting a course of safety. In business planning too we must know where we are in order to chart the future.

4. Plan as a Purpose

One must understand the plan and it must be in accordance with its purposes. The plan should incorporate the best thinking frame for every branch of the business, and the organisation for planning should provide a mechanism for securing these ideas.

5. Planning needs Contingencies

The planning process enables a business enterprise to meet the contingencies of the future-not because the future can be predicted, but because the enterprise, by being aware of the need for change, is prepared for change. Thus it is seen that planning is essentially a device for change to meet the future, and that it involves coordination of all elements of the enterprise.

If we are to be completely honest, we must concede that eventhough we use the most painstaking care, some completely unforeseen event can put all our plans to naughty. But this is not to say that we are completely at the mercy of Nature's whim.

It points out, rather, that the basic ingredient in the planning process is the philosophy which tolerates change and which prepares the fertile fields of human genius for the meeting of any eventuality; this is the germ of the planning process.

6. Planning sets Standard

A set of standards against which to measure performance and to determine the attainment of goals should supplement the plan. At the end of each planned period, each segment should be revised to determine which aspects have been completed, which are yet to be done, or which are to be revised for carry-over to the next planning period.

7. Planning is a Choice Among Alternatives

One of the features of planning is a process of developing alternative courses of action and selection among alternatives. Thus choice making is an integral part of planning. Without resorting to the process of developing and selecting of best alternative, a marketing manager is likely to be guided by his limited imagination. There exist alternatives for every decision problem. So an effective planning involves a search for the alternatives towards the desired goals.

8. Determination of Objectives

Formulating objectives will guide future efforts. It is the responsibility of the marketing executive to set the objectives. It is the plan which specifies the objectives to be achieved in the days to come. The marketing executive will fix the objectives in respect of total sales or regional sales and then prepares the strategies to achieve those objectives.

9. Forecasts

Forecasting involves a systematic attempt to investigate the future with inference from known facts. It is an estimate of sales in rupees or physical units for a specified future period. Marketing planning is based on these forecasts for the future. Even the promotion strategy also depends on accurate forecast. Forecast helps the marketing manager to know the strong points and weak points of sales target.

10. Programme and Procedures

Programme is a special kind of planning which helps the solution of any problem. Procedure is a part of marketing planning. Without prescribed procedures and guidelines marketing planning can not succeed.

Activity - II

What are the characteristics of Marketing Planning?

5.4 IMPORTANCE OF MARKETING PLANNING

The importance of marketing planning is understood from the following discussion from various dimensions.

1. Better Coordination

Marketing planning lets the company to achieve the unity of direction towards objectives. Programmes are drawn, procedures are fixed and all activities are directed towards the common goal. There will be an integrated effort throughout the organisation. An unplanned marketing company is like a company with closed eyes. The main merit of marketing planning is the existance of machinery to coordinate the decisions of many functions.

2. Foresight

Marketing planning, by its very nature, is bound to be more farsighted. Planning helps in reducing uncertainties of future because it involves anticipation and foresee future events. Effective marketing plan eliminates all wastages of material and human resources. All people keep a watch on the implementation and working of the plan as a whole.

3. Trade Cycle

Every business has to face the different phases of business cycle. Marketing planning ensures smooth sailing in the market. Business cycle is the result of an unplanned marketing. There is now practical evidence that the business cycle is the direct offshoot of the marketing functions of a company without any marketing plan. Business cycle is one which is very likely to spell its final doom. Business cycle through its operation of various stages creates marketing uncertainty and instability which can never be conducive to marketing.

4. Competition

Marketing planning improves competitive strength. Competition, which is an important factor, leads to all sorts of wastage of valuable resources. Effective marketing planning counters rivals strategy to attract the customers. Duplication is avoided in marketing planning.

5. Technical Efficiency

A planned marketing effort gives rise to a number of economies resulting from managing resources according to the principle of maximum technical efficiency. In the absence of marketing planning the principle of maximum technical efficiency cannot be translated in practice.

6. Profit Maximisation

Without planning a company's financial operations targets, there can be no orderly procedure to attract public investments. Marketing planning alone helps profit planning to meet various cost and reasonable dividends to the shareholders.

7. Co-operation

Another dimension to emphasise the importance of marketing planning is its ability to secure the full co-operation of workers and trade unions. It is true that without the co-operation of labour no headway can be made in the activities to achieve the goals. Lethargy, go slow, absenteeism and other tactics adopted by the workers are bound to have adverse effect on the programmes. There should be an increased willingness on the part of the workforce to co-operate.

8. Emergencies

A company without a marketing planning is misfit for any market at a time of war, national emergency and any other natural calamity. Invariably, such an occasion can be tackled with an effective marketing plan to overcome the emergency situations. Every company is making a lot of marketing planning to win risk and uncertainties.

Thus planning helps in reducing uncertainties of future, because it involves anticipation of future events.

9. Management by Objectives

A good marketing planning helps to implement the doctrine of management by objectives since it is directed towards achieving enterprise objectives by concentrating only on those critical areas. The overall objectives of the company are formulated by taking into account the various activities, programmes and operations of all functional areas.

10. Control

Marketing planning helps the managers in performing their functions of control. Planning is also an integral part of control. It helps control by furnishing standards of control. The defined objectives and the standards of performance are essential for the performance of control function.

Activity - III

You are aware that a marketer cannot succeed in his marketing efforts without proper planning. In the light of this, discuss the nature and importance of marketing planning.

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5.5 STEPS IN MARKETING PLANNING

There are many steps and phases of planning work to which special attention is devoted. But it is not possible to specify the steps in the planning process which can be applied uniformly to all types of organisations. It is difficult because of their differences in objectives, strategy adopted, size, complexity and other problems. The first is the general planning problem of determining the markets to be developed both for the immediate future and for the long run for which certain company plans have to be made. Such planning requires the evaluation of markets as the basis for determining the nature, size and characteristics of the task of developing a sales volume.

Philip Kotler, suggested some steps in the marketing process. According to him the marketing process consists of the following steps:

1. Analysing Marketing Oppurtunities
2. Marketing Research
3. Selecting Target Market
4. Designing Marketing Strategy
5. Planning Marketing Programme
6. Organisation, implementation and control

We will discuss the nature of these steps in planning process :

1. Analysing Marketing Oppurtunuties

Every company must consider the potential market for its product. In fact it is the basic task that every concern has to necessarly identify its potential for long-term oppurtunuties on the basis of its past market experience and core competencies.

2. Marketing Research

The second step relates to the reliable marketing research and builiding information system. A scientific way of conducting marketing research cannot be ignored, which is an essential marketing tool. The research task assists to know the pulses of the consumers, their wants, tastes, habits, behaviour as well as assessing market size. The analysis of the collected data and their interpretation will give a better picture of the size of the marketing oppurtunuties.

3. Selecting Target Market

Once the reliable marketing research is done and information system is designed, the next step is to select target markets. The selection of target markets is nothing but market segmentation which demands for dividing the market into major segments. Each segment is to be examined and select the marketing segments which are profitable to the company to concentrate

4. Designing Marketing Strategies

After selecting target markets the marketing manager has to develop a preliminary marketing strategy for introducing a product into the market. In case of consumer market, the company has to develop a positioning strategy. The manger has to initiate new product development, testing and launching strategies. Modification may be necesary in a product strategy at different stages of product life cycle.

5. Planning Marketing Programmes

The marketing expenditure and marketing objectives are the two major components in planning marketing programmes. There is a relation between marketing expenditure and marketing objectives. A marketing strategy cannot be transformed into marketing programmes, unless decisions are taken on marketing expenditure, marketing mix, and marketing allocations.

6. Organisation Implementation and Control

The final task in planning process is organisation of marketing resources. This is folloed by execution and controlling the marketing paln. The marketing organisation for this purpose consists of specialists like sales people, sales manger, marketing researchers, advertising personnel, product and brand managers market segment managers and customer service personnel.

However, based on the practice we can identify and suggest some important steps, which can be commonly applied for effective marketing planning. Marketing planning includes several steps. The first is to emphasize the need and machinery necessary. In marketing planning the steps which are particularly applicable to the most types of plans are described below:

1. Planning Committee

It is the planning committee which prepares marketing plan. All functions in respect of which plans are prepared are interrelated and any change in one activity will have its impact on the other areas. It is therefore necessary to discuss at some stage and at length the targets of various departments like production, advertising and public relations so that a mutually agreed plan is finilised.

The Planning Committee plays a vital role in the preparation and execution of plan estimates for various regions and finalises a workable programme.

2. Formulation of Objectives

The next stage in planning is the formulation of objectives of the plan and their definition in qualitative terms. Determination of marketing objectives may be attempted by the marketing experts with the active involvement of marketing department. But the definition of marketing objectives in quantitative terms i.e., the drafting of the plan is the task which is left to be formulated by the marketing department alone. It is the body of experts and specialists in various fields of marketing activities.

It has the necessary data and expertise at its command. After due deliberation and thought it works out marketing planning for the company and presents it to the top management for final approval.

3. Plan Period

A plan can be prepared for a month, quarter year or an year. A plan period is the period for which a plan is prepared and employed. It is essential that the length of the period for which a plan is to be formulated, should be fixed well in advance. Moreover no standard period can be fixed for all types of plans and for all types of businesses. The plan period decides the character of a plan. Hence, a plan can be prepared for a short term, medium term and long term. A number of factors such as type of product, size of market, trade cycle, product life cycle, etc., would greatly affect the length of period for which a plan is to be prepared.

4. Collection of Information

A product can not be made without raw material. Likewise a plan cannot be formulated without sufficient information and data. A lot of information is required to be collected and classified to make a plan. If required information is not used to build plans and sub-plans, a plan can not be formulated in a workable manner and such a plan would be misleading. Information about internal and external environment is also required to analyse the data. A plan cannot be made guessing market conditions. Right information is required in making a sound marketing plan. It may be rightly remarked that a plan is as good as the information on which it is based. The sales planning which rests in part upon this market information is involved in setting up tasks or goals.

5. Forecasts

Forecasting is an art of drawing conclusions about the future. One of the steps involved for effective planning is the forecast of various factors for the future.

The sales estimate in total and by major classification of products may, in an established enterprise, be understood as a forecasting of performance. As a forecast, it may be used not only by the sales executive, but also by financial, purchasing and production executives as the basis for arriving at a coordinated plan of operations. The sales estimate may be considered as an assigned task. It would then be used as a basis for the assignment of responsibility to group and individuals within the sales organisation.

6. Identifying Alternatives

After formulating the objectives, the next step in the preparation of plan is the development of alternative courses of action. It is common to have several alternatives and it is the responsibility of the planner to find out the alternatives. In this process the planner tries to eliminate the most unviable and uneconomic alternatives so that there may be only key alternatives for further analysis. Thus, developing alternatives is a must which help a marketing manager.

7. Evaluation of Alternatives

After finalising key alternatives they have to be evaluated from the view point of plan period objectives, resources, risks involved, workability so that satisfactory course adoption can be taken. There are many statistical quantitative and operations research techniques which help a planner to evaluate the alternatives.

8. Selecting the Best Alternative

After evaluating all possible alternatives the planner has to select the best alternative. Though there are various ways to evaluate alternatives the intuition method is the most popular one. Alternatively the other method is to weigh the consequences of one against the other. The following factors are generally considered in such a situation namely risk, economy of efforts, timing, resources, experience, etc.

9. Preparation of Budget

Budget is also an important part of planning. It is a plan for coordinating the various operations of marketing expressed in financial terms. It is prepared along with a plan to have an effective utilisation of funds and for the realisation of objectives. It is a financial or quantitative statement. It is designed to assign sales goals and budgets to respective territories. It is a financial aspect of the marketing operations.

10. Adoption

The adoption of the plan is the function of the top management. It can make any changes in the plan it likes, but generally they make no drastic or far reaching changes in the draft plan. The plan targets are mandatory on all executing agencies.

11. Supervision

A supervision of the fulfillment of the plan is one of the fundamental pre-requisites of planning. A marketing planning cannot be considered good unless it takes into account the course of the fulfillment of the plan. The process of planning is not mere filling up of tables and bulky documents not related to of the accomplishment of the plan. A plan becomes a mere scrap of paper unless objectives are achieved. An effective supervision requires an independent body of experts to see the process. The body should evaluate plan objectives and implementation in strictly impartial manner.

12. Execution

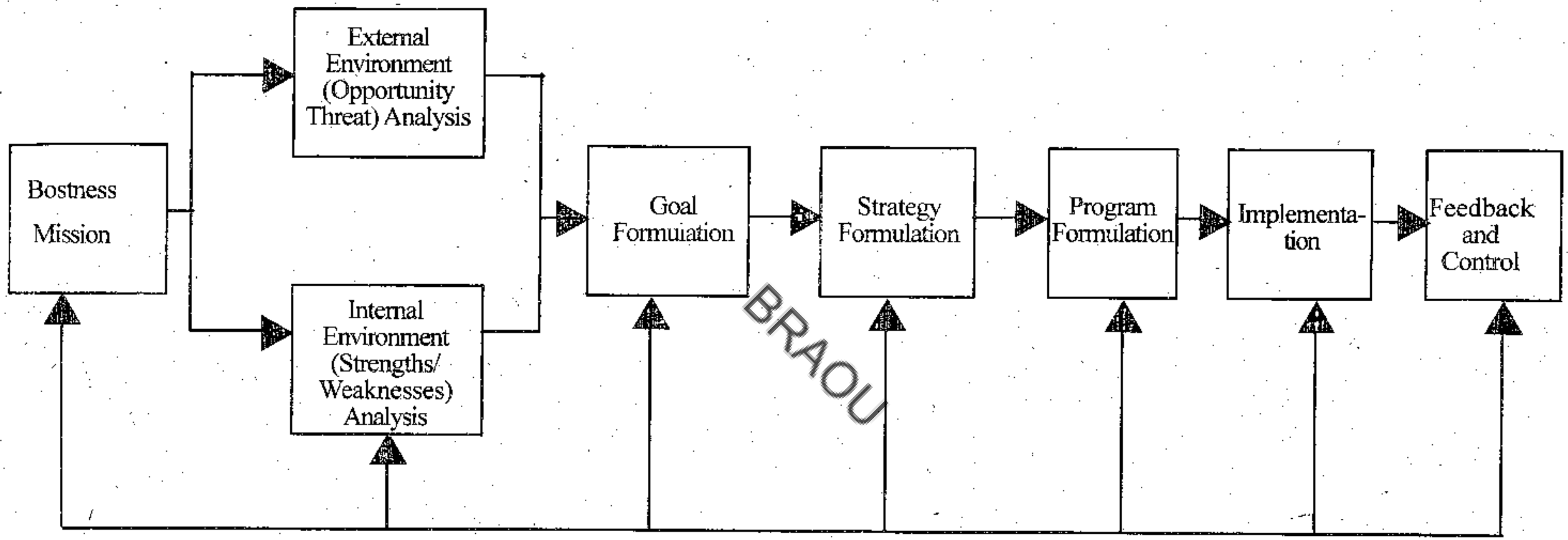
The responsibility of planning committee which prepares plans is only an indoor function. It is not concerned and has no power to implement or execute the plan. The execution of the plan is the responsibility mainly of marketing department. The various departments maintain continuous liaison with the marketing department, which, after all, is the final authority so far as the execution of the objectives of the plan is concerned.

Implementation is more difficult than making it. It may have to be constantly changed during its execution to cope with changing facts. There have been many failures in the execution of marketing plans. The gap between promise and performance seems to be very wide in the cases where plans are not drawn effectively nor have a machinery to execute.

13. Following up

The whole exercise of planning will be a wasteful exercise if implementation is not effective. The actual performance is to be compared with the planned targets. It means a follow-up of action is necessary for the success of a plan. In order to achieve proper follow-up, the planning committee with full support from the management should devise an efficient follow up and feedback system. It is very useful to the corrective measures and revise the plan if necessary.

FIG :1. THE BUSINESS STRATEGIC PLANNING PROCESS



SOURCE : PHILIP KOTLER, MARKETING MANAGEMENT, PRINTICE HALL OF PVT. LTD., NEW DELHI, P. 76

Activity - IV

Before finalising any marketing activity, series of phases should be identified and analysed in formulating marketing planning. Discuss the steps involved in marketing planning.

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5.6 MARKETING STRATEGY

Meaning and Nature of Strategy

The word strategy is used generally in war operations. It is a process of planning and directing an operation in a war or campaign. Military strategy, is an example.

It is difficult to uncover what is generally meant by strategy. According to the dictionary, it is 'generalship' ; the science or art of combining and employing the means of war in planning and directing large military operations. It has also been defined as skilled management in getting the better of an adversary. Sometimes, it is considered the method of conducting operations through manoeuvreing.

The word strategy has been adopted, though from war terminology, today it is being increasingly used in various fields namely, economic strategy, police strategy, crisis strategy etc. When it is applied to marketing it means a plan or policy designed for marketing of an enterprise. In the context of marketing, strategy refers to the firm's overall plan for dealing with the existing marketing environment. It is a plan, procedure, programme of action and employment of funds and resources to achieve the objectives of marketing.

Marketing strategies are plans designed to combat the plans of the competitors in the market. They help as framework for guiding marketing plans and action. For instance a company may follow a strategy of charging lower price or higher price or employing professional force than the competitors' force or advertising more heavily than the competitors.

As **James B. Quinn** points out, "Goals for objectives state what is to be achieved and when results are to be accomplished, but they do not state how the results are to be achieved."

That is where marketing strategy is essentially a pattern or plan that integrates an organisations major goals, policies and action sequences into a cohesive whole (James B. Quinn).

Therefore marketing strategy is directing a proper marketing mix towards a larger group of customers or market segment.

5.6.1 FOUR P'S OF MARKETING STRATEGY

There are 4 Ps in marketing strategies which are usually calleed 'Marketing Mix'. These four elements are decided and directed at the consumers on the basis of proper analysis of an enterprise. These elements are :

1. [illegible] strategy

3. Physical distribution strategy

4. Pricing strategy

The nature of each of the above strategy is discussed below :

1. Product Strategies

Under this strategy the firm has to go into the details about the exact product. It is an important area of strategy that deals with developing a new product, level of product, quality, launching new products and dropping old products. The marketer must carefully and timely study the strategy of competitors, their plans, timing of action, re-positioning or re-launching existing ones. A firm's strategy and weapons to attack competitors should direct towards adding new features, utilities and benefits. The product portfolios' balancing element should not be ignored.

2. Promotional Strategies

Promotion strategies are adopted generally by all the marketers with a view to stimulate market demand. Promotional strategies may include the identification of suitable advertising platforms and advertisement media, suitable to territorial local conditions. In this the role of world class professionals like public relations role should not be ignored.

Taking into consideration the plan of the competitors, a marketing communication mix should be adopted by spending more on advertising to enable every consumer to know the qualities, benefits and price advantage of the product compared to competitors' products in the market. With a view to cover new products, services and markets, sales-force should be organised and trained. Special sales promotion strategies should be adopted in addition to general advertisement programme as a part of its promotion policy.

Promotional strategies have their own positive role to play in the market to stimulate the demand for the product. A sound promotional stragtegy is one when it maintains the existing customers, which is a permanent market, for existing products, as well as to create market for new products.

3. Physical Distribution Strategies

Physical distribution strategy includes thinking of adequate shops which would need to be induced to store the product and the process of sending the products to the shops and so on. The principle of right place and the right time should greatly influence the marketers. The actions, reactions and operations of the competitor should be investigated and accordingly counteracted.

Transportation of goods to the required place and time are crucial issues for every marketer. For this purpose large departmental stores are the best to stock. They are called exclusive shops. A marketing mix strategy requires world class professionals, then strategy making become so exciting and challenging. Some marketers, however, may even decide on selling entirely through the sales force. But this method is an expensive one. This is where the competitors plan of action should be considered and discretion is to be used.

Choosing the appropriate channels and deciding the levels of customer services also will come under this category, generally termed as placement strategies.

4. **Pricing Strategies**

Marketers adopt aggressive price strategies along with other strategies. Under this, lower price may be offered to boost sales and capture customers. But the strategy of pricing should be considered diligently from different angles. When fixing a price the marketer should see that the price should be reasonable to appeal to the masses. If the price is too high majority of customers may not have the buying power. On the other hand, if the price is too low, not only image may be created but also there will be a rush for the product. Pricing strategy of a price cut would attract new buyers.

Price may also be lowered through price specials, volume discounts, easy credit terms etc. One of the pricing strategies is setting the price to skim or to penetrate into the market. It is also possible to set different prices for different market segments and deciding how to meet the competitive pricing.

The above four elements of marketing strategies have been discussed very briefly, as each of these elements will reappear in separate sections in great depth. The objective here is to identify the elements of strategies. Thus starting with identification of four strategies, we have ended with marketing decisions. Infact the strategies described above emphasize how to achieve the marketing objectives. The four elements form broader framework for formulating programmes as to how the resources will be manipulated towards the end.

Inspite of above discussion the important strategy is timing, which is a critical aspect. The right action and taking right decision at the right time is of great importance. There are many concerns which are victims of wrong timing and bad timing of strategy.

It is relatively simple to talk about these areas of strategy, but the overriding responsibility of marketing management consists in selecting the optimum combination of persuasive devices and physical distribution techniques. Much of the decision will be aided by that part of the marketing plan that deals with the collection and analysis of market information.

The main aim of strategy is to win over the strategy of the competitors.

Activity - V

In connection with marketing strategy, please identify, list and describe the 4 Ps of marketing strategy.

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5.7 SUMMARY

Marketing planning is a very important function of marketing management. Planned marketing is still little more than a text book phrase for the majority of company management. Planning involves thinking through the general form. It determines alternative courses of action and selecting the best one. It involves forecasts, objectives, policies, programmes, procedures, etc.

The words plan and planning are different. A plan refers to a formal paper document. On the other hand planning is a process of making plans. A plan has a number of features which describes the nature of plan. It covers mental activity which involves steps, futurity, contingencies, standards, programmes and procedures.

The importance of planning is emphasised from co-ordination, foresight, trade cycle, competition, technical efficiency, management by objectives etc. The process of planning involves a number of steps such as defining objectives, gathering information, designing premises, choosing alternatives, etc.

5.8 SELF ASSESSMENT QUESTIONS

I. Short Answer Questions

1. Define the terms 'Plan' and 'Planning'.
2. What do you understand by the concept of marketing planning?
3. Distinguish between plan and planning
4. What is the difference between policy and strategy?
5. Write short notes on :

   a) Plans are nothing planning is everything.

   b) Programme.

II. Long Answer Questions

1. Planning involves a choice between alternative courses of action. Discuss.
2. Define marketing planning and explain its characteristics.
3. Discuss the nature of planning.
4. Explain the various steps in planning process.
5. Elaborately explain the importance of marketing planning.
6. What is marketing strategy? State its characteristics.
7. How do you measure the appropriateness of marketing strategy?

5.9 FURTHER READINGS

1.	Phllip Kotler	:	**Marketing Management,** Analysis, Planning and Control, Prentice Hall of India Pvt. Ltd., New Delhi, 2003.
2.	Harold Koontz, Cyril 'O' Donnel	:	**Management,** Mc Graw Hill, Kogakusha Ltd., Tokyo, 1998
3.	William J. Stanton	:	**Fundamentals of Marketing,** Tata Mc Grah Hills International, USA, 2001
4.	J.C. Gandhi	:	**Marketing - Managerial Introduction,** Tata Mc Graw Hill Publishing Co. Ltd., New Delhi, 2001.

5. C.N. Sontakki : **Marketing Management,** Kalyani Publishers, Ludhiana, 1997

6. Phillip Kotler : **Principles of Marketing,** Prentice Hall of India, New Delhi, 2002.

5.10 KEY WORDS

Price : The money value fixed for the product or service.

Plan : A formal paper plan and a document.

Planning : It is a process of making a plan and the strategy. It is a futurity and determination of course of action to achieve desired results.

Forecast : A systematic attempt to investigate the future with inference from known facts.

Plan period : A fixed tenure for which a plan is prepared.

Key factor : A limiting factor that will influence and limit the activity.

Strategy : A skilled management in getting the better of an adversary or competitor's plan of action.

UNIT – 6 : MARKETING ORGANISATION

Aims and Objectives

After studying this Unit, you should be able to:

- learn the concept of marketing organisation;
- explain the principles of designing marketing organisation;
- understand feature, of marketing organisation.
- describe the methods of designing marketing organisation;
- known the structures of corporate marketing; and
- explain the changing role of marketing organisation.

Structure

6.0 INTRODUCTION

Before you proceed to discuss the meaning and nature of marketing organistion, let us understand in brief about an organisation. A clear understanding of it is vital in the study of a marketing organisation. Though there are various types of organisations like line, functional an line and staff organisations as generally classified, marketing management organisation structure vary in several respects.

The term organisation means a group of people and the structure of their inter-relationship. It is a body of group of persons who combine their efforts for the achievement of the organisational goals. It has defined objectives; it refers to identification and grouping of activities and assignment of duties and establishment of authority, responsibility, relationships among various people working within the organisation. It has been started that "the problem of organisation is to select and combine the efforts of men of proper characteristics so as to produce the desired result".

Thus, an organisation is a system, body or group of people, comprising various sub-systems which are inter-related and inter-dependent on each other. In the words of Louis A. Allen puts *"Organisation involves identification and grouping the activities to be performed and dividing them among the individuals and creating authority and responsibility relationships among them for the accomplishment of organisational objectives"*.

6.1 MEANING OF MARKETING ORGANISATION

The whole enterprise is divided into various small units based on their functions. Such units are **production, finance, advertising, information, research and development** etc. Each unit is a separate organisation. Among them marketing is becoming a more and more important and exciting to anyone. The principles of organisation are universally applicable and they are applied to the entire organisation or a particular department within the enterprise.

Each of the above units is organised separately. So within the broader organisation structure of an enterprise there would have distinct organisations for each function. They are production organisation, finance organisation etc. On similar lines a group of people working in marketing department is called marketing organisation. In this unit we shall discuss the specific aspects of marketing organisation looking after the marketing function.

In order to have an idea, regarding marketing activities, we must know in brief about the concept of organisation in general as well as marketing organisation in particular. The marketing organisation provides the means for making decisions concerning products, channels, distribution, promotion, pricing etc. Organisational principles towards the marketing functions show the way in which marketing activities are ogranised under various methods. It is the activities which decide the pattern of designing the marketing organisation. We must keep in mind the various levels of management also which have bearing on marketing organisation.

Activity - I

Explain the concept of marketing organisation.

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6.2 PRINCIPLES OF DESIGNING MARKETING ORGANISATION

Organisation is a tool of management which facilitates to achieve the objectives. Marketing professionals have laid down certain statements from time to time based on common understanding, experience which may be called the principles of organisation. The principles are guidelines for designing a marketing organisation structure. Therefore, unless we understand the principles we can not construct a good marketing structure.

However, the following are the important principles of designing marketing organisation.

1. The Principle of Objectives

The marketing organisation structure should consider the objectives to be accomplished. An enterprise hast to define clear cut objectives relating to marketing area. Marketing organisation should serve as instrument to attain the defined objectives. To achieve them a separate marketing organisation has been created.

A separate organisational structure should be developed to be achieved and performed by specialists heading the organisation. The head of the organisation should facilitate the contribution of individuals and group in co-ordination with other functions in the attainment of the marketing objectives. The object of creating a separate marketing department for an organisation is to work towards attainment with professional efficiency and with minimum possible costs.

2. The Principle of specialisation

The principle of specialisation refers to principles of division of work or labour. Specialisation is the basis on which a particular type or set of activity is differentiated from another. Total activities of the marketing organisation should be divided according to functions and every specialist is expected to be responsible for it. Each performs a set of activity distinct from others. Accordingly, the work should be assigned to the specialists, according to their physical, mental and other capabilities. Different jobs are assigned to different people on the basis of their specialisation.

For instance, copy preparation, advertisement, exhibitions, media specialists etc., are the jobs which are assigned to the individuals on the basis of their specialisations and qualifications.

Division of labour and specialisation is the basic principle of formal organisation. The entire work is divided into a number of small operations and each operation is performed by an individual so that there is total specialisation of functions.

3. The Principle of Departmentalisation

Departmentation is an integral part of the organisation. It is divisionalisation of marketing activity as self-contained unit. It is a process of grouping of all marketing activities into small unit for the purpose of facilitating marketing organisatio. This called departmentalisation principle. The integration of differentiated or specialised marketing activity and grouping of individuals into department, division or section is departmentalisation of marketing organisation.

It is a process of dividing large orgnisation into single identified function. Marketing department is a distinct area of activities over which the head of the department called, marketing manager has been given authority for the attainment of objectives. This principle groups the activities and employees into a single department which increases the operational efficiency of the enterprise. It assigns fixed responsibilities to a marketing manager. The object of this principle is to ensure efficiency of management, better control and ensure accountability

4. The Principle of Formalisation

The principle of formalisation lays down all procedures, systems, policies and programmes in written form. This makes a marketing organisation to become independent of the persons who founded it. It is a structure of jobs and positions with clearly defined functions, responsibilities and authority. A marketing organisation is a formal unit, wherein the special functions of two or more persons are deliberately coordinated towards the achievement of [illegible] objective.

Marketing organisation is a formal organisation because it has clearly defined jobs bearing a definite measure of authority, responsibility and accountability. The individuals, and their inter relationships found a place in organisational chart or manual.

So formalisation of marketing organisation refers to the structure of well defined jobs, their inter-relationship, with definite authority, responsibility and accountability.

5. The Principle of Centralisation

The word centralisation refers to the degree of concentration of decision making power at a level. It is the level at which authority for decision making is centralised. Centralisation describes the manner in which the decision making responsibilities are not divided among the many at different hierarchical levels. The principles of centralisation is concerned with designing with formal reporting relationships and information systems.

It ultimately leads to hierarchical levels and span of control. Under this pattern, the decisions on all marketing matters are taken by the functional head and only operative decisions and actions work at lower level in the organisation, which are inturn subject to close scrutiny, control and close supervision of the head of the department. It means decisions are taken at higher point in the orgaisation but not at a point of operative level.

This principle increases the importance of the superiors role. It facilitates personal leadership, uniformity of action, and provide mechanism for integration.

6. The Principle of Orgaisational Structure

The marketing department is a distinct organisation with its grouping of individuals. Marketing organisation primarily deals with grouping of individuals, establishment of inter-relationships and authority among the people working within the marketing department. Their positions, authority and their relationships are structured which gives the organisation, its specific shape and identity.

The structure of marketing organisation is generally shown on an organisation chart of a job task pyramid. It describes the authority and responsibility relationships between various individual specialists and their positions in marketing organisation. It may be mentioned that the marketing organisational structure is directly related to the accomplishment of the marketing objectives.

So the structure should not be rigid but flexible and dynamic to accommodate changes in marketing environment. There are many types of organisational structures to choose from to facilitate the achievement of objectives, managerial control and cost.

7. The Principle of Evaluation

A good evaluation mechanism is essential to achive the objectives of marketing organisation. The principle provides system for appraisal and compensation. The system for appraisal [illegible] evaluating the [illegible] of the group of employees working in marketing organisation [illegible] and support. It measures the degree of accomplishment of the [illegible] jobs. The principle emphasizes how well an [illegible] the job [illegible] systematic description of an employee's job [illegible] strengths and [illegible] establish a plan of improvement

One of the most important factors in management of individuals in the marketing organisation is compensation. The principle of evaluation and compensation recognises rewarding employees who have contributed to the achievement of the goals of the marketing organisation. The reward may be financial and non-financial.

8. The Principle of Organizational Head

The marketing function is itself a separate organisation which is headed by professional specialist known as marketing manager. This principle ensures unity of command in the organisation. It means that there is only one boss in the organisation from whom the directions and instructions will move. This principle is based on the premises that receiving directions from several authorities may result in confusion, chaos, conflicts and lack of action.

The unity of command will avoid conflict of command and help in fixing responsibilities.

9. The Principle of Definition of Tasks

The activities of the entire marketing organisation are divided into several tasks or jobs. So every position and a job in the organisation should be clearly identified and defined in relation to other position in the organisation. Thus each position and job is distinct and separate. Similarly their duties and responsibilities are also fixed and assigned to every [illegible] to enable them to do their jobs.

Activity - II

State the principles required for designing a marketing organisation.

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6.3 CONSIDERATIONS INVOLVED IN DESIGNING MARKETING ORGANISATION

The study of marketing organisation for goods marketing may be more realistic if we emphasise a few considerations involved in designing marketing organisation.

Marketing organisation [illegible] more different unless you consider some factors emerging from consumers, markets and products. Logically it might seem that we should discuss those considerations in detail, so that we can understand the process of what it is intended to accomplish.

The following are the basic considerations to be considered.

1. Marketing Objectives

A marketing objective is a target or goal to be achieved. The first [illegible] in designing the marketing organisation is the determination of [illegible] enterprise. The marketing objectives set the [illegible] of the proposed [illegible] objectives must emerge out of general overall objectives. Generally a business [illegible] main object to maximize profits. It is the overall objectives of the [illegible]

Marketing objectives specifically cover the plan to achieve a desired market [illegible] position in industry, a desire of customer image and impression. For the purpose of achieving the marketing objectives a suitable marketing organisation would have to be designed. The pattern of orgnisation may vary widely depending upon the firm's marketing objectives. For instance a firm which strives to have desired customer image, and competitive posture would need a different type of organisation than one whose objective is to have the highest profit levels.

2. Nature of Product

The second consideration involved in designing the marketing organisation is the nature of product to be pushed. Depending upon the nature of the product a suitable organisation has to be designed which would facilitate achievement of marketing objectives.

In the case of some products there is no need to have special skill and training relating to the nature of the product to sell. There are some products which are widespread in the market which every consumer is understood and comprehended. Take the example of a firm which is producing and selling soaps, toothpastes, hair oil, tea, textiles etc. The business houses dealing with such products need not necessarily recruit sales force with expertise and special knowledge in designing the marketing organisation. They need no trained people to educate and train customers about the effective use of the product.

On the other hand, there are some products in the nature of durable comforts, prestige. In respect of them, customers are not well understood and comprehended. Product category of this nature may include refrigerators, coolers, air-conditioners, domestic appliances, solar power plants, anti-pollution plants, computers, etc.

In respect of these products the marketers must have atleast functional knowledge about the product before approaching potential customers. The salesforce should have specialised knowledge and professional training. The sales representatives dealing in such products would have inturn to try the buyers about effective use of the product, and also after sales service department should take care of customers complaints.

3. Legal Issues

A design and structure of a marketing organisation would also vary depending upon the legal environment to which product belongs. The legal complications impinge on marketing operation. The various legislative enactments governing the product category affect the marketing organisation. For instance the Drugs and Magic Remedies (Objectionable Advertisements) Act, 1954 controls the advertisements of drugs in certain cases, prohibits the advertisements for certain purposes of remedies alleged to possess magic qualities

A magic remedy includes talisman, manthra, kavacha and any other charm of any kind which is alleged to possess miraculous powers for or in diagnosis, cure, treatment or prevention of any disease. Similarly some other products are subjected to certain restrictions. So the marketing orgaisation is also affected by the type of legal restrictions and regulations.

4. Environment

Marketing decisions in general and marketing organisation in particular would vary much depending on the environment in which it operates. The external factors at the level of the firm consists of economic, political, social and cultural factors. All these factors would greatly influence the nature and composition of the environment. All these factors will make up the opportunities for and threats to marketing organisation. Similarly the internal factors like resources, capabilities, image etc., would affect the operations of the firm including marketing.

The economic environment i.e., the structure and the nature of the economy, the stage of economic development, resources, income level, distribution of income and assets etc., impinge on the marketing organisation.

In respect of certain product category a country's culture and heritage impose restrictions and their marketing affects the marketing organisation. For instance explicit media advertising for alcohol based drinks is not permitted in India. Whereas some other products like drugs, cement, fertilizers etc., are subject to price control and the product like sugar is subject to dual pricing like levy price and free price.

5. Policies

A policy is a guide to think and act by subordinates for successful implementation of marketing plan's objectives. It is a verbal or written or implied guide setting up boundaries to operate within. The policy framework of a company is also affected by the quality of the policies. A marketing policy is a course of action designed to obtain consistency of operation and decisions. It is a guide to specific decisions in a market, product category, or functional market.

Marketing policies as far as possible should be consistent with and implement company wide and conform to long standing. Policies should also be continuous from time to time unless they become absolute. An outworn policy sometimes may act as an obstacle to exploit new opportunities. Thus policies play a dynamic role in the process of designing a marketing organisation. Moreover a policy should always be dynamic and flexible.

6. Nature of Industry

The design and structure of a marketing organisation depend on the nature of the industry to which a business. Change in habits, taste of the customers would influence the nature of marketing organisation. Every marketer has to face a tendency of fast changing customer preferences. This is particularly true in the case of textiles which is characterised by fast changing customer preferences. A firm operating in such products needs a marketing organisation which is dynamic and flexible to adjust to the fast changing situations.

The marketing organisation is also affected by the degree of technological innovations. consider firms operating in electronic based products. Such firms invariably need a marketing organisation which is flexible to adapt to the rapid technological changes.

7. Location

The most important consideration in designing marketing organisation relates to the issue of location of the market so as to attract the maximum number of customers. Some firms serve only limited localised market, while some others operate in fixed locations. The design and structure of marketing orgnisation would also be influenced by location considerations.

Marketing organisation based on geography is adapted if there are many markets which are located at great distance from one another. There is no choice but to have a separate flexible and autonomous marketing organisation at the local market level.

The best example of this marketing organisation is multinational corporations.

8. Number of Markets

Yet another consideration in designing the marketing organisation is the number of markets that a firm caters to. This factor influences the decision regarding the type of organisation that a firm should adapt. There are various methods for designing marketing organisations such as by function, product, geography, market, etc.

9. Diversified Products

The marketing organisation is also affected greatly when a firm is operating with highly diversified range of products. Such firms need a distinct marketing organisation to effectively market each product. Depending on the similarities in the nature of product, a suitable marketing organistion would have to be designed which should facilitate achievement of objectives of producing highly diversified range of products. Equally important factors that the marketer should consider is the type of customers and the similarity in marketing channel.

10. Number of Products

Generally speaking firms which sell a number of products need separate marketing organisation. For instance ready-made Children's garments, uni-sex garments etc. The type of marketing organisation to be selected would depend upon the number of models or ready-made garments. The firm has to choose and segregate its range of exclusive premium price wear from the medium price range. Accordingly, two sets of retail outlets are to be organised. It amounts to organising two separate marketing teams as the two ranges of products are marketed through two sets of retail outlets.

Activity - III

List specific considerations pertaining to designing of a marketing organisation.

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6.4 METHODS OF DESINGING MARKETING ORGANISATION

In discussing about marketing organisation it will be wise to bear in mind the fundamental nature of organisation. A marketing organisation structure may be considered as a way of obtaining job specialisation. In any method of marketing organisation the activities of the similar nature, requiring the sale of similar skills, are grouped together in a unit manned with personnel who are specialists.

Marketing organisation may also be considered as a system of source of communication for transmission of information. The first step in setting the marketing organisation is to classify the total marketing tasks into groups of activities that are similar. The activities of marketing tend to cluster around products, market, geography and functions.

Based on these activities, on the whole the bases of organizational structure relating to marketing activities are classified as follows :

1. Functional Organization
2. Geographic Organisation

3. Product Organisation
4. Market Organisation
5. Matrix Organisation

The nature and working mechanism of various methods of marketing organisation is described below :

1. Functional Organisation

Based on various functions of the marketing department, functional organisation is designed. The various functions performed as part of the overall marketing function constitutes the basis for organising the marketing structure. The various functions are looked after by functional specialists. Accordingly each function is assigned to a specialist who finally reports to the marketing manager.

It is a common form of marketing organisation. Under functional organisation, it is the functions which determine the form, structure and size of vertical or flat organisation. Marketing specialist, called marketing manager or director of marketing is in top position of the marketing organisation.

In this structure plans and strategies are made by people who are specialised in marketing. Under functional organisation, various activities of the department are classified according to certain functions. The most common functions in marketing are :

a) Sales
b) Advertising
c) Distribution
d) Research
e) Customer service
d) Planning
e) Marketing information systems etc.

These are the most common functions of functional marketing organisation which are carried out by different functional specialists. These functions are not fixed and uniform in all organisations. Additional specialists may be created depending upon the requirements like market logistic manager, dealer relations etc.

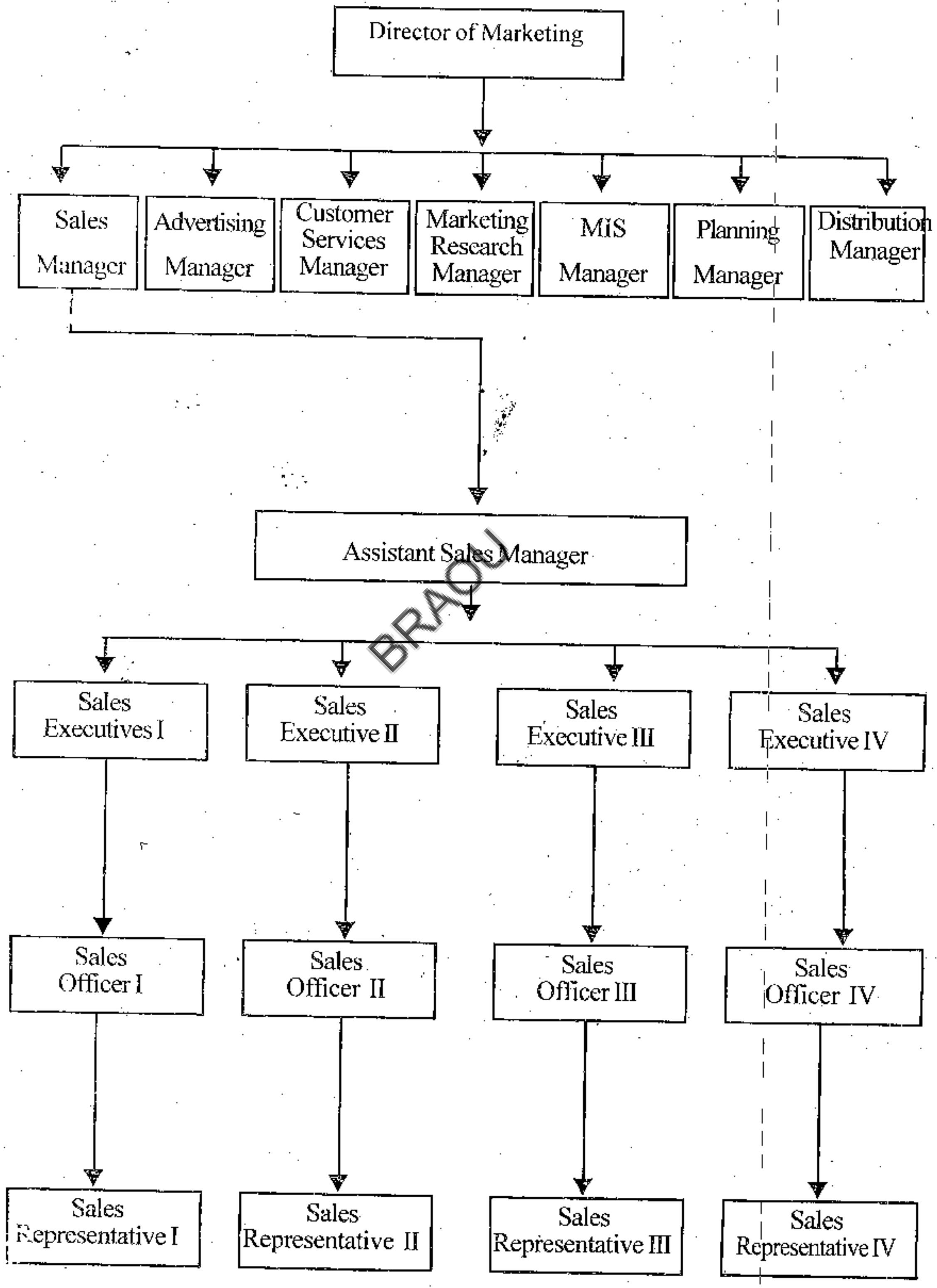
Depending upon the nature of the product, service, or industry there may be possibility to have some functions which are not covered above. For instance public relations function, quality control and other staff functions would also be important marketing functions. In large organisations all these functions may be individually identified and differentiated. As a matter of fact they are actually separate functions held by specialists. In the case of small organisations 2 or 3 or all functions may be handled by just one or two individuals rather than specialist in a particular function. So in such a small firm all the functions may not be individually identified and differentiated.

The marketing organisation is headed by the marketing manager or director of marketing and under whom different functional specialists work. They have to report to the director of marketing. The director of marketing has overall responsibility for marketing.

A marketing organisation set up on functional basis might look some what like the one shown in figure. 6.1

Figure 6.1

Functional Marketing Organisation



Advantages

The form of functional structure illustrated is the very common form. This structure is probably found more often both in industrial goods and in consumer goods marketing because of the following advantages.

1. Simplicity

The [illegible] of functional marketing organisation is its administrative simplicity. In small firms it will work effectively.

2. Specialisation

The structure ensures a greater division of labour and enables to take advantage of functional experts' services with maximum division.

3. Efficiency

Experts in different fields give instructions and advise to the workers. So it ensures higher degree of efficiency.

4. Executive Development

The head of the marketing function is expected to have expertise in one function only. It ensures to develop the executives.

5. Flexibility

The form of functional structure is not very rigid pattern of organisation. It is dynamic and accommodates any changes in the organisation without disturbing the entire structure.

6 Large Scale production

Specialisation and standardization of operations ensure mass production.

7. Control

The form of functional structure ensures better control.

Disadvantages

1. The main drawback is that the executive's span of control is large as he has so many functional executives reporting to him.

2. This form loses its effectiveness when the size of the organisation increases by way of products or area.

3. It is suitable only for large firms where expert knowledge in different fields is a highly essential.

4. It may lead to conflict among the people.

5. This structure is quiet impracticable and expensive too. Small firms cannot afford

7. It is based on specialists rather than generalists resulting in creation of problem of succession.

8. The marketing manager tends to create borders around himself and thinks only in terms of the marketing department alone, resulting in loss of overall perspective in dealing with the problem of the organisation as a whole.

2. Geographic Organisation

An enterprise operating in a national market often organises its marketing activities along geographical line. Practically every firm producing consumer goods and their marketing organisation structure must to some extent reflect the influence of geography. It is wise to have the marketing organisation on geographical basis when the area of sales coverage is very wide and scattered.

In such markets there are clear differences in the market and buyer characteristics in each area. As such the entire market is divided into several divisions or regions or zones as may be called, as per convenience and each region has its own salesforce. Generally the consumers are scattered over a wide area and they are to be served effectively and economically.

Accordingly, marketing organisation based on geography is created or a structure is created on territorial basis. Many firms whose significant customers are geographically widespread and decentralised give importance to geography and geography forms the basis for marketing organisation. Usually, geography is much more likely to be the central factor in the organisation structure of consumer goods marketers.

Difference in activities involved in marketing consumer goods tends to scatter around geography. In consumer goods marketing, the geography must be recognised as it is much emphasized in marketing organisation structure.

Organisation based on territory or geographical area is often used when customers are geographically dispersed in different locations and product is mass market character and company is producing a national product. It is called as geographical organisation. It involves grouping of marketing activities on geographical basis to be served by the concern. Thus marketing organisation based on geographical basis become complete organisation unit in itself and it can concentrate on the needs of local customers and local market. Regional marketing managers will look after the local problems and extend services to the customers of their respective zones.

For instance, marketing organisation by geography is better illustrated by life insurance business and Indian Railways. The railway organization is divided into various zones like northern railway, southern railways, eastern railway, western railways, central railways etc. Similarly insurance business, telephones and dairy business in India is also organised on geographical basis.

At head office there general marketing manager is placed. He may supervise other functional specialists namely sales, advertising, marketing, research, MIS, accounts etc. The sales manager working under general marketing manager will supervise zonal activities. Under each zonal sales manager, who supervises district sales officers, who inturn supervise sales force of a town.

Advantages

1. Local contacts can be maintained.

2. Local managers can better serve local needs and convergent with their needs and problems.

3. The various marketing zones can exploit the local markets effectively.

4. It permits to take advantage of economics of localised operations such as transport cost and low distribution cost.

5. It enables an effective coordination of activities among regional divisions.

6. All regional or zonal managers have equal authority and responsibility.

7. The basis of geography helps in expansion of business widely.

8. Each zone of geography may function as an autonomous unit.

9. This is the most suitable structure for large sized enterprises.

Disadvantages

1. It leads to duplication of many routine and service functions.

2. It requires more manpower to administer the structure.

3 It is a costly system and so all organisations cannot afford.

4. The problem of coordination among various regional units cannot be over-ruled

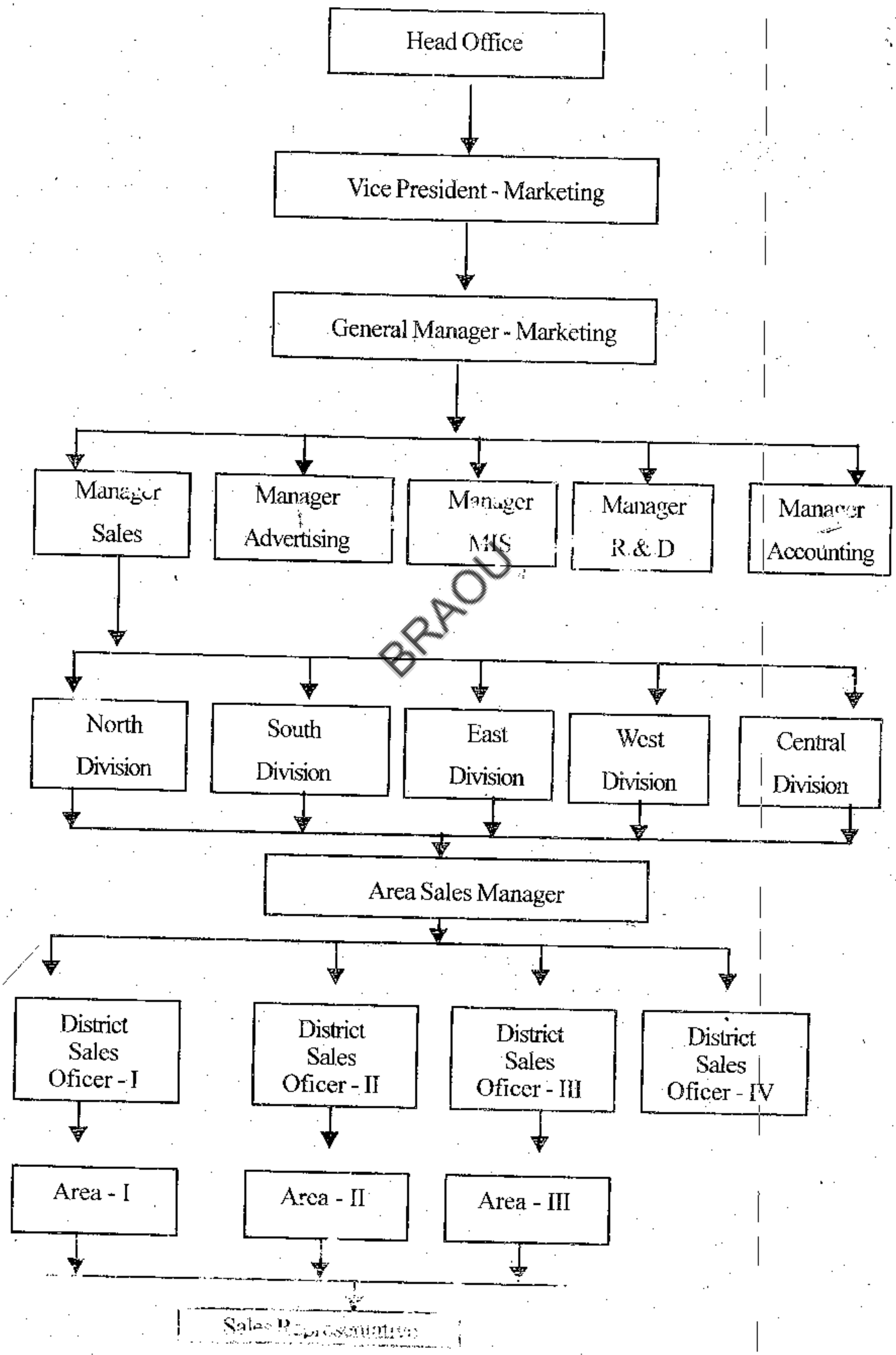
5. The cost of operation is heavy because it involves deployment of able sales-force to manage various zones.

6. The central services from head quarters to various divisions will also create administrative problems.

Figure 6.2 : depicts marketing organisation in which sales force is organised on a geographical basis. The figure shows a typical geographical organisation structure.

Fig 6 2

Geographical Marketing Organisation



3. Product Organisation

It is also called as brand management organisation. An enterprise producing a variety of products or services may be closely related to product or product line organisation. A product management organisation involves grouping of activities on the basis of brand or brand line. It is suitable for a multi-line product companies. Under this method all the activities relating to a particular product or product line are grouped together.

Organisation based on product category allows exclusive authority over product line. A brand or a product is an important basis of management organisation because it crates a product division. The product category managers are assigned all the responsibility relating to that group of products. It means that in brand management organisation all the activities relating to product or group of products are controlled by only one person. The product category managers will have an extensive authority over the sale of that particular product or group of products.

It is usual to have sales force organised on product basis when a company is producing a variety of products or brands and there are marked differences in the products and product characteristics. As such the entire market is divided according to product and each product may have its own sales force its by creating a product based management organisation. Therefore, when a company has a wide range of products, each significantly different from the other in terms of physical and technical features, the sales-force is usually organised around each product or product group and establishes product management organisation.

There are two important bases for product differentiation namely :

i) Technical process.

ii) Consumer characteristics

Accordingly, salesmen's specialised knowledge of technology or the customers can effectively be used. The structure, therefore, constitutes an additional layer of management and operates along with functional management orgnisation. The marketing manager supervises managers or sales executives of a product or group of products who inturn supervises product category sales representatives.

The pattern of organisation by product makes a sense only if a company's products are quite different from one another. When there are a variety of products, it becomes difficult for the functional marketing orgaisation to manage. Hence it gives rise to have an organisation on product basis. The product range demands separate divisions for each product and each division has its own sales force.

For instance separate product category managers are incharge of cereals, pet foods, beverages, a range of baby care products like soap, powder, cream, oil, etc. Again within each product group there may be a separate sub-category.

Advantages

1. The product category managers can devote their efforts effectively on developing cost effective marketing mix

2. The product managers have full knowledge about the product and they can make sound decisions.

3. Product organisation facilitates training and development for executives.

4. The structure permits product expansion and diversification.

5. A product manager can totally concentrate on each product or line.

6. The principle of specialisation is applied which may result in economy.

7. The pattern is simpler and easy to evaluate and compare the performance of various product divisions.

8. Organisation on the basis of product is more suitable for large firms having multi-product line.

9. Allocating overhead costs is not a serious problem.

10. It gives scope for the managers to exhibit their all round ability.

11. Responsibility is fixed for profit in respect of a particular product or a particular product manager.

Disadvantages

1. This type of structure creates conflicts and frustration.

2. A product manager may not have an adequate authority to carry his duties effectively.

3. Co-ordination among various managers like advertising, sales and manufacturing is not effective.

4. It involves a lot of paper work and administrative time.

5. The product category managers may not have an opportunity to become experts functionally. They have expertise only in their products or product groups.

6. The structure is costly to operate because several managers are appointed to manage several products.

7. A short term brand may have only short term brand managers. They change when there is a change in brand.

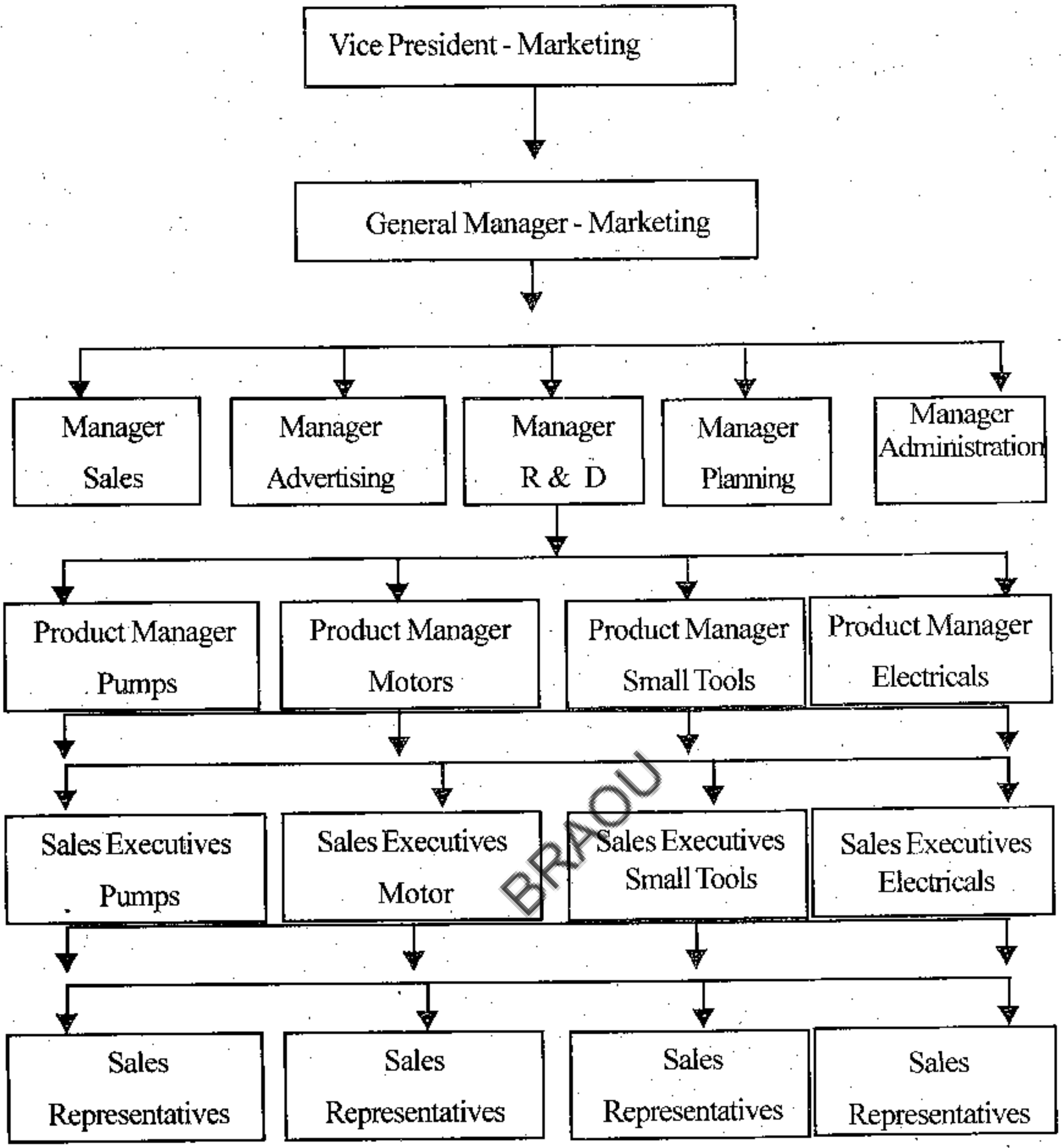
8. Appointment of product managers for minor products is not economical and administratively not convenient.

9. There is a duplication of routine work in respect of each product or brand group. It leads to wastefulness of resources.

10. There is a possibility of disintegration of the whole organisation because of problem of control at the level of top executives.

Figure 6.3 shows a product type of marketing organisation. This form of organisation structure is much more common in consumer goods field.

Figure 6.3 : Product Organisation



4. Market Organisation

This method is also called as customer organisation or market centered organisation. Market is the basis for this type of organisation. Based on user groups the basis for differentiation is shifted from product organisation to market or customer organisation. Under this type of organisation, a product is sold to a diverse set of customers, a group of customers with similar needs and a common link between them constitute a market. Different customer groups or different markets form the basis for differentiating market and hence called as market management organisation.

The organisation structure of market orientation can be designed in the same way as a product management organisation. But here instead of product managers with detailed knowledge of the products, there would be market managers each having thorough knowledge about their specific markets or group of customers. Each market is, therefore, considered as a separate profit centre and its specialist is assigned the role of business manager with full responsibility and accountability for generating profits.

The knowledge and access to a group of customers or market is the basis for designing market management organisation. Organisation based on market may be done in companies engaged in providing specialised services to different classes of customers. Under this method the various markets or customers are the guide for grouping activities.

So if a company sells its product to several markets that differ in the purposes for which they use the product, the most important basis of orgnisation is the customer groups. In a broader sense, an organisation structure based on customer groups is based on the recognition that the customer is the most important person in the business. In consumer goods marketing the customer group type of organisation is the most common form. In this form of organisation certain common functions such as general advertising, marketing research, sales analysis work may be undertaken in the central office of the marketing manager.

For instance

1. A computer making company sells its computers to various groups of users like general consumers, business houses, banks, Government departments educational institutions, etc. Therefore, an organisation structure based on customer groups is desirable and there will be separate sales force for each customer group.

2. Similarly, construction materials like steel is sold to railways, public utilities, industries, ship building, building works, etc. In this, product is the same, user groups are different and distinct with different buying preferences and practices.

3. Again in airlines, railways and road transportation companies have two major distinct markets or customers to serve. They are passenger transportation and cargo transportation. Each is a separate market having distinct characteristics and needs a separate suitable marketing strategy. It requires a matching market organisation with relevant skills of function. Such markets require a different marketing mix of advertisement, distribution channel and price.

4. Take for instance another example of market management organisation. A firm marketing building hardware such as doors, window handles, window frames, locks etc. For these products there are two distinct customers or markets. One is hardware retailers who sell to individual household customers. The second market is to sell to construction companies who are bulk buyers.

5. Similarly the market is divided into retailing, wholesaling, foreign market, instalment selling, exports, etc.

6. A big automobile servicing company may organise its markets into heavy vehicle servicing division, car servicing division and scooter servicing division.

7. In the case of educational institutions they usually follow this type of market oriented organization. They offer day courses, evening courses, winter session, summer session, distance education, private education and open systems to meet the requirements of different types of student customers.

Advantages

1. Widely varied needs of customers can be satisfied by the market organisation.

2. It is suitable for large scale producers who want to develop their own sales network.

3. Customer based organisation can focus on the special needs of the customers.

4. It employs personnel with special ability required for meeting different customer requirements.

5. It provides greater satisfaction to the customers which enhances the goodwill and image of the firm among the public.

6. Marketing efforts are directed to meet the needs of distinct customer groups.

7. Many organisations have re-organised their structures from geographical selling to market selling.

Drawbacks

The market oriented organisation is also not free from drawbacks. They are .

1. It creates the difficulty of co-ordination among the departments organised on this basis.

2. This type of marketing organisation is sometimes complicated by the tendency of customer to diversity.

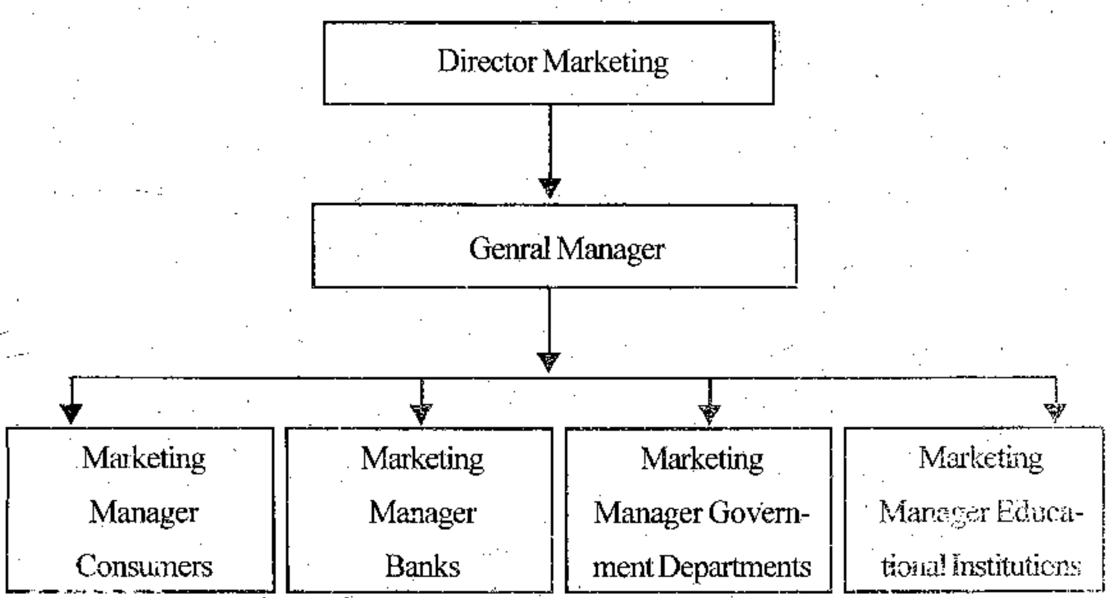
3. It may resesult in considerable duplication of sales services and some customer dissatisfaction.

4. There is a possibility of less than optimum use of space, equipment and specialised personnel.

Figure 6.4 presents a typical market organisation

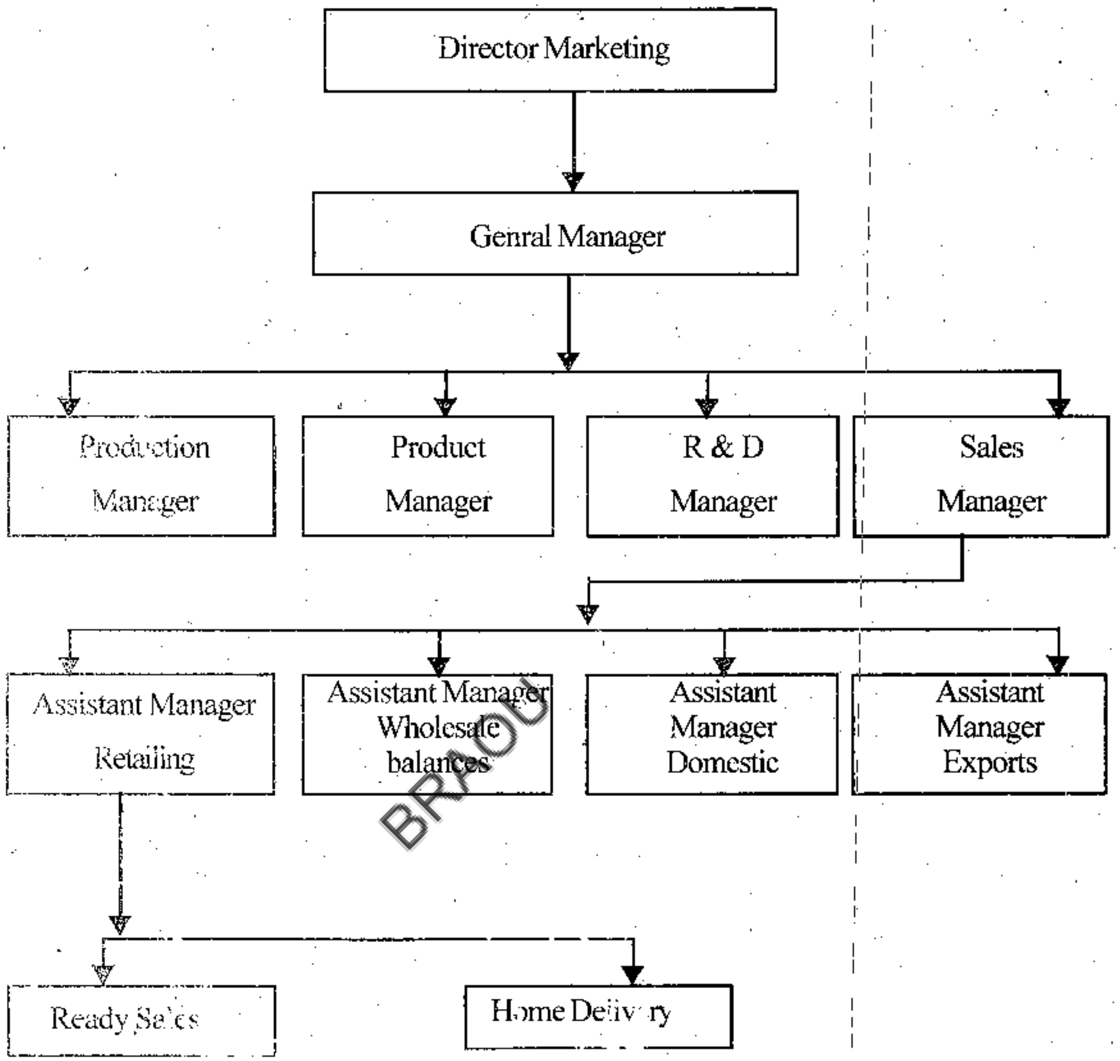
Figure 6.4

Market Organisation



B: The market group or customer group type of an organisation is much more common. It is illustrated in Figure 6.5

Figure 6.5 : Customer Group type of Market organisation.



5. Matrix Organis...

The various types of marketing manag... r... ...tions, namely functional, geographical, product and mar... form of organisation have been discussed above. They have their own merits and demerits.

The marketing manager has to formulate and implement strate... suitable for each marketing organisation. All the above methods are known as rigid and stati...

In order to overcome to limitations on the above organisations, a new marketi... organisation is designed.

The new str... ure of marketing organisation is known as matrix organisation. This method is known as grid method. It is the latest method of marketing organisation structure. It has been developed to establish a flexible structure to achieve a series of objective. It is designed to ... the growing size and complexity of ... undert... g. A dynamic firm requires ... organisation structure which is more flexible to accom... ...anges and technically oriented.

Matrix organisation is created by merging the two complimentary organisations - the product and the functional. The vertical functional departmental organisation and product organisation features are represented in matrix organisation. A matrix organisation is more suitable in multi-product, and multi-market firms which needs both product and market managers. In this product managers and market managers are integrated to form a matrix organisation.

In matrix organisation tasks are differentiated on the basis of functions and products: functions and markets or functions, products and markets. They are integrated by means of co-ordinating functions. There may be two or more bases for differentiating the functions. In Matrix organisation, products come under functional lines, composed of personnel drawn from functional departments. Further, there would be market managers.

However, the following are the distinguishing features of a matrix organisation.

1. There may be two or three groups and each group has its own boss.
2. Each group has its own activity namely functional, product or market.
3. The groups have a place on the organisational structure and formally arranged. They are not informal groups nor formed on adhoc basis.
4. The product and functional managers have their own roles.

Merits of Matrix Organisation

1. It is more flexible and dynamic.
2. It is more suitable to a multi-product and multi market companies.
3. It ensures decentralisation of decision making as there are many specialists in each area.
4. In cases where the tasks are highly uncertain, complex and interdependent, this method is more useful.
5. There will be a better co-ordination between the product manager and functional groups.
6. It ensures better planning and control.
7. Emphasis is more placed on knowledge and skills rather than the rank of the individuals in the organisational hierarchy.

Demerits

1. The system is costly and creates conflicts.
2. Several managers are to be appointed and it is a costly affair to support all the managers.
3. There is a problem of organisation of sales force.
4. In the matters of price fixation for a particular product or market there will be authority conflict.
5. The organistional principle of unity of command will not apply because there are two authorities of product manager and functional boss.

Personnel are drawn from various departments and hence there is an absence of commitment and interest.

The issue of authority and responsibility can not be decided

Activity - IV

Identify and list out the various methods of designing marketing organisation.

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6.5 CORPORATE MARKETING

When a corporate business grows and expands it often establishes branches in order to market its products over a large territory. There is no alternative to a corporate body except to decentralise its activities by establishing separate divisions and branch office. In the case of multi-product and multi-market companies whose business grow they convert their wide market groups into separate divisions. In order to meet increasing coverage of territory, corporate houses are required to make their products over a large territory

As a result corporate houses generally split their marketing activities into certain divisions. The various divisions operate in different parts of the territory. The marketing organisation adopted for ... the size, the nature of the branch and the degree of centralisation ... the degree of control needed by the head office.

The branch or division ... set up their own departments and services. In such cases some of the marketing ... necessarily have to be handed over to the divisions and branch offices. Here two important ... to marketing activities., since there are two organisations namely :

i) Corporate marketing office

ii) Marketing organisation at the ...

What type of marketing activities and services should belong to corporate marketing office or corporate headquarters ... what type of marketing services and activities should be retained at the ...

Types of Corporate Divisional Organisation

As solution to the above issues there are four different organisation structures for the corporate marketing alternatives to select from them.

1. No Corporate Marketing

Under this organisation structure there will be no marketing structure at corporate headquarters ... that there will be no corporate marketing sales force or marketing staff. No marketing functions are performed at corporate headquarters. The division or branch ... set up own department and services. As such all marketing activities and services are handled at the branch or division level. The branches market all such goods and services which are supplied by the corporate head office.

The best example of this type of corporate marketing structure is the State Trading Corporation.

2. Moderate Corporate Marketing

Under this structure the corporate marketing office provides / performs some functions to the marketing organisation at the branch/division level. It means corporate head quarters have some corporate marketing staff. The corporate level office extends some centralised services like advertising, sales promotion, marketing research ... analysis, planning, recruitment and training and development of personnel. The corporate marketing staff also provides divisions/branches consultancy assistants on request and promoting marketing awareness throughout the company.

3. Strong Corporate Marketing

Under the structure the corporate marketing organisation retains major marketing functions at corporate headquarters only. All major marketing activities and services are performed and controlled by the corporate marketing organisation. Such companies have their own organisation structure with adequate marketing staff. The division/branch level have only minimal marketing organisation and staff to simply carryout the instructions and directions issued by the corporate head office. The best example of strong corporate marketing is Indian Tourism Development Corporation so far as its hotel business is concerned. This model also provides several marketing services to the division/ branch level such as advertising, sales promotion, consultancy, marketing research, etc.

4. Minimal Corporate Marketing

Under this organisation structure for the corporate marketing, the major proportion of marketing activities and services is handled in the individual branch/ division level. Organisations of such companies lack many expert corporate marketing staff. The head office undertakes only minimum corporate marketing activities at the corporate level.

The corporate marketing level provides only a few marketing services such as exploring new product opportunities, scope for new market and evaluating them. The head office also provides marketing support on receiving request from a division/branch level. Corporate headquarters also help divisions which do not have their own marketing set up or which have a weak marketing organisation.

Activity - V

Discuss various models of divisonalisation of corporate marketing structure.

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6.6 CHANGING ROLE OF MARKETING ORGANISATION

Change is an important feature of modern marketing organisation. Significant changes take place everyday in tastes,habits, social and economic aspects of modern world. These changes create new challenges and opportunities for new marketing organisations. These changes make it appropriate to re-examine the changing role of marketing management organisation.

Modern marketers necessarily have to device a model of marketing organisation to meet the new chanlleges and make use of the opportunities for the growth of the organisation. The important areas which create challenges for new marketing organisation are changes in social environment, which include population explosion, education level, leisure time, public opinion, changes in economic environment, technical environment, political environment and international marketing environment.

So corporate organisations invariably have to restructure their marketing organisation and practices in response to significant changes in business. The major changes demanding for changing role of marketing organisation may include globalization, merger and acquisition, removal of restrictions, out-sourcing etc. All these changes and various other trends will have impact on marketing organisation.

The number of internet users has been increasing from year to year. The emergence of telemarketing, e-marketing have brought about many changes in marketing organisation. In social and cultural fields customers are undergoing major transformation.

Urbanization is taking place more rapidly and widely. The increasing purchasing power improved qualitatly of standard of living, immigration and migration, creating new markets, more markets, wider grographical coverage which undoubtedly have an impact on marketing organisations. The emergence of new orientation towards database and information processing together with easy way of communication have also given rise to the need to restructure the marketing organisations The result is the progressive removal of many intermediary levels of marketing structure.

Many of these changes in business environment have major effects on marketing structure. So by recognising and adjusting to changing environment., marketers are able to bring into play their new models of marketing structure to perform in a better way marketers will need to make changes an their marketing organisation structures with renewed vigoru and from new perspectives.

6.7 SUMMARY

In this unit we first summarized some of the basic issues of nature of organisation that are essentially important in the marketing management of consumer goods field. We then discussed the meaning of marketing organisation. There are many principles of organisation which are equally applicable to a marketing organisation. The specific principles applicable to marketing organisation were discussed.

A marketing organisation cannot be designed without considering certain factors. In this unit we also examined several considerations like marketing objectives, nature of product and speciality of products. We then identified various factors of designing marketing organisation such as functions, geography, products, markets and listed the chief merits and demerits of each basis

We also outlined several issues of corporate marketing. The unit concluded with a discussion of changing role of marketing organisation. Finally some of the problems encountered in the process were also outlined.

6.8 SELF ASSESSMENT QUESTIONS

I. Short Answer Questions

1. Explain the concept of organisation.
2. What do you understand by marketing organisation?
3. Discuss the principles of designing marketing organisation.

II. Long Answer Questions

1. You cannot design a marketing organisation without giving weight to certain factors. State the considerations involved in designing the marketing organisation.
2. Grouping the activities is the basis for designing a marketing structure. Discuss.
3. Examine the various methods of designing marketing organisation.
4. Write an essay on corporate marketing.
5. State different organisation structures for a corporate marketing.
6. Critically examine the changing role of marketing organisation.

6.9 FURTHER READINGS

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Michel R. Czinkota & Masaaki Kotabe	:	**Marketing Management,** Vikas Publishing House, Singapore, 2002.

6.10 KEY WORDS

Organisation	:	A group of person with sub-systems showing their inter-relationship

Marketing Organisation	:	A separate departmental organisation relating to marketing function.
Functional Organisation	:	Marketing, production, personnel are various functions. On the basis of functions an organisation is created.
Product Manager	:	In a product method of marketing organisation a manager who is assigned the responsibility of a particular product.
Geographical Organisation	:	A structure created on territorial basis.
Matrix Organisation	:	A grid organisation where jobs may be differentiated on the basis of functions and products.

BLOCK - II : CONSUMER BEHAVIOUR AND MARKETING RESEARCH

After going through Block - I, you might get familiarity with the fundamental aspects of marketing. Consumer behaviour refers to the behaviour of consumer varies from one product to another and time to time. Marketing research is to facilitiate in the decision making process to the marketing manager.

Unit - 7 of this block explains the concept of market segmentation and on what bases the markets are segmented. Unit - 8 deals with various aspects of consumer behaviour and examines how it is influenced by diverse factors - social, cultural, personal, economic factors, etc. The last unit of this block i.e., Unit - 9 deals with the definition of marketing research, its purpose and scope and problems in conducting marketing research in India.

UNIT – 7 : MARKET SEGMENTATION

Aims and Objectives

After reading this Unit, you should be able to:

- understand the meaning of market segmentation;
- know the market segmentation concept and its importance;
- describe the benefits of market segmentation;
- understand the requirements for effective market segmentation; and
- digest the bases for market segmentation.

Structure

7.0 INTRODUCTION

The modern marketing concept makes customer remain at the center stage of organization and effort. The focus, within the marketing concept are the target customer, sets the ball rolling for analysing each of the conditions of the target market. The target market outlined the needs, investment, and willingness to spend money. For a marketer even when these conditions prevail, it might not be worthwhile to present product as per the customer's needs. There may not be sufficient market to justify catering to the requirements. However, it is possible that a buyer might be ready and willing to purchase a product at a premium price.

Customers might want to look at time (the instrument for measuring time) for different purposes-kitchen, bedroom, playground, car, place of work, etc. Others might have the purposes to activate at a particular time (telephone departments provide facilities, alarm clocks also do the same function). Thus, in order to measure time, different objectives are put forward before marketers.

Several brands are available in the market-HMT, Titan, Timex, Prestige, Ajanta, Konika, etc. with a variety of features. The clocks/watches are available at company's, showrooms, Super Bazars, Consumer cooperative stores, retailers, etc. There are many customers who live geographically at different places whose perception, beliefs, attitudes, lifestyles, etc. are different! Every customer might not buy HMT watches or Titan watches. Even some competitors might serve customers better compared to others. To be competitive, segmentation has to be carried out.

7.1 MEANING AND IMPORTANCE OF MARKET SEGMENTATION

Market segmentation is dividing the market into distinct groups of buyers with different needs, characteristics or behaviours who might require separate products or marketing mixes.

Market Segmentation is the process of dividing a potential market into distinct sub-markets of consumers with common needs and characteristics. Market segmentation is the starting step in applying the marketing strategy. Once segmentation takes place, the marketer targets the identified customer groups with proper marketing-mix so as to position the product/brand/company as perceived by the target segments.

Philip Kotler defined the marketing segmentation as "Whenever a market for a product or service consists of two or more buyers, the market is capable of being segmented, that is divided into meaningful buyer groups. The purpose of segmentation is to determine differences among buyers which may be consequential in choosing them or marketing to them."
In the words of **William J.Stanton** "Market segmentation consists of taking the total heterogeneous market for a product and dividing it into several sub-markets or segments, each of which tends to be homogeneous in significant aspects."

American Marketing Association defined the marketing segmentation: "The purpose of market segmentation is to determine the differences among purchasers which may affect the choice of market area of marketing methods. The market is divided into sectors or segments in such a way that the purchases in each segment, while not being exactly identical, are of a similar nature and are influenced by similar buying motives."

Importance of market segmentation

Market segmentation helps in meeting consumer demand. In addition, because the segments contain fewer and more similar consumers, the marketer is able to obtain more detailed knowledge about their characteristics. The market segmentation has the following advantages to the seller or producer.

1. **Evaluation of marketing programmes:** The market segmentation helps the manufacturer to find out and compare the marketing potential of the products. It helps adjust production and use of the resources in a most profitable manner. Segmentation analysis plays an essential role in all phases of marketing and marketing strategies.

2. **Creating the competition effectively:** It helps the producer face competition effectively. The marketer can adopt different strategies for different markets taking into account the rivals' strategies.

3. **It helps in preparing the marketing budget:** On the basis of market segmentation, the marketing budget is prepared for a particular region or locality. In the market place, where sales are limited, allocation of a huge budget is of no use.

4. **Use of segmentation in marketing strategy:** Segmentation helps in advertising and promotion as well as in distribution. The segment profile also provides detailed information regarding demographic characteristics and lifestyle. Finally, segmentation is the only way to enter a target market.

5. **Uses of segmentation in marketing opportunities:** The marketer can make a good judgment for his sales and there is a possibility of further increase in sales. It is quality management which re-discovered marketing and added a new dimension to the same by taking it inside the market as well. While looking out for a new opportunity, a marketer is also supposed to deliver better value to his customers as compared to the competitors.

A marketer has to combine his knowledge of segmentation with positioning and marketing strategy concepts. The marketer has further to determine which sub-sets contain prospects and which of them are the most attractive to reach the target. Once marketers have identified the best segments, they have a variety of ways to apply to market segmentation. Companies can choose to market to all of the target segments, to some of the target segments, or to just one.

Activity– 1

Define the term market segmentation and explain its importance.

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7.2 CONCEPT OF MARKET SEGMENTATION AND PRODUCT DIFFERENTIATION

After gathering information on consumer characteristics, desires, and decision making; company and industry attributes, and environmental factors, a firm is ready to select the target market(s) to which it will appeal to develop an appropriate strategy. From a marketing perspective, the total market for a particular good or service consists of all the people and/or organizations who desire (or potentially desire) that good or service, and have sufficient resources to make purchases, and are willing and able to buy.

Setting a target market strategy, firms often rely on market segmentation, dividing the market into distinct sub-sets of customers that behave in the same way or have similar needs. Each subset could be a possible target market.

Developing a target market strategy involves **three general phases:**

1. Analyzing consumer demand,
2. Targeting the market, and
3. Developing the marketing strategy.

First, the firm determines demand patterns that exist for a given good or service, establishes bases of segmentation, and identifies potential market segments. For example, do all potential consumers have similar needs and desires? Or, are there distinct clusters of demand, each with different needs and desires? Or, is consumer demand diffused, so that there is a great variety of needs and desires? Also, what consumer characteristics, desires, and behavior types can be used to describe market segments?

Second, the firm targets the market. It chooses the best approach to use in appealing to the marketplace and selects its target market(s). A company can apply one of three market segmentation strategies:

1) Undifferentiated marketing (mass marketing): Where the business attempts to appeal to the whole market with a single basic marketing strategy intended to have mass appeal;

2) Concentrated marketing: Where the business attempts to appeal to one well-defined market segment with one tailor-made marketing strategy; and

3) Differentiated marketing (multiple segmentation): Where the business attempts to appeal to two or more well-defined segments of the market with a marketing strategy tailored to each segment.

Third, the firm positions its offering relative to competitors and outlines the appropriate marketing mix. Of particular importance at this phase is attaining **product differentiation,** whereby "a product offering is perceived by the consumer to differ from its competition on any physical or nonphysical product characteristic including price".

When product differentiation is favorable, it constitutes a differential advantage. Sometimes a company can achieve a key differential advantage by simply emphasising how its offering satisfies existing consumer desires and needs better than that of competitors'. However, sometimes demand patterns must be modified for consumers to perceive the product differentiation of the former as worthwhile.

The concept of market segmentation is based on the fact that markets of goods as well as services are not homogeneous but they are heterogeneous. Market is a place, where a group of customers have common characteristics. However, two customers never have common characteristics in their nature, habits, hobbies, income and purchasing decisions. They are always different in their behaviour and buying decisions.

On the basis of these characteristics, consumers having similar needs are grouped in segments. The basic objective of dividing the market into segments is to provide an expanded range of products or service choices to meet the diverse needs of the consumers. This also helps in satisfying their needs better.

Thus, market segmentation is a positive force for both consumers and marketers. The marketers sub-divide a market into homogeneous sub-sets of customers having common interests in order to facilitate the marketing of their products. Such selection of sub-sets as homogeneous groups is called market segmentation.

Segmentation aims at one or more homogeneous groups of customers and the marketers try to develop different marketing-mix for each segment. The purpose is to satisfy them all. There may be different demand curves in different market segments. By segmentation, marketers may produce higher sales in markets where they have monopolistic conditions.

Activity– II

What is product differentiation in marketing? Explain.

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7.3 BENEFITS OF MARKET SEGMENTATION

Segmentation aims at one or more homogeneous groups of customers and the marketers try to develop different marketing-mix for each segment. The purpose is to satisfy them all. There may be different demand curves in different market segments. By segmentation, marketers may produce higher sales in markets where they have monopolistic conditions. The benefits accruing from segmentation are explained below:

1. **Minimises Aggregation Risk:** By adopting one marketing-mix strategy for all the segments, marketers enhance the risk of not being able to satisfy customer needs. An innovative marketer might segment and take away the market.

2. **Helps Know Company Capabilities:** By looking at a particular segment, company can carry SWOT analysis. SWOT Analysis details out the strengths and weaknesses within the company and opportunities and threats outside the company. By knowing the strengths and opportunities for controlling weaknesses and threats, a company can enhance its capabilities for marketing its product in a particular segment.

3. **Provides Opportunities to Expand Market:** By segmenting the market, a marketer is able to create new markets for their products.

4. **Helps Create Innovations:** Marketers get benefits in focusing the relevant segment more closely and look for changes in the market requirements.

5. **Creates Gains to Consumer:** Segmentation results in many wars within the segment. Consumer gains in terms of added quantity and variety.

In brief, the market segmentation benefits are as follows:

1. Understanding of potential customers
2. Paying proper attention to particular areas
3. Formulating marketing programmes
4. Selecting channels of distribution
5. Understanding competition
6. Using marketing resources efficiently
7. Advertising the products and launching sales promotion programmes; and
8. Designing marketing mix: product, price, place and promotion.

Market segmentation can help the ***management*** in achieving the following benefits:

i) Concentrating on the most profitable market,

ii) Designing products that really match the market demand,

iii) Determining promotional-mix, which will be most effective,

iv) Choosing advertising media effectively and determining how to allocate better the advertisement budget among the various media.

After closely looking at Market segmentation, we can now start actually deciding the total market for finding out the segments or niches. Segmentation has been accepted as a tool to look into relevant common characteristics and responses that customers have.

Activity – III

Briefly discuss the benefits of market segmentation.

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7.4 MARKET SEGMENTATION SELECTION

Once a marketer has evaluated the different segments for their size, growth, and attractiveness, and found that they are compatible with the company objectives and resources, the obvious step is to go for selecting the market segments.

1. **Single Segment Concentration:** The marketer prefers to go for single segment like Pioneer Publications and Allahabad Law Agency for Law books and BPB Publications for Computer books. The company can have strong market position, greater knowledge about segment-specific needs, specified reputation, and probable leadership position. The concentrated marketing strategy normally provides higher returns and therefore it is possible that competitors might be attracted to find their place in the segment.

2. **Selective Segment Specialisation:** This is known as multistage coverage because different segments are sought to be captured by the company. For example, Bata shoes were mostly in the popular segment until the beginning of 1990s. Then, it turned itself into premium segment while still retaining the appeal of popular segment. The taking of select segments of shoe market could not help Bata to gain full control of market. After 1995, it has come back again to the popular segment.

3. **Market Specialisation:** Here the company takes up a particular market segment for supplying all relevant products to the target group. For example, Dhanpat Rai & Co. publishes and sells books covering all types of customer needs - competition books, and text books for Schools, Colleges and Universities.

4. **Product Specialisation:** Product specialisation occurs when a company sells certain products to several potential customers wherever they are located. Thus, Super Precision Components supply small nuts and screws for use in military, industry and daily use. Product specialisation promises strong recognition of customer within the product areas.

5. **Full Coverage:** It is very difficult to serve all segments of the market. Big companies can go for full market coverage.

Activity– IV

What are the different types of selections in market segmentation?

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7.5 REQUIREMENTS FOR EFFECTIVE MARKET SEGMENTATION

Companies normally reformulate their marketing strategies and offerings several times. Economic conditions change, competitors launch new assaults, and the product passes through new stages of buyer interest and requirements. Consequently, strategies appropriate to each stage in the life cycle of the product must be developed. The goal is to extend the life and profitability of the product, keeping in mind that the product will not last forever. This chapter explores specific ways a company can effectively position and differentiate its offerings to achieve competitive advantage throughout the life cycle of a product or an offering.

All marketing strategy is built on STP (Segmentation, Targeting, and Positioning). A company discovers different needs and groups in the marketplace, targets those needs and groups that it can satisfy in a superior way, and then positions its offering so that the target market recognizes the company's distinctive offering and image. If a company does a poor job of positioning, the market will be confused as to what to expect. If a company does an excellent job of positioning, then it can work out the rest of its marketing planning and differentiation from its positioning strategy.

Requirements for effective segmentation of market must exhibit some characteristics that are as follows:

1. **Measurable and Obtainable:** The size, profile and other relevant characteristics of the segment must be measurable and obtainable in terms of data. If the information is not obtainable, no segmentation can be carried out.

2. **Substantial:** The segment should be large enough to be profitable. For consumer markets, the small segment might disproportionally increase the cost and hence products might be priced too high. This might make the segment non-profitable. However, for business markets, even a single customer might mean big business.

3. **Accessible:** The segment should be accessible through existing network of people at a cost that is affordable. It might not be easy to access hilly terrains for actual distribution of products.

4. **Differentiable:** The basis of segmentation should be such that it leads to different segments.

5. **Actionable:** The segments, which a company wishes to pursue, must be actionable and functional in the sense that there should be sufficient finance, personnel, and capability to take them all. Hence, depending upon the reach of the company, the segments should be selected.

6. **General Considerations:** Apart from the above requisites, the segment must have growth potential, be profitable, carry no unusual risk, and have competitors who do not fight directly with the product or brand.

Market segmentation is the starting step in applying the marketing strategy. Once segmentation takes place, the marketer targets the identified customer groups with proper marketing-mix so as to position the product/brand/company as perceived by the target segments.

Procedure for Market Segmentation

These homogeneous groups become target for the marketers for developing products as per their requirements. The same results can be achieved by looking at those characteristics, which make two groups heterogeneous.

There are essentially two methods by which market segments can be achieved:

1. **Segmentation Based on Consumer Characteristics and Responses:** In this case, some of the bases of segmentation are taken up as a starting point. Then the consumers are divided with those segmentation bases - sex, age, life-style, family life cycle, benefits sought, etc.

2. **Segmentation without a Priori Basis:** Here, we take a large sample based on their demographics, psychographics, social and cultural differences. The sample is put to Factor analysis for finding out factors that have common characteristics or responses. These factor-clusters become the market segments. For each of the different segments, a name is given. Once the segment is named, the task of the marketer is to find out how to implement the segmentation strategy. This is because there might be perceptible inconsistencies in the results-married persons as high brand-switchers.

These factor-clusters are then analysed for detailed view of the demographics, psychographics, social, cultural characteristics and responses. Results show that similarities exist between consumers who have the listed characteristics.

Lastly, for each of the market segment arrived at, one has to estimate the size of the product-market. Most of the work for achieving the market segmentation is carried by Marketing Research department.

Various Levels of Market Segmentation

1) **Mass Marketing:** Mass-producing, mass distributing, and mass promoting the same product in the same way to all consumers.

2) **Segment Marketing:** Isolating broad segments that make up a market and adopting its offer to very closely match the needs of one or more segments.

3) **Niche Marketing:** Focuses on subgroups within segment. Niche is a more narrowly defined group, usually identified by dividing a segment into sub segments.

4) **Micro Marketing:** Segment and niche marketers tailor their offers and marketing programmes to meet the needs of various segments. However, they do not customize their offer to individual customer. Micro marketing is the practice of tailoring products and marketing programmes to suit the taste of specific individuals and location.

Activity– V

Explain the requirements for effective market segmentation? What are the various levels of market segmentation?

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7.6 MARKET SEGMENTATION STRATEGIES

Market Segmentation is the process of dividing a potential market into distinct sub-markets of consumers with common needs and characteristics. Market segmentation is the starting step in applying the marketing strategy. Once segmentation takes place, the marketer targets the identified customer groups with proper marketing-mix so as to position the product/brand/company as perceived by the target segments.

Many successful companies today are raising expectations and delivering services to match the expectations. These companies monitor their customer's expectations, with a performance perception and cater to customer satisfaction. However, although customer centered firm seeks to deliver high customer satisfaction relative to competitors, it does not attempt to maximum customer satisfaction because the purpose of marketing is to generate customer value profitably.

Consumers form expectations about the value of marketing offers and make buying decisions based on these expectations; customer satisfaction with a purchase depends upon the product's actual performance relative to buyer's expectations. A customer might experience various degrees of satisfaction. If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is sure to be satisfied or delighted.

Depending upon the emerging patterns of market segmentation, homogeneous preference (showing no natural segments) as in the case of soft drinks sale by Pepsi and Coca-cola), diffused preferences (showing clear preferences as in the case of automobile market), and clustered preference (market showing natural segments as in the case of occupation having impact on the types of clothes wearing), a company chooses its market segmentation strategy.

A. Undifferentiated Marketing

It is a market coverage strategy in which the company treats the target market as one and does not consider that there are market segments that exhibit uncommon needs. The company focuses on the centre of the target market to get maximum advantage. The feature of one product-all segments calls for presenting one marketing-mix for the target market

B. Differentiated Marketing

It is a market coverage strategy in which the company goes for proper market segmentation as depicted by its analysis of the total market. The company, therefore, goes for several products or several segment approaches which calls for preparing different marketing-mixes for each of the market segment.

C. Concentrated Marketing

It is a market coverage strategy in which company follows one product-one segment principle. The company tries to position its product in the middle of the segment to attract maximum clientele. This strategy can also help the small company to stand against a large corporation because the small company can create niches in its one-product one-segment approach by providing maximum varieties.

Market segmentation has been used for years in the field of industrial products. It means products are made according to buyers' specifications. This strategy has gained popularity in the case of consumers' products also. The strategy of market segmentation attempts to penetrate a limited market in depth as compared to that of product differentiation, which seeks breadth in a wider market.

The management of a firm may employ the strategy of market segmentation to penetrate into various small markets. It may have to combine it with product differentiation in order to avoid competition in the market segments. For example, a firm that makes electronic razors may divide the market into two groups, namely, men and women and then develop separate razors to meet the specific demands of each group. The firms resort to product differentiation in order to maintain a separate identity of its products. Thus, in practice, firms differentiate their products in line with the desire of the various market segments they wish to solicit. In essence, this strategy tailors characteristics of each product to the requirements of each market segment to which the product is to be sold.

A single product item or limited product line has only one market. It is assumed that we have only one demand curve for the product. Market aggregation is equivalent to standardisation of marketing policy. It is suitable from the point of view of production, storage, marketing and physical distribution. It helps the firm during the initial operations. But such a product policy invites competitors and it also involves high promotional and advertising costs.

Activity– VI

Explain the strategies for market segmentation?

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7.7 BASES FOR MARKET SEGMENTATION

There might be no market segmentation or complete-market segmentation. When there is segmentation, different product qualities are available each satisfying different segment. The sizes of the potential targets might be different. The target marketing is being changed to micro marketing.

Micro - Marketing

Micro-marketing occurs when target market is further bifurcated and the needs of the small customer groups are addressed on a local basis. Thus, even though target customer has been identified in the target marketing, some specific features of products are made available at select places on a local basis. For example, Liberty shoes are available in Delhi Metropolitan Area with a difference of availability depending upon the type of customer, status, and economic background. The range, style, colour, and design, which are available in Connaught Place showroom or South Extension showroom, are hardly available in Tilak Nagar or Shahdara areas. Similar is the case with Shyam Garments, Nonwhites and Haldiram.

Customised Marketing

The focus of the target marketing is further shifting from local basis to individual customer basis. With the advancement in manufacturing because of breakthrough in information technology, for example, use of computer-aided design and computer aided manufacturing, it has now become possible to manufacture a product as per the individual customer needs or of a buying organisation. Tailors and drapers (for men), boutiques (for females and child), and beauty parlours are customised products. The Aircraft Industry, the Building Construction Industry, the Software Industry, the Book Publishing Industry, and the administration of departments in Delhi University mostly use customised marketing by promising customer-specific products. Even specialised institutions have been opened-up. ICSI (Company Secretaries), ICWAI (Cost Accountants), ICAI (Auditing & Accounting), ICFAI (Financial Accountants), etc. have taken a serious look at the marketing of their products on the basis of customer-specific requirements.

Personalised Marketing

Mass production, mass production with product varieties, and target marketing for segments, which are further divided on a local basis or on individual customer needs, and the focus of the company is shifting more minutely. In the case of customised marketing even if the requirements for a customer are met by a custom-made product, the customer might not be willing to retain his loyalty with the company because of competition.

The step towards developing a segmentation strategy is to locate base(s) for segmenting the market. There are different variables, which are used for this purpose. The variables relate to consumer demographics, psychographics, geographicals, and behaviour. The size of the segment might be small or negligible for any base.

1. Geographic Segmentation
2. Demographic Segmentation
3. Psychographic Segmentation
4. Behavioural Segmentation
5. Value Based Segmentation

1. **Geographic Segmentation:** The region, the city size, its density whether urban, sub-urban or rural, and the climate (hot, humid, cold) matters a lot in segmenting the market on the basis of geographic segmentation. The main advantage of the segmentation base is that it reflects physical location of the market and its attending conditions. Internet marketing has started eroding the geographic segmentation as basis.

   a) Density - urban, semi urban, rural
   b) Region-North, East, West, South
   c) Climate - Hot, moderate, cold
   d) City Size

2. **Demographic Segmentation:** It divides the market on the basis of age, sex, marital status, income, education, family-size, family life-cycle, occupation, religion, and nationality. The segmentation of customers on the basis of their demographics is quite old. Shaving creams, electric razors, after-shave creams are all meant for men. Lipstick, bindi, nail polish are meant for women. Similarly, the smaller the family-size, the smaller the package required and vice-versa. Married men/women behave differently than boys/girls. This type of segmentation from marketing point of view is withering away.

   a) Sex - Male, Female
   b) Age - 6 and below, 7-12, 13-19, 20-30, 31-35, 36-46, 47-60, 61 and above

c) Nationality - Chinese, American, Japanese

d) Income - Below 2000, 2000-5000, 5001-10,000, 10,001-20,000, 20,001-40,000, 40,000-75,000, 75,001-1,00,000, Above Rs.1,00,000 (Per month)

e) Family Size - Below 2 members, 3-4, 5-8, 9 and above

f) Religion - Hindu, Muslim, Christian

g) Education - Illiterate, Below SSC, SSC, Intermediate, Graduate, Post-Graduate

h) Family Life Cycle - Young single, Young Married, no children, Young married with children, Young married,

i) Occupation - Professional, Technical, Govt servant, Businessman, farmer, housewife, unemployed, Retired etc.,

Thus, demographics as a bases for segmentation are working as a proxy for finding similarity in behavioural patterns. The shorter route to demographics is psychographics and behavioural segmentation

3. **Psychographic Segmentation:** This sort of segmentation is widely used by marketers. The use of psychological, sociological, anthropological factors, self-esteem and life style determine how the market is segmented by the prosperity of groups within the market and their reason is psychographics.

   i) **Life Style:** Lifestyle is a person's pattern of living. Lifestyle classifications are by no means universal. Life style variables are defined by how people spend their time (activities) what they consider important in their environment (Interests) and what they think about themselves and the world around them (Opinions). Changing life styles are relevant to marketers. They vary significantly from country to country. Lifestyle captures something more than the person's social class or personality. It profiles a person's whole pattern of acting and interacting in the world.

   ii) **Personality:** The marketers try to adjust the brand personality to the personality traits of buyers for whom it is meant. Personality characteristics especially the self-image is the basis of advertising appeals.

The psychographic segmentation is at the mind level. It might not click for marketers. The appeal is vague which is not easily manifested in consumer behaviour. However, behavioural segmentation encompasses all difficulties of Geographic, Demographic and Psychographic segmentation.

4. **Behavioural Segmentation:** Here the geographical, demographical or psycho graphical boundaries do not come together but become more irrelevant for marketers. The consumers are segmented on the basis of their behaviour through need-motivation, perception, learning-involvement, attitudes, occasions, benefits, user-status, usage-rate, loyalty status, and buyer-readiness stage.

   i) **User Status:** Markets can be segmented into non-users, ex-users, potential users, first-time users, and regular users of the product. Contacting each group will require different marketing strategies.

   ii) **Occasions:** Buyers can be grouped according to occasions when they get the idea to buy, actually make their purchase, or use the purchased item. Occasion segmentation can help firms build up product usage. Beauty parlours, hotels, museums, travel resorts are some of them.

iii) **Benefits Sought:** In this segmentation, the marketer identifies the benefits that a customer looks for when buying a product. Benefit segmentation requires finding the major benefits people look for in the product class, the kind of people who look for each benefit and the major brands that deliver each benefit. A benefit segmentation of toothpastes revealed that there are four benefit segments-Economic (Heavy users), medicinal (smokers), cosmetic (brightness) (Teens) and taste (Children). Each benefit group had different characteristics. Forhans for healthy gums, close-up for breathe etc.,

iv) **Loyalty Status:** A market can be segmented by consumer loyalty. Buyers can be divided into groups according to their degree of loyalty. Hard core loyal is completely loyal - they buy one brand all the time. Soft Core loyal is somewhat loyal - they are loyal to two or three brands of a given product. Switchers show no loyalty to any brand. They want something different each time they buy. They never stick to a brand. Ex: (for a particular individual) Hard Core - Old Cinthol, Gillette blades Soft Core - Pillsbury atta, Annapurna atta, Custard powder - Weikfield or Brown & Poison Switcher – Matchbox

v) **Usage Rate:** Markets can also be segmented into light, medium and heavy product users (Volume segmentation). Heavy users are often a small percentage of the market but account for a high percentage of total consumption. Marketers usually prefer to attract one heavy user to their product or service rather than several light users.

vi) **Buyer Readiness Stage:** A market consists of people in different stages of readiness to buy a product. They can be classified as: UNAWARE -AWARE-INFORMED -INTERESTED-DESIROUS-INTENDING TO BUY. The relative numbers make a big difference in designing the marketing programme. Advertising messages can be directed accordingly.

Behavioural segmentation is based on the consumer response to his requirements. The way customer's response is addressed, and the way the products actually help them to achieve what is demanded from it, both belong to the basis for their classification.

Consumer behaviour is also affected by the occasion in which he is placed. Raymond's advertisement presents suiting fabrics for all styles and occasions. Today, value-for-money or benefits sought are the harpings that are heard from most of the marketers

5. **Value-Based Segmentation:** The marketing concept prescribes that segmentation should be the outcome of a match between the product's features and the customer's needs. This new postulation suggests that marketers must arm themselves with a new parameter for partitioning their customers profitability. The marketers should really be segmenting their customers so as to isolate those who contribute the most to their profits. The marketers must calculate Total Lifetime Value of their customers and discount it to arrive at the net present value.

Arguments for Value-based Segmentation

a) Increased returns from lower investments.

b) Resources can be focussed squarely on the most profitable customers implying that the marketer would be able to provide best technology, best value, best features; there will be no shift in customer priorities *i.e.,* customers would always require some product from the same marketer.

c) The losers will be those marketers who under-invest in high-value customers and over-invest in the low-value customers. This will mean creation of product features and marketing strategies that do nothing for their best customers.

Each of the market segments has a different set of wants, motivation and other characteristics. Thus, there are a series of demand curves for the products of the firm. In order to meet the demands of various market segments, the firm develops different products, each one especially for one or more of the market segments.

In the past, many companies took their customers for granted. Facing an expanding economy and rapidly growing markets, companies could practise a "leaky bucket" approach to marketing. Growing markets meant a plentiful supply of new customers. Companies could keep filling the marketing bucket with new customers without worrying about losing old customers through holes in the bottom of the bucket.

However companies today are facing some new marketing realities i.e., changing demographics, more sophisticated competitors and overcapacity in many industries etc., are forcing the companies to fight for shares in flat or fading markets. Thus the costs of attracting new customers are rising. In fact, it costs five times as much to attract a new customer as it does to keep a current customer satisfied.

Companies are also realising that losing a customer means losing more than a single sale. It means losing the entire stream of purchases that the customer would make over a lifetime of patronage. Thus working to retain and grow customers make good economic sense. A company can lose money on specific transaction but still benefit greatly from a long-term relationship.

Activity - VII

What are the bases for market segmentation?

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7.8 SUMMARY

Market segmentation seeks to carve a large, heterogeneous market into smaller, more uniform subdivisions for strategy formulation. There are a few common bases, which are used in segmentation e.g., demographic, economic, psychographic etc. although the use of demographic variables is initially appealing and widely available to marketers.

Marketers use three strategic options in segmentation. One is undifferentiated marketing, in which same marketing mix is offered to everyone regardless of their differences. Another strategy is differentiated marketing, where two or more segments are targeted using different marketing mixes for each. The third option, concentrated marketing focuses on one segment out of many possibilities.

7.9 SELF ASSESSMENT QUESTIONS

I. [illegible]

1. [illegible]
2. State the levels of market segmentation?
3. Write a short note on product differentiation?

II. Long [illegible] Questions

1. Define market segmentation? Discuss the significance of market segmentation in India?
2. What is meant by market segmentation? What are the criteria for successful market segmentation?
3. "Market segmentation is very useful for effective marketing of any product". Elaborate?
4. What are the various methods of segmenting the markets? Discuss.
5. What is the object of market segmentation? What are the bases of market segmentation?
6. What is meant by market segmentation? What will be the suitable bases for the marketing of televisions?
7. Write a short note on Product Differentiation?

7.10 FURTHER READINGS

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7.11 KEY WORDS

Marketing Segmentation : [illegible] consists of [illegible] meaningful [illegible] groups.

Product Differentiation : A product offering is perceived by the consumer to differ from its competition on any physical or non-physical product characteristic.

Market Specialisation : Here the company takes up a particular market segment for supplying all relevant products to the target group.

Segment Marketing : Isolating broad segments that make up a market and adopt its offer so as to closely match the needs of one or more segments.

Niche Marketing : Focuses on subgroups within a segment. Niche is a more narrowly defined group, usually identified by dividing a segment into sub segments.

Life Style : Lifestyle is a person's pattern of living. Lifestyle classification are by no means universal.

Personality : The marketers try to adjust the brand personality the personality traits of buyers for whom it is meant. Personality characteristics especially the self-image is the basis of advertising appeals.

User Status : Markets can be segmented into non-users, ex-users, potential users, first-time users, and regular users of the product. Contacting each group will require different marketing strategies.

Occasions : Buyers can be grouped according to occasions when they get the idea to buy, actually make their purchase, or use the purchased item. Occasion segmentation can help firms build up product usage.

Loyalty Status : A market can be segmented by consumer loyalty. Buyers can be divided into groups according to their degree of loyalty.

Usage Rate : Markets can also be segmented into light, medium and heavy product users (Volume segmentation) Heavy users are often a small percentage of the market but account for a high percentage of total consumption.

UNIT – 8 : CONSUMER BEHAVIOUR

Aims and Objectives

A... unit, you should be able to:

- understand the meaning and importance of consumer behaviour;
- know the factors influencing consumer behaviour
- explain the concept of cognitive dissonance; and
- know the different variables involved in the industrial buying process.

Structure

8.0 INTRODUCTION

This unit explores the dynamics of consumer behaviour and the consumer market. Consumer buying behaviour refers to the buying behaviour of final consumers -individuals and households who buy goods and services for personal consumption. All of these consumers combined make up the consumer market.

Consumers make many buying decisions every day. Most large companies research consumer buying decisions in great detail to answer questions about what consumers buy, where they buy, how and how much they buy, when they buy, and why they buy. Marketers can study consumer purchases to find answers to questions about what they buy, where, and how much they buy. But learning about the whys of consumer buying behaviour is not so easy-–the answers are **often locked deep within the consumer's head.**

The central question for marketers is: How do consumers respond to various marketing efforts the company might use? The company that really understands how consumers will respond to different product features, prices, and advertising appeals has a great advantage over its competitors.

8.1 MEANING AND IMPORTANCE OF CONSUMER BEHAVIOUR

Consumers around the world vary tremendously in age, income, education level, and tastes. They also buy an incredible variety of goods and services. How these diverse consumers make their purchase decisions... embraces a fascinating array of factors.

... Khan and Kanak define consumer behaviour as the behaviour that the consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs.

London and Bitta define consumer behaviour as the decision process and physical activity individuals engage in when evaluating, acquiring, using or disposing of goods and services.

... the behaviour of final consumers – individuals and households who buy goods and services for personal consumption.

Importance of Consumer Behaviour

The most important reason for studying consumer behaviour is the significant role it plays in our lives. A marketer's decisions are affected by consumer behaviour or expected actions. For this reason, consumer behaviour is an applied discipline and can be studied in two perspectives: a) the micro perspective; and b) the social perspective.

The micro perspective seeks application of the knowledge of consumer behaviour to problems faced by an individual firm or organisation. The social perspective ... the knowledge of consumers to aggregate level problems faced by society as a whole. Consumer behaviour plays an important role in marketing. It helps in market opportunity analysis, target market selection and marketing mix determination.

Activity - I

Discuss the importance of consumer behaviour in today's markets.

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8.2 FACTORS INFLUENCING CONSUMER BEHAVIOUR

There are four major factors influencing consumer behaviour. They are:

1. Cultural factors
2. Social factors
3. Personal factors
4. Psychological factors

a. Cultural F[illegible]

[illegible] the broadest and deepest influence on consumer behaviour. Th[illegible] [illegible] needs to understand the role played by the buyer's culture, [illegible] class.

(i) Culture

[illegible] is the most basic cause of [illegible] wants and behaviour. Human behaviour is largely learned [illegible] up in a society, a child learns basic values, perceptio[illegible] [illegible]ours from the family and other important instit[illegible] the [illegible] States normally learns or is exposed to the fol[illegible] [illegible] efficien[illegible] and [illegible] freedom humanitarianism, youthfulne[illegible]

[illegible] a culture [illegible] influences on buying behaviour may [illegible] country [illegible] culture to adjust to these [illegible] [illegible] [illegible]ctive marke[illegible] embarrassing mistakes.

[illegible] cultural shifts [illegible] new products that [illegible] shift towards greater concern about health and [illegible] for exercise equipment and clothing, lower-fat and more [illegible] health and fitness services. The shift [illegible] informality has resulted in more [illegible] for casual clothing and simpler home furnishing. The increased [illegible] time [illegible] resulted in more demand for [illegible] products and [illegible] ovens and [illegible] catalog-shopping industry.

(ii) Subculture

Each culture contains smaller subcultures, or groups of people with shared value systems based on common life experiences and situations. Subcultures [illegible] racial groups and [illegible] es make [illegible] market [illegible] [illegible] products and marketing programs tailored to their needs.

(iii) Class

Almost every society has some form of social class structure. Social classes are society's [illegible] very permanent and ordered divisions whose members share similar values, interests and behaviours.

Social [illegible] is not determined by a single factor such as income, but by measured as a [illegible]ation of occupation, income, education, wealth, and other [illegible]. In some social systems, members [illegible] classes are reared for certain roles and [illegible] social positions.

[illegible] brand preferences in areas [illegible] [illegible] activity, and automobiles.

Characteristics of Seven Major American Social Classes

UPPER UPPERS (LESS THAN 1 PERCENT)
Upper uppers are the social elite who live on inherited wealth and have well-known family background. They give large sums to charity, own more than one home, and send their children to the finest schools. They are a market for jewellry, antiques, homes, and vacations. They often buy and dress conservatively rather than showing off their wealth. While small in number, upper uppers serve as a reference group for others.

LOWER UPPERS (ABOUT 2 PERCENT)
Lower uppers have earned high income or wealth through exceptional ability in the professions or business. They usually begin in the middle class. They tend to be active in social and civic affairs and buy for themselves and their children the symbols of status, such as expensive homes, schools, swimming pools, and automobiles. They include the new rich who consume conspicuously to impress those below them. They want to be accepted in the upper-upper stratum, a status more likely to be achieved by their children than by themselves.

UPPER MIDDLES (12 PERCENT)
Up[illegible] family status nor unusual wealth. They are primarily concerned with "career." They have attained positions as profess[illegible] independent businesspersons, and corporate managers. They believe in education and want their children to develop professional or administrative skills. They are joiners and highly civic-minded. They are the quality market for good homes, clothes, furniture, and appliances.

MIDDLE CLASS (32 PERCENT)
The middle class is made up of average-pay white- and blue-collar workers who live on "the better side of town" and try to "do the proper things." To keep up with the trends, they often buy products that are popular. Most are concerned with fashion, seeking the better brand names. Better living means owning a nice home in a nice neighborhood with good schools. They believe in spending more money on worthwhile experiences for their children and aiming them toward a college education.

WORKING CLASS (38 PERCENT)
The [illegible]king class cons[illegible] f those who lead a "working class lifestyle" whatever their income, school background, or job. They depend [illegible] on relatives for economic and emotional support, for advice on purchases, and for assistance in times of trouble. The working class maintains sharper sex role divisions and stereotyping.

UPPER LOWERS (9 PERCENT)
Upper lowers are working (are not on welfare), although their living standard is just above poverty. They perform unskilled work for very poor pay although they strive toward a higher class. Often, upper lowers lack education. Although they fall near the poverty line financially, they manage to "present a picture of self-discipline" and "maintain some effort at cleanliness."

LOWER LOWERS (7 PERCENT)
Lower lowers are on welfare, visibly poverty stricken, and usually out of work or have "the dirtiest jobs." Often they are not interested in finding a job and are permanently dependent on public aid or charity for income. Their homes, clothes, and possessions are "dirty," "raggedy," and "broken-down."

2. Social Factors

A consumer's behaviour also is influ[illegible]al factor, such as the consumer's [illegible]all groups, family, and social roles and status.

a) Groups

[illegible] person's behaviour is influenced by many small groups. Groups that have a direct influence and to which a person belongs are called membership [illegible]ups. Some are primary groups with whom there is regular but informal interaction-such as family, friends, neighbours, and co-workers. Some are secondary groups, which are more formal and have less regular interaction. These include [illegible]izations like religious groups, professional associations, and trade unions.

Reference groups serve as direct (face-to-face) or indirect points of [illegible]mparison or reference in forming a person's attitudes or behav[illegible]ur. [illegible]eople often are influenced by reference groups to which they [illegible] not belong. For example, an asp rational group is one to which the indi[illegible] wishes to belong.

Marketers try to identify the reference groups of their target markets. Refere[illegible] groups expose a person to new behaviours and lifestyles, influence [illegible]rson's attitudes and self-concept, and create pressures to conform [illegible] may affect the person's product and brand choices.

Manufacturers of products and brands subject to strong group influence must figure out how to [illegible]ch the opinion leaders in the relevant reference groups. Opinion leaders are people within a reference group who, because of [illegible]pecial skills, knowledge, personality, or other characteristics, exert influence on others. Opinion leaders are found at all levels of society, and one person may be an opinion leader in certain product areas and an opinion follower in others. Marketers try to identify opinion leaders for their products and direct marketing efforts toward them.

The importance of group influence varies across products a[illegible] strongest when the product is visible [illegible]purchases of products that are bou[illegible]uch affected by group influences because neither the [illegible]y others.

[illegible]nily

Family members can strongly influence buyer behaviour. The family is the most important consumer bu[illegible]ganization in society, and it has been researched extensively. Marketers are interested in the roles and influence of the husband, wife, and children on the purchase of different products and services. Husband-wife involvement varies widely by product category and by stage in the buying process. Buying roles change with evolving consumer lifestyles.

c) Roles and Status

A person belongs to many groups—family, clubs, organisations. The person's position in each group can be defined in terms of both role and status. With her parents, a woman plays the role of daughter; in her family, she plays the role of wife; in her company, she plays the role of brand manager. A role consists of the activities people are expected to perform according to the persons around them. Each of an individual's roles will influence some of their buying behaviour.

Each role carries a status reflecting the general esteem given to it by society. People often choose products that show their status in society.

3. Personal factors

A buyer's decisions also are influenced by personal characteristics such as the buyer's age and life cycle stage, occupation, economic situation, lifestyle, and personality and self-concept.

a) Age and life-cycle stage

People change the goods and services they buy over their lifetimes. Tastes in food, clothes, furniture, and recreation are often age related. Buying is also shaped by the stage of the family life cycle—the stages through which families might pass as they mature over time.

Marketers often define their target markets in terms of life-cycle stage and develop appropriate products and marketing plans for each stage. Traditional family life-cycle stages include young singles and married couples with children. Today, however, marketers are increasingly catering to a growing number of alternative, nontraditional stages such as unmarried couples, couples marrying later in life, childless couples, single parents, extended parents (those with young adult children returning home), and others.

b) Occupation

A person's occupation affects the goods and services bought. Blue-collar workers tend to buy more work clothes, whereas white-collar workers buy more suits and ties. Marketers try to identify the occupational groups that have an above-average interest in their products and services. A Company can even specialize in making products needed by a given occupational group. Thus, computer software companies will design different products for brand managers, accountants ...

c) Economic situation

A person's economic situation will affect product choice. An individual can consider buying ... spendable income, savings, or borrowing power. Marketers of income-sensitive goods watch trends in personal income, savings, and interest rates. If economic indicators point to a recession, marketers can take steps to redesign, reposition, and reprice their products closely.

d) Lifestyle

People coming from the same subculture, social class, and occupation may have quite different lifestyles. Lifestyle is a person's pattern of living as expressed in his or her psychographics. It involves measuring consumers' major AIO dimensions— activities (work, hobbies, shopping, sports, social events), interests (food, fashion, family, recreation), and opinions (about themselves, social issues, business, products). Lifestyle captures something more than the person's social class or personality, it profiles a person's whole pattern of acting and interacting in the world.)

e) Personality and self-concept

Each person's distinct personality influences his or her buying behaviour. Personality refers to the unique psychological characteristics that lead to relatively consistent and lasting responses to one's own environment. Personality is usually described in terms of traits such as self-confidence, dominance, sociability, autonomy, defensiveness, adaptability, and aggressiveness. Personality can be useful in analyzing consumer behaviour for certain product or brand choices. For example, coffee makers have discovered that heavy coffee drinkers tend to be high on sociability.

Many marketers use a concept related to personality—a person's self-concept (also called self-image). The basic self-concept premise is that people's possessions contribute to and reflect their identities; that is, "we are what we have." Thus, in order to understand consumer behaviour, the marketer must first understand the relationship between consumer self-concept and possessions.

4. Psychological factors

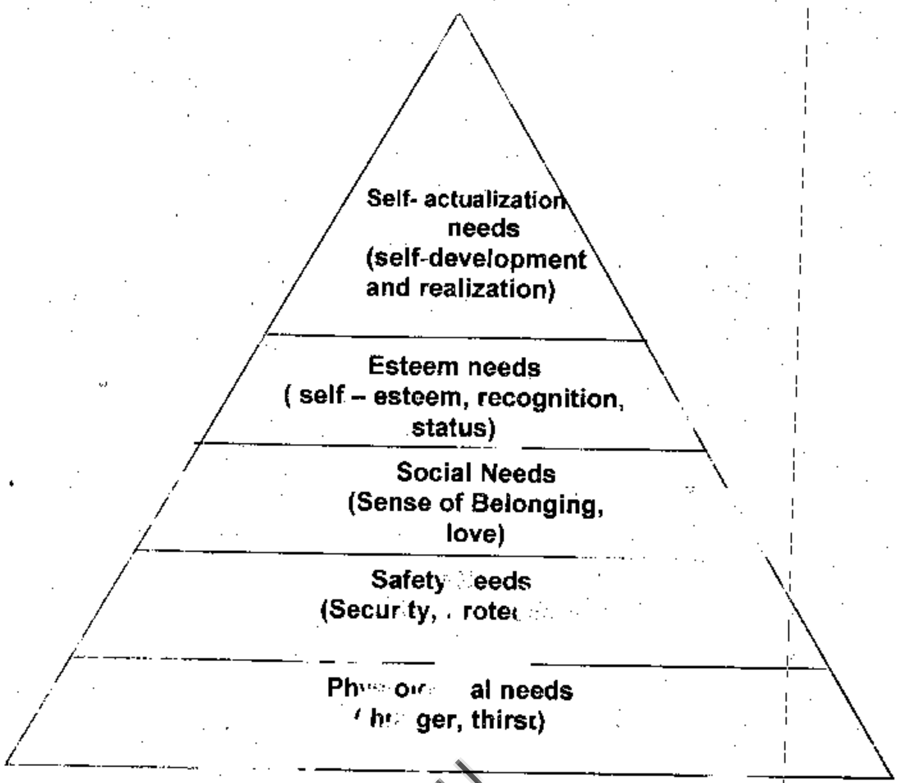
A person's buying choices are further influenced by four major psychological factors: motivation, perception, learning, and beliefs and attitudes.

a) Motivation

A person has many needs at any given time. Some are biological, arising from states of tension such as hunger, thirst, or discomfort. Others are psychological, arising from the need for recognition, esteem, or belonging. Most of these needs will not be strong enough to motivate the person to act at a given point in time. A need becomes a motive when it is aroused to a sufficient level of intensity. A motive (or drive) is a need that is sufficiently pressing to direct the person to seek satisfaction. Psychologists have developed theories of human motivation. Two of the most popular—the theories of Sigmund Freud and Abraham Maslow—have quite different meanings for consumer analysis and marketing.

Freud's Theory Of Motivation. Freud assumes that people are largely unconscious about the real psychological forces shaping their behaviour. He sees the person as growing up and repressing many urges. These urges are never eliminated or under perfect control; they emerge in dreams, in slips of the tongue, in neurotic and obsessive behaviour, or ultimately in psychosis.

Maslow's hierarchy of needs



Maslow's Theory Of Motivation. Abraham Maslow sought to explain why people are driven by particular needs at particular times. Why does one person spend much time and energy on personal safety and another on gaining the esteem of others? Maslow's ans[illegible] that human needs are arranged in a hierarchy, from the most pressing to the [illegible]. Maslow's hierarchy of needs is shown in the above figure. In order [illegible] they are physiological needs, safety needs, social needs, esteem needs, and self-[illegible]tion needs. A person tries to satisfy the most important need first. When [illegible] satisfied, it will stop being a motivator and the person [illegible] then [illegible] most important need. For example, starving people [illegible] an interest in the latest happenings in the art world (self-actua[illegible] [illegible] they are seen or esteemed by others (social or esteem needs), [illegible] they are breathing clean air (safety needs). But as each important need is satisf[illegible] most important need will come into play.

b) Perception

A motivated person is ready to act. How the person acts is influenced by his or her perception of the situation. Two people with the same motivation and in the [illegible] situation may act quite differently because they perceive the situation different[illegible] [illegible] might consider a fast-talking camera salesperson loud and [illegible]. Another camera buyer might consider the same salesperson intelligent and hel[illegible]

Why do people perceive the [illegible] situation differently? All of us learn by the flow of information through our five senses: sight, hearing, smell, touch, and taste. However, each of us [illegible] organizes, and interprets this sensory information in an individual way. Perception is the process by which people select, organize, and interpret information to form a meaningful picture of the world.

...le can form different perceptions of the same stimulus because of three perceptual processes: selective attention, selective distortion, and selective retention. People are exposed to a great amount of stimuli every day. For example, the average person may be exposed to more than 1,500 ads in a single day. ... impossible for a person to pay attention to all these stimuli. Selective attention—the tendency for people to screen out most of the information to which they ... exposed—means that marketers have ... work especially hard to attract the consumer's attention. Their message will be lost on most people who are not in the market for the product. Moreover, even people who are in the market may not ... the message unless it stands out from the surrounding ... of other ads.

c) Learning

When people act, they learn. Learning describes changes in an individual's behaviour arising from experience. Learning theorists say that most human behaviour is learned. Learning occurs through the interplay of drives, stimuli, cues, responses, and reinforcement. For example, an individual can have a drive for self-actualization. A drive is a strong internal stimulus that calls for action. The drive becomes a motive when it is directed toward a particular stimulus object, in this case a camera. The individual's response to the idea of buying a camera is conditioned by the surrounding cues. Cues are minor stimuli that determine when, where, and how the person responds. Seeing cameras in a shop window, hearing of a special sale price, and receiving her husband's support are all cues that can influence an individuals response to her interest in buying a camera.

d) Beliefs and Attitudes

Th... ... and learn... , people acquire beliefs and attitudes. These, in turn, influence their buying behaviour. A belief is a de...tive thought that a person has about something.

Marketers are interested in the beliefs that peop... ...mulate about specific products and services, because these beliefs make up product and ... images that affect buying behaviour. If some of the beliefs are wrong and prevent purchase, the marketer will want to launch a campaign to correct them.

People have attitudes regarding religion, politics, clothes, music, food, and almost everything else. An attitude describes a persons relatively consistent evaluations, feelings, and tendencies toward an object or idea. Attitudes put people into a frame of mind of liking or disliking things, of moving toward or away from them.

Activity II

i) What are the cultural ...

....

....

....

....

... the psychological factors influencing ...

8.3 MODELS OF CONSUMER BEHAVIOUR

The following section discusses two important models of consumer behaviour namely:

The stimulus-response model
The Howard Sheth model

... detailed description of both the models.

Stimulus-Response Model

This figure shows ... marketing and ... the consumer's ... box ... a response. Mark...

Marketing stimuli consist of ... product ... and ... stimuli ... major forces and ... the buyer's ... technological ... all these ... buyer responses ... choice ... dealer ... purchase ...

... to understand how the stimuli are changed into responses inside the consumer's ... box, which has two parts. First, the buyer's characteristics influence ... reacts to the stimuli. Second, the buyer's ... to the ...

2. Howard Sheth model

This model distinguishes among three levels of ...

Extensive problem solving: Occurs when ... knowledge ... about the brand are limited or non-existent and he ... does not ... brand ... Consumer actively ... information concerning ... alternative brands.

Limited problem solving: Occurs when consumer's knowledge ... he is fully ...

R[illegible]nized response behaviour: [illegible] edg[illegible] the pr[illegible] and its alternatives are [illegible] purchase of a [illegible] brand.

[illegible] model [illegible]

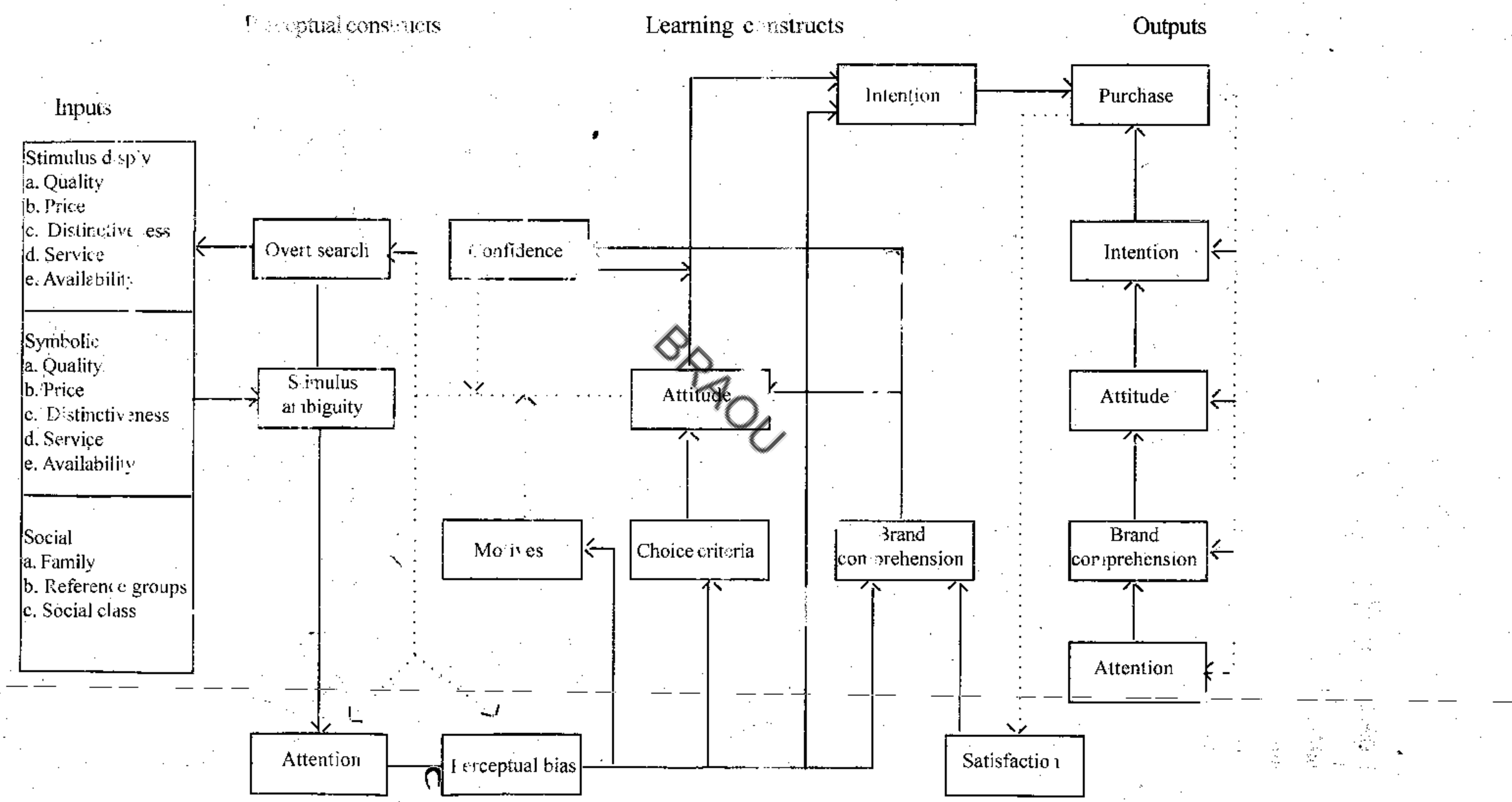
[illegible] and learning [illegible]

[illegible]

[illegible] variables / External variables

Characteristics of the three [illegible] decision making:

Stage	Amount of information needed prior to purchase	Speed of decision
[illegible] problem solving	Great	Slow
[illegible] problem solving	[illegible]	Moderate
[illegible] response behaviour	Little	Fast



Solid lines show of information. Dashed lines indicate feedback effect

1. **Inputs :** The input variables consist of three different types of stimuli:

a) **Significative stimuli :** They are the physical brand characteristics.

b) **Symbolic stimuli :** Verbal or visual product characteristics

c) **Environmental stimuli** Consumer's social environment like family, reference groups, social class etc.

All three types of stimulus ... input

2. **Perceptional and learning constructs:** They are the central component of the Howard Sheth model and are psychological variables that operate when the consumer is making a decision. These variables are abstract and not operationally defined or directly measured. They are perceptional in nature.

Eg: Stimulus ambiguity occurs when the consumer is unclear about the meaning of information received from the environment. Perceptional bias occurs when the consumer distorts the information received so that it file his/her established needs or experience.

Learning constructs make up the consumer's goals, information about brands in the evoked set, criteria for evaluation of alternatives, preferences and buying intentions The linkage or interaction between the various perceptual and learning variables give the Howard Sheth model its distinctive character.

3. **Outputs:** The model consists of a series of outputs like attention, brand comprehension, attitudes and intention in addition to the actual purchase.

4. **Exogenous variables:** They are not directly part of the decision making process and are not shown in the model presented here. But they are important to the extent that they influence the buyer. These variables vary from one buyer to another and include: personality traits, social class, importance of purchase, financial status etc.

Activity - III

What are the variables in the Howard Sheth model of buyer behaviour?

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....

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....

8.4 POST PURCHASE BEHAVIOUR

The marketer's job does not end when the product is bought. After purchasing the product, the consumer will be satisfied or dissatisfied and will engage in post purchase behaviour which is of interest to the marketer. What determines whether the buyer is satisfied or dissatisfied with a purchase? The answer lies in the relationship between the consumer's expectations and the product's perceived performance. If the product falls short of expectations, the consumer is disappointed. If it meets expectations, the consumer is satisfied: if it exceeds expectations, the consumer is delighted.

Consumers base their expectations on information they receive from sellers, friends and other Sources. If the seller exaggerates the product's performance, consumer expectations ...

not be met, and dissatisfaction will result. The larger the gap between expectations and performance, the greater the consumer's dissatisfaction. This suggests that sellers should make product claims that faithfully represent the product's performance so that buyers are satisfied.

Some sellers might even understate performance levels to boost consumer satisfaction with the product. For example, Boeing sells aircraft worth tens of millions of dollars each, and consumer satisfaction is important for repeat purchases and the company's reputation. Boeing's salespeople tend to be conservative when they estimate their product's potential benefits. They almost always underestimate fuel efficiency—they promise a 5 percent savings that turns out to be 8 percent. Customers are delighted with better-than-expected performance; they buy again and tell other potential customers that Boeing lives up to its promises.

8.5 COGNITIVE DISSONANCE

Almost all major purchases result in cognitive dissonance, or discomfort caused by postpurchase conflict. After the purchase, consumers are satisfied with the benefits of the chosen brand and are glad to avoid the drawbacks of the brands not bought. However, every purchase involves compromise. Consumers feel uneasy about acquiring the drawbacks of the chosen brand and about losing the benefits of the brands not purchased. Thus, consumers feel at least some postpurchase dissonance for every purchase.

Activity - IV

What is the role of post purchase behaviour in buying process?

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....

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....

8.6 INDUSTRIAL BUYING PROCESS

There are eight stages in the business buying process. Buyers who face a new-task buying situation usually go through all stages of the buying process. Buyers making modified or straight rebuys may skip some of the stages.

1. Problem recognition

The buying process begins when someone in the company recognizes a problem or need that can be met by acquiring a specific good or service. Problem recognition can result from internal or external stimuli. Internally, the company may decide to launch a new product that requires new production equipment and materials, or a machine may breakdown and need new parts. Perhaps a purchasing manager is unhappy with a current supplier's product quality, service, or prices. Externally, the buyer may get some new ideas at a trade show, see an ad, or receive a call from a salesperson who offers a better product or a lower price. In fact, in their advertising, business marketers often alert customers to potential problems, and then show how their products provide solutions.

Major Stages of the Business Buying Process in Relation to Major Buying Situations

UNIT – 2 : MARKETING AND ECONOMIC DEVELOPMENT

Aims and Objectives

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

- explain the concept of economic development and economic growth ;
- describe the structure of economy ;
- discuss the role of marketing in economic development;
- explain the marketing issues in India, and
- know the relevance of marketing in different sectors.

Structure

2.0 INTRODUCTION

The terms economic development and economic growth are used synonymously and interchangeably. But economists made a clear distinction between economic growth and economic development. The expression economic growth refers to economic development. The expression economic growth refers to economic problems of developed countries, while the concept of economic development refers to the problems of economic development of under-developed countries. The development of under-developed countries is an area of attraction in the subject of marketing management.

Poor countries need an accelerating rate of development to expand marketing to wider areas. The main problem of these countries is concerned with the mobilisation and allocation of unused resources. According to **Bone**, development requires and involves some sort of direction, regulation and guidance to generate the forces of expansion and maintain them.

There are three parameters to measure economic development. They are :

1. Real National Income

It measures a country's total output of final goods and services in real terms rather than money terms over a long period of time.

2. Per Capita Real Income

It measures in terms of an increase in per capita real income or output.

3. Economic Welfare

By this method economic welfare is measured as a process in which the real per capita income increases by reduction in inequalities of income and the satisfaction of the masses as a whole.

The following are the **characteristics** of an under-developed country.

- **Poverty :** It indicates low per capita income.
- **Agriculture :** The main occupation is agriculture and a majority of the people live in rural areas.
- **Dualistic Economy :** Consisting of market economy and subsistence economy.
- **Natural Resources :** The natural resources are either underutilised or unutilised.
- **Unemployment :** Underdeveloped countries are characterized by employment problem of various types like disguised unemployment and under-unemployment.
- **Entrepreneurship :** These countries are known for the lack of entrepreneurial ability and initiative.
- **Technology :** These countries are also backward in technology field.

2.1 STAGES OF MARKETING

In any country the economic life has a history of various stages of economic development. But it is very difficult to say exactly how long each stage of economic development has passed through. The nature of **marketing** in each stage is different depending upon the stage of economic development and technological changes.

However, the following are the important **stages** of marketing.

1. Self-sufficiency Stage

It is the earliest and primary stage of economic development where the role of marketing is very peripheral and insignificant. In that stage there were small family units pursuing their economic activities to satisfy their wants for food, clothing and shelter. It is an economy of self sufficiency, devoid of the concept of modern marketing. It is known for narrow product range and non-monetised.

2. Primitive Stage

It is characterized by the absence of exchange and as a result there is no basis for a concept of marketing. In this stage of marketing, factors of production are owned in common and the fruits of labour were shared in common.

3. Stage of Barter system

A stage of marketing wherein one product is exchanged for another product There was no medium of exchange for transaction. A person who possesses surplus of what he produces were bartered for other goods which he did not produce.

4. Stage of Local Market

The concept of personal selling originated and emerged at the time of barter stage of marketing. It is the barter system which was responsible for the emergence of local market. For instance, trade fairs locally organised on certain days of the week or at times of festival are in the nature of local markets. Later these periodical trade fairs took on more permanent shape such as stalls, shops, bazaars, etc. The features of local markets are specialisation, exchange of goods for money and set up of specialised institutions.

5. Money Stage of Economy

The barter system could not quicken the pace of trade. The lack of common medium of exchange was the main reason for economic backwardness. The barter system proved itself ineffective in respect of common measure of value, double coincidence, storage of products and carrying of goods from one place to another place to find persons with whom goods can be exchanged. The introduction of money has brought a tremendous progress in economic development

6. Capitalism Stage

The capitalists emerged to take advantage of scarcity of goods and began to produce to earn profits. They had talent, money, force and exploited working class, thereby resulted in the creation of two groups, haves and have nots, capitalist and labour class.

7. Stage of Mass Market

Another stage was a stage of mass production. The tertiary sector emerged and as a result the complexity of marketing has changed considerably. This stage is characterised by industrial revolution, heavy machinery, abundance of production, keen competition, improvement in transportation and communication. The mass production has led to storage, insurance, wide network of distribution, etc.

Activity - I

State the important stages in Marketing.

2.2 THE STRUCTURE OF THE ECONOMY

The structure of Indian economy consists of three broad sectors. They are :

1. Primary sector

2. Secondary sector
3. Tertiary sector

The nature of these sectors is as follows :

1. Primary Sector

It is primary stage in economic development. It is exclusively relating to agricultural sector. It is characterised by farm economy. It is the first sector of the Indian economy consisting of agriculture, animal husbandry, dairying, forestry and fisheries. It was the first and the oldest form of activity known to man everywhere. These occupations are primary because they are the oldest occupations and many other sectors of the economy are depending on primary sector. Because of this it received major attention of the Government and Five Year Plans. It is the sector of livelihood for any economy. In this stage the GNP and per capita income are low.

2. Secondary Sector

It is the secondary stage or called industrial sector. It is characterised by the industrial orientation of the economy. The secondary sector of the economy consists of small scale and large scale manufacturing industries. These are secondary to primary occupation. This stage commenced in the last phase of primary stage where production process is mechanised. This stage of economy shows upward trend in GNP and per capita income.

The industrial sector is again divided into three sub-sectors namely large scale, medium scale and small scale. Small scale industries include cottage industries and village industries. The mixed economy consists of private sector, public sector and joint sector. Industries depend upon agriculture to a considerable extent for raw material and for their markets.

3. Tertiary Sector

It is also called as service sector, a third stage of economic development. It is characterised by its technological orientation. The word tertiary means third in order. This sector does not produce physical products but produces services. Hence, it is also called as service sector. These services include railways, roadways, banking and finance, insurance, transportation, tourism, healthcare services, recreation and entertainment, communication, internet and international trade, power, etc. Several companies have emerged to undertake service activities.

For instance, transport is essential for marketing of goods and hence modern economy cannot exist without an efficient system of transport. Similarly, communication services help in removal of barriers between regions.

Stages of the buying process	Buying situations		
	New Task	Modified Rebuy	Straight Rebuy
1. Problem recognition	Yes	Maybe	No
2. General need description	Yes	Maybe	No
3. Product specification	Yes	Yes	Yes
4. Supplier search	Yes	Maybe	No
5. Proposal solicitation	Yes	Maybe	No
6. Supplier selection	Yes	Maybe	No
7. Order-routine specification	Yes	Maybe	No
8. Performance review	Yes	Yes	Yes

2. General need description

Having recognized a need, the buyer next prepares a general need description that describes the characteristics and features of the product required to satisfy the need.For standard items, this process presents few problems. For complex items, however, the buyer may have to work with others—engineers, users, consultants—to define the item L. The team may want to rank the importance of reliability, durability, price, and other attributes desired in the item. In this phase, the alert business marketer can help the buyers define their needs and provide information about the value of different product characteristics.

3. Product specification

The buying organization next develops the item's technical product specifications, often with the help of a value analysis engineering team. Value analysis is an approach to cost reduction in which components are studied carefully to determine if they can be redesigned, standardized, or made by less costly methods of production. The team decides on the best product characteristics and specifies them accordingly. Sellers, too, can use value analysis as a tool to help secure a new account. By showing buyers a better way to make an object, outside sellers can turn straight rebuy situations into new-task situations that give them a chance to obtain new business.

4. Supplier search

The buyer now conducts a supplier search to find the best vendors. The buyer can compile a small list of qualified suppliers by reviewing trade directories, doing a computer search, or phoning other companies for recommendations. The newer the buying task, and the more complex and costly the item, the greater the amount of time the buyer will spend searching for suppliers. The supplier's task is to get listed in major directories and build a good reputation in the marketplace. Salespeople should watch for companies in the process of searching for suppliers and make certain that their firm is considered.

5. Proposal solicitation

In the proposal solicitation stage of the business buying process, the buyer invites qualified suppliers to submit proposals. In response, some suppliers will send only a catalog or a salesperson. However, when the item is complex or expensive, the buyer will usually require detailed written proposals or formal presentations from each potential supplier.

Business marketers must be skilled in researching, writing, and presenting proposals in response to buyer proposal solicitations. Proposals should be marketing documents, not just technical documents. Presentations should inspire confidence and should make the marketer's company stand out from the competition.

6. Supplier selection

The members of the buying center now review the proposals and select a supplier or suppliers. During supplier selection, the buying center often will draw up a list of the desired supplier attributes and their relative importance. In one survey, purchasing executives listed the following attributes as most important in influencing the relationship between supplier and customer: quality products and services, on-time delivery, ethical corporate behaviour, honest communication, and competitive prices. Other important factors include repair and servicing capabilities, technical aid and advice, geographic location, performance history, and reputation. The members of the buying center will rate suppliers against these attributes and identify the best suppliers.

7. Order-routine specification

The buyer now prepares an order-routine specification. It includes the final order with the chosen supplier or suppliers and lists items such as technical specifications, quantity needed, expected time of delivery, return policies, and warranties. In the case of maintenance, repair, and operating items, buyers may use blanket contracts rather than periodic purchase orders-. A blanket contract creates a long-term relationship in which the supplier promises to resupply the buyer as needed at agreed prices for a set period. The seller holds the stock and the buyer's computer automatically prints out an order to the seller when stock is needed. A blanket order eliminates the expensive process of renegotiating a purchase each time stock is required. It also allows buyers to write more, but smaller purchase orders, resulting in lower inventory levels and carrying costs. Blanket contracting leads to more single-source buying and buying more items from that source. This practice locks the supplier in tighter with the buyer and makes it difficult for other suppliers to break in unless the buyer becomes dissatisfied with prices or service.

8. Performance review

In this stage, the buyer reviews supplier performance. The buyer may contact users and ask them to rate their satisfaction. The performance review may lead the buyer to continue, modify, or drop the arrangement. The seller's job is to monitor the same factors used by the buyer to make sure that the seller is giving the expected satisfaction.

We have described the stages that typically would occur in a new-task buying situation. The eight-stage model provides a simple view of the business buying decision process. The actual process is usually much more complex. In the modified rebuy or straight rebuy situation, some of these stages would be compressed or bypassed. Each organization buys in its own way, and each buying situation has unique requirements. Different buying center participants may be involved at different stages of the process. Although certain buying-process steps usually do occur, buyers do not always follow them in the same order, and they may add other steps. Often, buyers will repeat certain stages of the process.

Activity - V

What are the stages in industrial buying process?

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8.7 SUMMARY

This chapter proposes a basic model of consumer behaviour. In this model, marketing and other stimuli affect a consumer who has certain personal characteristics and a particular buyer decision process. The consumer responds with certain observable buyer responses, including product choice, brand choice, dealer choice, purchase timing, and purchase amount.

Marketers must understand how consumer buyer behaviour is affected by a buyer's particular characteristics and personal decision process. Buyer characteristics include four major components: cultural, social, personal, and psychological factors. Culture is the most basic determinant of a person's wants and behaviour. It includes the basic values, perceptions, preferences and behaviours that a person learns from family and other institutions. Social factors also influence a buyer's behaviour. Product and brand choices are strongly affected by a person's reference groups, including family, friends, and social and professional organizations. Personal factors such as age and life-cycle stage, occupation, economic situation, lifestyle and personality also influence buying decisions. Finally, consumer behaviour is also influenced by four major psychological factors- motivation, perception, learning, and beliefs and attitudes.

The business market is vast. In many ways, it is similar to the consumer market, but the business -market structure generally has fewer and larger buyers who are more geographically concentrated. Business market demand also differs from the consumer market, and tends to be derived, largely inelastic, and more fluctuating. Within these markets, business buyers face more complex purchasing decisions. To handle this complexity, businesses often use more buyers who are better trained and more professional than the typical consumer buyer.

Business buyers make decisions that vary with the three types of buying situations: straight rebuys, modified rebuys, and new tasks. These tasks are handled by the buying center, the decision-making unit of a buying organization, which can consist of many persons playing many roles. As with the consumer marketplace, there are many environmental, individual, and interpersonal factors that affect business buyers, as well as organizational factors that are unique to businesses.

The business buying process is involved, with eight basic Stages: problem recognition, general need description, product specification, supplier search, proposal solicitation, supplier selection, order-routine specification and performance review. As business buyers grow more sophisticated, marketers must continue to respond in appropriate ways.

8.8 SELF ASSESSMENT QUESTIONS

I. Short Answer Questions

1. Define consumer behaviour.
2. State the models of consumer behaviour.

3. Elaborate the concept of cognitive dissonance.

4. What are the steps in industrial buying process?

II. Long Answer Questions

1. Explain the importance of consumer behaviour in today's markets.
2. Discuss the various factors influencing consumer behaviour.
3. What are the key elements of the Howard Sheth model of consumer behaviour?
4. Discuss the stimulus response model of consumer behaviour.

8.9 FURTHER READINGS

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8.10 KEY WORDS

Consumer buying behaviour	:	The buying behaviour of final consumers-individuals and households who buy goods and services for personal consumption.
Consumer market	:	All the individuals and households who buy or acquire goods and services for personal consumption.
Culture	:	The set of basic values, perceptions, wants, and behaviours learned by a member of society from family and other important institutions.
Subculture	:	A group of people with shared value systems based on common life experiences and situations.
Social classes	:	Relatively permanent and ordered divisions in a society whose members share similar values, interests, and behaviours.
Group	:	Two or more people who interact to accomplish individual or mutual goals.

Opinion leaders : People within a reference group who, because of special skills, knowledge, personality, or other characteristics, exert influence on others.

Lifestyle : A person's pattern of living as expressed in his or her activities, interests and opinions.

Personality : A persons distinguishing psychological characteristics that lead to relatively consistent and lasting responses to his or her own environment.

Motive : A need that is sufficiently pressing to direct the person to seek satisfaction of the need.

Perception : The process by which people select, ,organize and interpret information to form a meaningful picture of the world.

Learning : Changes in an individual's behaviour arising from experience.

Belief : A descriptive thought that a person holds about something.

Attitude : A persons consistently favourable or unfavorable evaluations, feelings and tendencies towards an object or idea.

UNIT – 9 : MARKETING RESEARCH

Aims and Objectives

The objectives of this unit are to help you to:

- explain the role of information in decision making;
- understand the purpose and scope of marketing research and how it can be undertaken;
- explain the different areas of applications of marketing research in the Indian context; and
- identify the difficulties in conducting marketing research.

Structure

9.0 INTRODUCTION

By now we all know that core of Marketing is identifying customer needs and satisfying them in the best possible way. The success of a company depends on how well the producers understand the customers in order to produce superior value and satisfaction. In order to understand the customers and deliver superior value, companies need information on what customers needs and wants are? What are their likes and dislikes? Several questions that crop up in the minds of customers are : What do these customers buy? When do they buy? Where do they buy? Why do they buy? How do they buy? and so on. In order to answer these questions company needs right information. Gathering relevant data on consumers & markets, collating such data and analysing the data form a part of Marketing Research. Due to increasing complexity of marketing and business activities MR has also grown in its complexity. Due to liberalisation in the markets, resulting in free market forces operating unabated, more and more products are mushrooming into markets causing fierce competition. The radical change in markets in favour of consumerism empowered the customers. Customer preferences and purchase behaviours have undergone dramatic change making marketing activities more complex, necessiating the need for Marketing Research.

Role of a Marketing Manager is to make effective decisions all the time. Effectiveness of decisions is measured through the gap between anticipated goals and actual results achieved. Lower the gap, greater the effectiveness and vice versa. Every decision is associated with risk and uncertainty. This can be mitigated through right information to ensure quality and effective decisions.

9.1 MARKETING DECISIONS

Decision Making is the core of the activities of every manager, more so the marketing manager. You must have observed that some brands are more popular than their competitive brands. Some people buy a particular product but not other products. Why does it happen? What makes a buyer prefer a particular product. It can be attributed to Quality, Price, Product Superiority, etc. The producers and marketers must know on what attributes people prefer in a product. This can be understood through Marketing Research which enables Marketing Managers acquire crucial information. On the basis of such information, products can be improved and modified as per market conditions and customer needs.

Right information on right attributes of products is a must for marketing decisions. The prime purpose of Marketing Research (MR) is identification of informational needs of the Company and providing relevant, accurate, reliable, valid and timely information. This assumes greater importance in the light of growing cost of information and its implications for the organisation. For example, a multi crore Marketing Research project delivers volume of information. On the basis of information provided by Marketing Research Division, company goes ahead with the decisions and fails miserably due to unsound grounds on which Marketing Research is done. Unreliable and inaccurate data prove to be a futile exercise to the company; it will have disastrous results due to company's wrong decisions which have serious implications for the very existence of business. One must bear in mind that there is every possibility of getting right answers for a wrong question. Hence one must be clear while posing a question. Decisions should not be based on gut feelings, intuitions and judgements of the decision makers. Sound decisions are always based on sound information, supported with evidential research.

Activity – I

If you are appointed as Manager of Marketing Research Division of a company producing chocolates, how would you support with information to facilitate effective marketing decisions to improve sales?

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9.2 DEFINITION OF MARKETING RESEARCH

According to **Richard Crisp,** "Marketing Research is the systematic, objective and exhaustive search for the study of the facts relating to any problem in the field of marketing".

Philip Kotler defines that "Marketing Research is a systematic problem analysis, model building and fact finding for the purpose of important decision making and control in the marketing of goods and services".

According to American Marketing Association that "Marketing Research is the systematic gathering recording and analysing of data about problems relating to the marketing of goods and services".

A.G.R. Delens says that "Marketing Research is systematic study and evaluation of all factors bearing on any business operation which involves the transfer of goods from producer to consumer".

In the words of **Naresh.K.Malhotra,** "Marketing Research is the systematic and objective identification, collection, analysis, dissemination and use of information for the purpose of improving decision making related to the identification and solution of problems and opportunities in marketing".

American Marketing Association (AMA) Redefines Marketing Research (MR)

Board of Directors of AMA has approved the following as the new definition of **Marketing Research:**

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

Despite many differences in the definitions, there are many commonalties too. It is evident from the definitions stated above that these commonalties focus mainly on the following.

- MR is a systematic study of problems of marketing.
- The study must be an objective one.
- The purpose of the study is to search for facts that facilitate decision-making.
- These facts must help the marketing process, the transfer of goods and services from producer to consumer.
- MR must finally result in solutions.

It is also clear that the new definition given by American Marketing Association is very exhaustive in its scope. It covers all the aspects of Marketing Research mainly focussing on major activities of marketing such as identification of marketing problems and opportunities, designing, implementing and evaluating marketing actions, reviewing performance etc. to improve the marketing performance. It focuses on producers, consumers, customers and public. It also emphasizes the role of information in delivering results in marketing. It can be concluded that definition given by AMA is more exhaustive in its scope.

Activity - II

Define Marketing Research. What are the major aspects of Market Research?

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9.3 MARKETING INFORMATION SYSTEM (MKIS)

Marketing information is basic requirement for every decision in marketing area. Success of marketing decisions depends on timely availability of information and its accuracy levels. Marketing Information decides success or failure of organisation. Success of an organisation also depends on understanding the market environment. Both internal and external variables influence the marketing decisions. Reliable information on these variables facilitate managers to make effective decisions and in turn desired results.

How does MKIS benefit organisations?

MKIS:

- Helps marketing planning with reliable information.
- Helps in identifying new market opportunities
- Gives a clear idea about emerging market trends
- Helps in identifying competitors and their strengths.
- Helps in understanding consumers and producers bettter.
- Helps in acquiring periodic information to analyse, understand market requirements, which in turn lead to the development of new products and modify existing products in consonance with changing tastes and preferences of consumers.
- Provides us continuous feedback about the actions and reactions of market.
- Helps in bridging the gaps between customer expectations and producer's deliverables.
- Reduces the market risks and uncertainties.

To sum up MKIS Division of an organisation is guiding star of the company. It guides all market activities to ensure effective decisions.

Classification of MKIS

MKIS can be classified on two fold criteria. Firstly on the basis of purpose for which information is needed. Secondly on the basis of content of information. Former focuses on the marketing activities which includes:

Information relating to:

a) Marketing Planning;

b) Marketing Decisions;

c) Marketing Operations; and

d) Marketing Control.

The later focuses more on information on various categories such as information on

a) Products

b) Consumers

c) Prices

d) Distribution

e) Promotion

f) Competitive environment

g) Govt. policy etc.

Why Marketing Information System (MKIS)

Firstly we must understand what a system is all about? System is a structured process through which inputs are received, processed and results are delivered on a continuous basis. A system ensures:

a) Collection of data on regular basis;

b) Conversion of raw data into processed refined useful information;

c) Information to be used for various purposes; and

d) Information is a resource. It can be used on perennial basis.

Activity – III

Define Marketing Information System (MKIS).

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9.4 HOW DO WE DESIGN A MARKETING INFORMATION SYSTEM?

MKIS consists of people, equipment, procedures to gather, analyse, classify and disseminate relevant data regularly on time. Important steps involved in designing MKIS are:

STEP – IIdentification of Information needs

- What kind of information marketers need? Is it possible and feasible to offer that kind of information that the managers ask for? It so happens that too much of information makes the managers mad and also too little information does serve the purpose. To cite an example a marketing manager needs to know crucial information on advertising budgets of the competitors to plan for brand building activities of the company. But it may not be available. Similarly information of new products that the competitors propose to introduce in future will be of greater relevance but not available. Conversely volume of data about competitors existing products are available but may not have much of relevance. Hence the point is managers need reliable, relevant and useful data at affordable cost and benefits that accrue must be substantial over the cost of acquiring, processing, disseminating information of that kind.

STEP- 2 Developing Sources of Information

Information can be collected from both internal and external sources. Company collects lots of data for various purposes. Financial statements, feedback from salesmen, sales reports, customer details, demographics, psychographics of customers service etc. will enrich the MR division with volumes of data. It is the ability of MR division to process the raw data into useful information to support decisions by developing data support systems (DSS). Marketing Intelligence smoothens decision making process. External sources of information include *Government* publications, journals, newspapers, internet, etc.

STEP- 3 Data Analysis

Based on some criteria data can be classified. For example, on the basis of demographic and Physchographic classification, data can be analysed. Fig. 9.1 explains a typical structure of marketing Information System (MKIS).

STEP – 4 Dissemination of Information

Information should reach the right destination on time so as to facilitate the decision-makers and it has to be a continuous process. Dissemination of MKIS has become more easier in the light of Information Technology, and communication revolution. Rampant use of personal computers made the dissemination process more simpler and quicker. Routine Information reports come in handy for the managers to use the information at the press of a button.

Characteristics of a good Marketing Information

- Information should be comparable
- It must help in decision making and help as a decision support system
- User friendly information
- Clarity in information
- Accuracy
- Reliability
- Economy
- Timeliness
- Unbiased

Good MKIS must ensure all the qualities stated above.

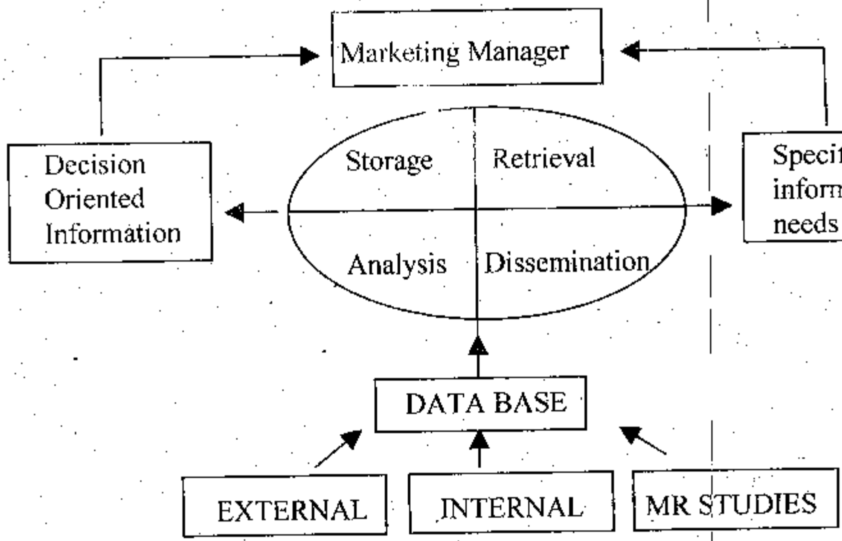


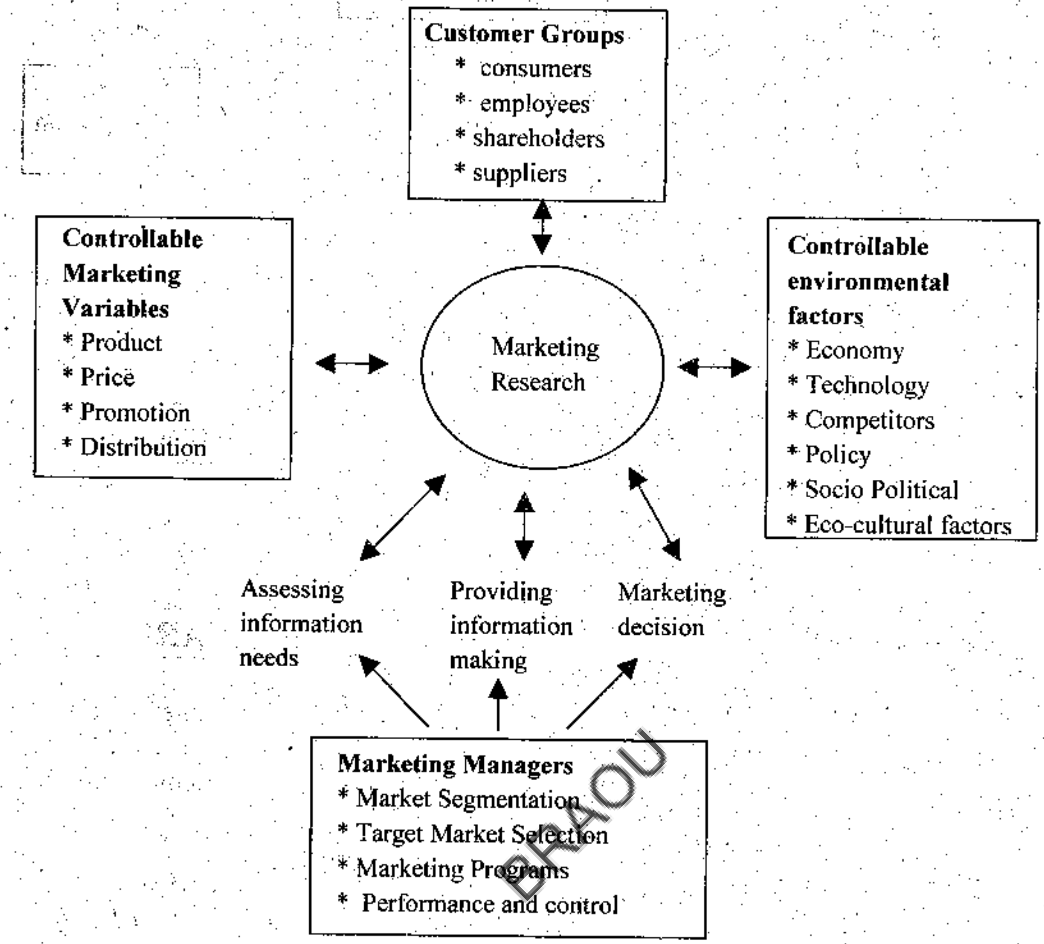
Fig 9.1

9.5 NATURE AND SCOPE OF MARKETING RESEARCH

Marketing Research (MR) encompasses all the aspects of marketing relating to identification of consumer needs and wants, product designs, product modifications, adaptations, product mix, pricing, packaging, advertising, branding, marketing control, sales, distribution, competitor analysis, marketing policy etc.

Marketing research is the foundation for marketing. As we have learnt in the introductory chapter, the core of marketing is identifying customer needs and accordingly design products so as to sell them successfully in the market. MR must preceed product idea generation. Mere idea generation and product design do not suffice as we need to constantly develop and modify products and services as per the market requirements. The focus is on identifying and satisfying customer needs. To successfully implement marketing strategies and programs, managers need crucial information which is possible only through Market Research.

The following fig. are depicts the scope of Marketing Research.



(Fig. 9.2 – Scope of Marketing Research)
(Adapted from Naresh K.Malhotra's Maketing Research P.12)

Figure 9.2 depicts how marketing managers assess informational needs, and how decisions are made on the basis of available information -with reference to segmenting, targeting, positioning and plan marketing programs and control marketing activities. Market Research also covers marketing mix variables and various key business partners such as customers, employees, shareholders etc, and also environmental factors such as Socio-Economic-Politico-Cultural variables affecting business.

Market Research facilitates decisions regarding distribution channels, pricing strategies to be followed, designing promotional mix etc.

9.6 MARKETING RESEARCH PROCESS

Marketing Research process consists of six steps in accomplishing the task of completing MR study. They are:

1. Problem identification
2. Developing an approach to the problem
3. Preparing research design
4. Data collection
5. Data analysis
6. Report writing and presentation and interpretation.

Let us discuss in detail each of these steps.

1. **Problem Identification**: Right diagnosis of the problem gives clarity to the researchers on what variables we need to collect data. A well defined problem is half done. One must clearly identify and define precisely the problem of research. Research objectives must be defined clearly. Deducing conclusions on the basis of intuition leads to wrong conclusions. One must understand the purpose of conducting Marketing Research. The very objective may explores preliminary information about the proposed problem. This kind of Research is known as Exploratory Research. Research may be of descriptive in nature.

Descriptive research describes the problem such as understanding the market potential, demographics, attitudes etc. The third category of research is casual research, which focuses on cause & effect relationship. Identifying right causes for the problem prescribing right solution to the problem. Prescriptive research is the result of right diagnosis of the problem. To cite an example a sudden decline in the enrolment for a course of a university need not be attributed to insufficient advertisement of the course and hence increasing advertisement budget is not correct solution. One needs to analyze causes that contributed to low enrollment. Hence identifying the problem is very important aspect in Marketing Research.

2. **Developing an Approach to the Problem:** Having identified the problem, the next task is how to approach the problem. Formulating theoretical framework, designing an analytical model, preparing research questions, formulation of hypothesis, data requirements etc., are very vital in Marketing Research.

3. **Research Design:** It is blue print of the plan to be executed. Before constructing a building, an architect makes a detailed plan and mason procures all the raw material required as per the plan and sequence of activities to be performed. Similarly a detailed plan of Research activities to be executed is known as 'Research Design'. A good research design makes execution easier. Primarily it consists of objectives of the study, hypothesis, data sources, likely results, limitations, etc. Precisely, it includes questionnaire design, sample size method of data collection etc., and also designs the scope of Marketing Research.

4. **Data Collection**: Data collection is one of the crucial aspects of Marketing Research. Quite often many researchers directly resort to collection of primary data. One should identify all the existing sources of data failing which one need to look at primary data collection as a last resort in the absence of secondary data. It is similar to that of a surgery which is done as a last resort when all possibilities for cure are exhausted. There are two sources of data. (1) Primary sources of data (2) Secondary sources of data.

Primary data: It can be gathered by designing a questionnaire or schedule. Trained enumerators ensure reliable data collection. Primary data can be collected through expert opinion, surveys, by mere observation etc. Questionnaire design is very crucial in gathering data. Questionnaire can be structured or unstructured while designing a questionnaire researchers must exercise utmost caution. Clarity of information needed, types of questions to be posed, phrasing of questions, sequence of questions, rigor & tone with which we pose a question and get the response, number of questions and their size etc., should be planned very meticulously. Having designed a questionnaire one must go for pretest of a questionnaire to know its validity and convenience in conducting survey. Selection of sample size is yet another area to concentrate. Too big a sample will have implications for money and time spent for research. Too small a sample may not give even reasonably accurate results. One need to be very careful in identifying sample frame from which sample is drawn

Secondary Sources of Data: Collection of data from the existing sources is known as secondary data. It may be a known published source or unpublished source. Various Government & Non Government organisation gather and publish data on continuous basis. The following are some of the organisations which provide such data. They are Central Statistical Organisation (CSO), National Sample Survey (NSS), Census Reports, RBI Reports, Reports from Planning Commission, Economic Survey Report, Confederation of Indian Industry (CII). Government Departments, Operations Research Group (ORG), Indian Market Research Bureau (IMRB), National Council for Applied Economic Research (NCAER), Pathfinders India, World Trade Organisation (WTO), International Monetary Fund (IMF), International Labor Organisation (ILO), Magazines, Journals, News Papers, Internet, etc.

Both primary and secondary data sources have their own advantages and limitations. Depending upon the requirement, researchers must decide whether to go for primary data or secondary data.

5. **Data Analysis:** Volumes of data available from secondary sources or the specifically collected data through primary sources would not serve the purpose of research directly. Data so collected should be tabulated, classified and bring it to the form of useful information. On some criteria, classification should be done. Proper editing for accuracy is essential. Editing, Coding, Tabulation & processing by using various statistical tools such as measures of Central Tendencies, Arithmetic Mean, Median, Mode etc, Measures Scaling of Dispersion and Variation, Testing of Hypothesis, etc form part of data analysis. Analysis of data helps the researchers to make meaningful comparisons.

6. **Report Writing, Presentation and Interpretations:** Analysis must lead to meaningful conclusions. Conclusions must emanate from critical analysis. On the basis of results of the analysis, recommendations emerge. One need to write the report on the basis of analysis. While drafting report one must keep in mind the readers for whom the report is useful. Report must be legible, simple and self explanatory. Despite the best effort in analysis if the results are wrongly interpreted whole exercise go in vain. It is therefore very important to rightly interpret the results. One must understand the implications of the research and also one must know how does the research output affects the organisation?

Activity - IV

Explain the constituents of Marketing Research Process.

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9.[illegible] A[illegible]IONS OF MARKETING RESEARCH

Marketing Research in India has grown leaps and bounds. It is penetrated into every area of marketing. Mostly Marketing Research is concentrating on the following areas.

1. **Product Research:** Understanding the product is core of marketing while meeting the customer expectations, product quality and design, play a vital role. Product Research is used for.

a) Identifying new product ideas.

b) Testing markets regarding consumers' acceptance of new product launched.

c) Identifying the need for change in product.

d) Modify / Adapt products.

e) Product positioning i.e., in which segment of the market the product can be best positioned.

f) Product characteristics and attributes.

g) Product appeals.

2. **Consumer's Research:** Understanding Consumer is primary in designing a right product. Research areas include:

a) Consumer preferences

b) Psychographics

c) Lifestyles

d) Purchase Behaviour

e) Composition of Consumers (Women, Men, Children, their age groups etc.)

f) Post purchase feelings

g) Loyalty

h) Motivators to buy a particular brand

i) Brand image etc.

j) Customer Relationship Management (CRM).

MARKETING ANALYSIS

- Market Potential
- Competitors
- Market Share
- Forecasting
- Segmenting markets
- Target Markets
- Test Markets
- Distribution Channels
- Market Characteristics
- External and Internal Environment in which business operates.

POLICY RESEARCH

- Impact of Government Policy
- Strategic Approach
- Product Mix

- Pricing Strategies
- Logistics Management
- Portfolio Analysis
- Diversification Strategies
- Warehousing, Packaging, Branding
- Profitability Research – reducing costs and enhancing resources to increase profitability.

ADVERTISING AND DISTRIBUTION RESEARCH

- Impact studies
- Most effective Media Research
- Copy testing
- Effectiveness studies
- Channel Research
- Length of Channel
- Channel partners
- Margins and gains for producers and consumers.

Activity – V

What is Consumer research?

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9.8 MARKETING RESEARCH IN INDIA

No doubt, there is a growing awareness of Marketing Research in Indian Industry. Owing to liberalisation and globalisation, competition is intense, both domestically and internationally. Companies are struggling to meet the expectations of customers. Companies put in relentless efforts in understanding the customers better so as to create better value for what they pay. Consumer research is gaining momentum in Marketing Research in the post liberalisation period. The major focus is on value added services. Marketing Research in Insurance, HealthCare and Hospitality Industry is on rise. Product research is undertaken by mostly new entrants such as MNCs like AT & T & Motorola. Financial Market Research, credit card research, Image Research, Advertising Research Test Marketing Research, Policy Research are some of the areas where Marketing Research is making progress.

Apart from growing awareness of Marketing Research, Agencies which are rendering Marketing Research services are also on rise. Most important to mention a few are:

- Operations Research Group (ORG)
- National Council for Applied Economic Research (NCAER)
- Indian Market Research Bureau (IMRB)

- Marketing & Research Group (MARG)
- Marketing Operations Design & Equityservices (MODE)
- Marketing & Business Associates (MBA)
- Path Finders India.

9.9 PROBLEMS IN CONDUCTING MARKETING RESEARCH IN INDIA

Though most organisations started recognizing the importance of Marketing Research in Decision Making, it has its own inherent limitations. There are many problems in conducting marketing research in India. The following points elaborate these problems in detail.

1. **Non - Availability of Data:** Marketing Research depends on both primary and secondary sources of data. Primary data should be considered only as a last resort. But data collected through secondary sources is very meager and inadequate. Even if data are available mostly it is outdated as the agencies make inordinate delays in gathering and publishing data. To cite an example, despite the best efforts of Government of India through computerisation there are inordinate delays in publishing census reports and data becomes redundant by the time they publish.

2 **Lack of Trained Enumerators:** Data collection is a specialized job. Marketing Research heavily depends on data collection and analysis. Owing to scarcity of trained enumerators reliable data is becoming a scarce. Even if data is available its reliability is highly questionable because the data is not collected scientifically.

3. **Problems of Primary Data:** As primary data collection has a limited purpose, these statistics cannot be used repeatedly. They are confined to smaller geographical area and serves limited purpose. These primary studies conducted at different locations can't be strictly comparable for decision making and they may give conflicting results due to divergent methodologies used in different studies. These studies are scattered, not reliable & mostly unorganized.

4. **Non-Cooperation of Respondents:** Most Respondents don't respond to the surveys. If at all they agree to furnish information, they don't involve in the survey and mechanically they just furnish information without knowing the implications. Non-cooperation from respondents is really a limiting factor on the reliability of results of Marketing Research.

5. **Lack of Trust:** Most respondents do not respond with a fear that the crucial information collected from respondents is misused, more so certain confidential information. This is because of lack of trust on the part of respondents.

6. **Abuse of Respondents Information:** It has become a practice to abuse the crucial data gathered for the purpose. To cite an example, a credit card holder gets lots of information from many other sales organisations promoting their products and services. Credit card issuing Agencies sell this information to other related business units and inturn they use this information to promote their products for commercial use.

7. **Lack of Professionalism:** Most organisations even today feel that Marketing Research is a luxury. Companies are not willing to invest in Marketing Research as it does not give quick and direct results. Companies believe in their intuition and gutt feeling. In

small business units & family run businesses, Marketing Research does not play a greater role.

8. **Lack of Integrated Approach:** Marketing Research should be integrated with marketing function. But in most cases Marketing Research is separated with that of marketing. Even if Marketing Research is used it is used as a piecemeal approach and not with an integration of other functions and also not on a continuous basis. It happens mostly as a one time activity and crisis management activity.

9. **Expensive:** Marketing Research needs huge sums and the results are only indicative, informative and approximates. They are not accurate. Marketing Research does not solve the problem. It may help in creating alternative possible solutions to the problem. In most of the cases, it is proved that the costs are disproportionately higher than the benefits that accrue to the firms.

10. **It Involves Precious Time & Money:** It is a laborious work and consumes lots of time and may not end up in any reliable and fruitful results despite committing valuable resources, efforts and time.

9.10 SUMMARY

Marketing Research is a systematic study of identification, collection, analysis and dissemination of information to facilitate decision-making. To support decision making process, information is needed on continuous basis. This is possible by designing an effective information system. An information system helps the organisation in many ways. Designing an effective marketing information system will reduce risk and uncertainties in decision making. Researchers must bear in mind different processes in Marketing Research such as problem identification, approaching the problem, preparing a good research design, data collection, data analysis and presentation of results. This chapter also gives an outline on different areas of Marketing Research which include product, consumer, advertising and policy research. One has to be cautious about the limitations of Marketing Research and Problems involved in accomplishing outcomes of Marketing Research projects in Indian context.

9.11 SELF ASSESSMENT QUESTIONS

I. Short Answer Questions

1. Define Marketing Research.
2. What do you mean by Marketing Information Systems.
3. Distinguish between Primary & Secondary Sources of data.
4. Distinguish between Sampling & Population.
5. What is Research Design?

II. Long Answer Questions

1. Explain the characteristics of good Marketing Information.
2. Design an MKIS for a university for marketing its newly designed Diploma Programs in Insurance & Fashion Designing.
3. Explain the nature and scope of Marketing Research.

4. Discuss in detail the steps in Marketing Research.
5. According to you what are the problems in conducting Marketing Research studies in India.

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9.13 KEY WORDS

Sampling : A part of population chosen to examine the properties of parent population.

Secondary Data : Collected already for some other purpose.

Primary data : First hand data collected for a given purpose.

Research Design : A blue print for collection, measurement and analysis of data.

Marketing Information System : Formalised set of procedures for generating analyzing, storing and distributing pertinent information to marketing decision makers on continuous basis.

Questionnaire : Set of questions, to be administered on the respondents to gather data.

BLOCK - III : PRODUCT MANAGEMENT

In this block, we look into one of the 4 Ps of marketing mix namely, product. The process of designing an idea into acceptable product concept, turning it into a physical product, giving it a brand name, packaging and positioning it in the market, is called 'Product Management'.

Unit - 10 introduces you to product decisions i.e. regarding levels of products, classification of products and marketing strategy for different types of products. While Unit - 11 explains the concept of new product development and various stages in new product development, Unit - 12 discusses regarding the product life cycle and management of each stage of product life cycle. The last unit of this block i.e., Unit - 13 describes the important features of product, its related strategies namely, packaging and branding. This unit also highlights the advantages and disadvantages of branding and packaging the product.

UNIT – 10 : PRODUCT DECISIONS

Aims and Objectives

After reading this Unit, you should be able to:

- explain the meaning of product;
- understand the product concept and its features;
- describe the decisions involved in product;
- explain the strategies for different types of products; and
- understand the concept of product diversification.

Structure

10.0 INTRODUCTION

A product may be defined as a bundle of utilities consisting of various product features and accompanying services. The seller provides the bundle of utilities or the physical and psychological satisfactions that the buyer receives when he sells a particular product. The product levels indicate the importance of all benefits that are or could be passed on to a consumer. Further, they help indicate the importance of creating differentiation by changes in the product levels, which might be required to counter competition.

The customer does not buy merely the physical and chemical attributes of a product. He is really buying satisfaction of want. He will buy a product, which can offer him expected satisfaction. In other words, what a buyer buys is a mixture of expected physical and psychological satisfactions. Therefore, the term 'product' does not mean only the physical product but the total product including brand, package, label, status of manufacturer and distributor and services offered to the customer, in addition to the physical product.

10.1 MEANING AND DEFINITION OF PRODUCT

A product is any want-satisfying attribute a consumer receives in exchange. The product benefits could be physical as well as psychological. Formerly, products were what the factories made. These days, products are those what the consumers want. The definition of product is constantly expanding. It includes more than a mere bundle of benefits.

According to **Philip Kotler**, "A product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or a need. Thus, anything, virtually anything can be covered within the ambit of attention (service or idea), acquisition (physical goods or tangible part of product), use (tangible or intangible part such as leased car when leasing is a service and car is a physical goods), or consumption (consumables such as food). In fact, the definition of product conveys more than just natural meaning. It conveys the company's business and therefore the related competitors".

American Marketing Association defined the product as "Anything that can be offered to a market for attention, acquisition or consumption including physical objects, services, organization and desires"

In the words of **William J.Stanton** "A product is a complex of tangible and intangible attributes, including packaging, colours, price, manufacturer's prestige and retailer's prestige and manufacturer's and retailer's services which the buyer may accept as offering of wants or needs"

People satisfy their needs and wants with products. Products can be broadly defined as to cover anything that can be offered to someone to satisfy a need or want. Products can be physical products (tangible) or services. However, physical products are really vehicles that deliver services to us.

The concept of the product becomes very simple to understand in terms of what the buyers buy. Perhaps there is a difference between what the marketers sell and what the buyers buy. The marketers are engineering oriented and neglect the psychological benefits the product offers. One thing more, products can both be goods and services, or any combination of the two. Services are intangible, and have no physical attributes.

Activity - I

Define the term 'product'.

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10.2 LEVELS OF PRODUCTS

A product has many other dimensions besides its physical appearance. **Philip Kotler** is of the opinion that a product has five levels or dimensions, which must be distinguished.

These dimensions are:

(i) Core Benefit, (ii) Generic Product, (iii) Expected Product, (iv) Augmented Product and (v) Potential Product.

i) Core Benefit: It is the fundamental dimension of a product as it represents a bundle of benefits to its prospective buyer. The core product answers the question: "What is the buyer really buying"? For instance, a woman buying a washing machine is buying comfort and not a mere collection of drum, heater, and nuts and bolts for their own sake; and a woman buying a lipstick is buying hope and not a set of chemical and physical attributes for their own sake. The basic job of a marketer is to sell the core benefits.

ii) Generic Product: It is the larger packaging of a core product. The basic product is what the target market recognises as the offer. For instance, washing machine, is recognized as collection of drum, heater, nuts and bolts; and lipstick as collection of chemical and physical elements, etc. Services have also got features which are generally intangible. Thus, services like auto repair, electricity supply, management consultancy, psychological counselling and medical consultation are all products.

iii) Expected Product: The customer expects the basic product, say computer, to be enveloped by certain features (Pentium-120, 1.2 G.B., 1.44 FDD), style (Desktop or Tower model), quality and brand (Compaq, Altos), package (Carton providing information on contents, and safety of the product), and a warranty (one-year, two-years, three-years). The most visible part of the product is its features. A feature is named part of the product. The features may be listed not in isolation, but comparable to competition

Thus, an expected product is that product which is normally taken for granted by the customer. However, the minimum expected features/benefits may differ from product to product and from industry to industry. Therefore, some differentiation can be seen at this stage. In India, the competition starts at this stage of product level because there are many products, which have been opened-up for competition only after July 1991 (the time of full-scale opening-up of the economy).

iv) Augmented Product: An augmented product includes not only the tangible elements of a product, but also the accompanying cluster of image and service features. Service features are often used to distinguish sellers of otherwise undifferentiated products.

It is a broader conception of the product. It represents the totality of benefits that a person may receive or experience in getting the formal product. The augmented product of a Television seller is not only the Television, but also delivery, free installation, guarantee, and service and maintenance. This dimension of the product is very important for a firm operating in a competitive market. The firm that develops the right augmented product will be able to attract more customers and survive in the competitive market.

v) Potential Product: This stands the fifth level product level, which encompasses all the possible augmentation and transformation the product might undergo in the future. Here is where companies search for further ways to satisfy customers and distinguish their offer. For instance, all the star hotels where the guest occupies a set of rooms represent an innovative transformation of the traditional hotel product.

The competition in Europe and America starts at this level of product acceptance. The competition does not start at the basic product level. It starts only when all the manufacturers do not meet customer expectations equally. If they are met, the next stage of differentiation is the augmented product. Here, the competition hits up if all the major brands have almost same features, quality, style, etc. However, a company must consider the relative cost of the augmentation and the price accepted for the product by customer. The resulting trade-off sets the limits for product differentiation strategy to be adopted by the company.

Activity -II

Explain the various levels of product.

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10.3 CLASSIFICATION OF PRODUCTS

Products are classified on the basis of consumer buying behaviour and their attitudes. Products are classified just like markets. Product marketing is facilitated when products are kept in homogeneous groups. One way to classify products is to group them based on ultimate users. We thus have consumer products purchased for use by households and the ultimate users. On the other hand, we have Industrial products, which help in producing other products or in rendering services. Office chair is a consumer product when you buy it for using at home. It is an industrial product when used in a cinema hall. Product classification helps us in developing suitable marketing programmes. Each category is further classified, e.g., fast moving consumer goods (FMCG) and consumer durables.

Logically, classification of consumer products should be based upon their behaviour. However, all consumers do not behave the same way. For instance, one consumer needs instant lights to be used in emergencies of power failure. He immediately rushes to Abids and gets one for him. There is another consumer who takes a long time to take this decision. He visits Nampally Market, Secunderabad and such other shopping areas to select the right product. He evaluates the available set of products, and then buys one, which gives him the greatest value. Thus it is obvious that a product can be slotted so easily on the basis of buyer behaviour. This makes it necessary to develop suitable marketing programmes for different segments of the market.

Traditionally, consumer products are put into three categories

1. **Convenience Products:** Convenience products are those which are bought with ease, and without consuming any time. Milk and vegetables are examples of convenience goods. Food products and newspapers also belong to this class. We put Coke and Pepsi and ice creams in this category. The point is that we spend just a walk to have these products. Therefore no extensive shopping is needed. Besides, most of the consumers have high knowledge about these products. Therefore hunting for them is not necessary.

Convenience products are just commodities for the consumer, and he does not show a very high amount of brand loyalty. He substitutes one product with another, if the former is not available. Distribution is, therefore, the critical element in the marketing of convenience products. The product must be available locally whenever it is needed. Otherwise the sale is lost. This means that these products need intensive distribution. We know Pepsi is available in India at pan shops, grocery shops, general stores, departmental stores, super-bazaars, petrol pumps, restaurants, hotels, stadium of sports, vending machines and just at an unimaginable number of outlets everywhere. The onus of promoting convenience products lies on the manufacturer. The retailer carries so many competitive brands, and is not interested in pushing just our product. He is, in fact, indifferent to the brand the consumer buy.

2. **Shopping products:** Shopping products are purchased only when the consumer considers factors like price, quality and style and visits several outlets before deciding to buy. The

consumer seeks information because he does not know much about the product. These products are not purchased regularly. They are priced higher than the convenience products. Though visibility is high, there is minimum brand loyalty. Clothing, furniture, household appliances, motor-cars, home repair items are familiar examples of shopping goods. A consumer who moves around searching for instant lights is buying a shopping good.

It is not necessary to have intensive distribution for shopping products. Here the consumer is prepared to move around. The only point is that the product must be available at one outlet out of several to be visited by the consumer. Promotion plays a vital role since the consumer seeks extensive information about the product. Price is critical specially for close competitive products. The consumer may substitute a higher-priced product with a lower-priced one if other things remain equal.

Shopping products are those for which consumers lack sufficient information about product alternatives and their attributes, and therefore must acquire further knowledge in order to make a purchase decision. The two major kinds of shopping products are attribute-based and price-based. For attribute-based shopping products, consumers get information about and then evaluate product features, warranty, performance, options, and other factors. The product with the best combination of attributes is purchased. Sony electronics and Calvin Klein clothes are marketed as attribute-based shopping products. With price-based shopping products, consumers judge product attributes to be similar and look around for the least expensive item/store. Consumers will exert effort in searching for information because shopping products are bought infrequently or have a large purchase price.

3. Speciality products: Speciality products are those products for which there are no reasonable substitutes. These have unique characteristics or strong brand identification. Consumers take a lot of pain to buy these products. Expensive music systems, expensive cameras, designer clothes, fashionable restaurants, prestigious cars are examples of speciality products. The brand loyalty is very high. The consumers are willing to pay a high price.

As consumers demand a product by brand name, distribution is less important than it is for convenience and shopping goods. The product is available at a few select outlets. Advertising informs the consumer about the availability of the product. The manufacturer and the retailer share the promotional budget. The initial product-planning decision is the choice of the type(s) of products to offer. Products can be categorised as goods or services and as consumer or industrial. Categorization is important because it focuses on the differences in the characteristics of products and the resulting marketing implications.

Speciality products are the particular brands, stores, and persons to which consumers are loyal. Consumers are fully aware of these products and their attributes prior to making a purchase decision. They are willing to make a significant effort to acquire the brand desired and will pay a higher price than competitive products, if necessary. For speciality products, consumers will not make purchases if their choice is not available. Substitutes are not acceptable.

The marketing emphasis for speciality products is on maintaining the product attributes that make the items so unique to loyal consumers, reminder advertising, distribution appropriate for the product extension of the brand name to related products, product improvements, ongoing customer contact, and monitoring wholesalers' and retailers' performance. The consumer-products classification recognizes that many customers view the same products differently. It is an excellent basis for segmentation.

Products or goods can be classified into two broad categories depending upon the use for which they are meant. Products can be classified on the basis of their durability/tangibility and their use. These categories are:

1. Consumer Goods

Consumer goods are meant for use of consumption by the ultimate consumers. Bread, butter, TV sets, cosmetics and garments are all consumer goods. Consumer products are goods and services destined for the final consumer for personal, family, or household use. The use of the good or service designates it as a consumer product. A tangible product is the basic physical entity, service, or idea; it has precise specifications and is offered under a given description or model number. Color, style, taste, size, weight, durability, quality of construction, and efficiency in use are some tangible features. Consumer products can be divided on the basis of their durability/tangibility and their use.

a) **Non-durable Goods:** These products are tangible goods that are normally consumed with one or a few uses. These goods are mostly purchased very frequently. These can be made for mass consumption at most of the shops with small margin, needing heavy advertising. Thus 'Surf is advertised most heavily. Tata ult is available at most of the shops with small margins.

b) **Durable Goods:** These products are tangible that remai in use months after months and years after years. They are mostly sold through personal selling with high margins at speciality shops. For example, video/audio systems, washing machines, vacuum cleaners, etc.

c) **Services:** These are activities or benefits that provide satisfaction to the customers. The acti are the physique clubs and fitness centers, the benefits are repair works, and ausfaction through eating at restaurant or attending a coaching course. The services are normally intangible, perishable and are inseparable from the place (restaurant) or the performer (teacher, artist, etc.)

2. Industrial Goods

Industrial goods are meant for use in the commercial production of other goods or in connection with carrying out some business activities. Machine tools, iron-ore, and electronic computers are all industrial goods. Industrial products are goods and services purchased for use in the production of other goods or services, in the operation of a business, or for resale to other consumers. Industrial products include heavy machinery, raw materials. A customer may be a manufacturer, wholesaler, retailer, or government or other nonprofit organization.

It should be noted that all products cannot be classified exclusively as consumers' goods or industrial goods. For example, typing paper is used for both personal and business correspondence and therefore is both a consumer and an industrial good. The distinction between consumer and industrial goods is necessary in order to understand the behaviour of their purchasers. The purchasers of industrial goods have an altogether different approach as compared to the purchasers of consumers' goods. Industrial products are goods and services purchased for use in the production of other goods or services, in the operation of a business, or for resale to other consumers. Industrial products include heavy machinery, raw materials. A customer may be a manufacturer, wholesaler, retailer, or government or other nonprofit organization.

Industrial products may be categorized by the degree of decision-making involved in a purchase, costs, rapidity of consumption, role in production, and change in form. Because industrial-products sellers normally seek out potential purchasers, store-shopping behavior is often not involved. Installations, accessory equipment, raw materials, component materials, fabricated parts, business supplies, and business services are types of industrial products.

Basic Differences between Services and Products

Services

1. Services are often intangible. They may involve acts, deeds, performances, efforts. Many services cannot be physically possessed. The value of a service may be based on an experience.
2. Services are usually perishable. Unused capacity cannot be stored or shifted from one time to another.
3. Services are inseparable. The quality of many services cannot be separated from the service provider.
4. Services may vary in quality over time. It is difficult to standardize some services.

Products

1. Products are tangible. They are objects, things or materials. Value is based on ownership.
2. Products can be stored. Surpluses in one period can be applied against shortages in another period.
3. Products can be manufactured by one firm and marketed by another. The quality of a good can be differentiated from a distribution intermediary's quality.
4. Products can be standardized. Mass production and quality control can be used.

The inseparability of services means that the service provider and his or her services are sometimes inseparable. When this occurs, the service provider is virtually indispensable, and customer contact is often considered an integral part of the service experience. For example, the quality of machinery repair depends on the skill of the mechanic, and the quality of legal services depends on the skill of an attorney. Variability in service quality, differing service performance from one purchase experience to another, often occurs even if the same operator completes services. Variations may be due to the service firm's difficulty in diagnosing a problem (for repairs), an inability of the customer to verbalize service needs, and a lack of standardization and mass production for most services.

Generally, services have four **characteristics** that distinguish them from goods:

a) Intangibility, b) Perishability, c) Inseparability from the service provider, and d) Variability in quality.

The intangibility of services means that they often cannot be displayed, transported, stored, packaged, or inspected before buying. This occurs for repair services and personal services. The service operator can only describe the benefits that can be derived from the service experience. The perishability of services means that many of them cannot be stored for future sale. The impact of these characteristics is greatest for personal services. They are usually much more intangible, more perishable, and more inseparable from the service provider; and they have more quality variations than rented-goods services or owned-goods services.

Although services have different characteristics from goods, their sales are frequently connected. In goods marketing, goods dominate the offering and services augment them. For example, a tractor manufacturer may provide extended warranties, customer training, insurance, and financing. A clothing retailer may provide alterations and home delivery. In service marketing, services dominate the offering and goods augment them

Unsought Goods: There are products that do not fall in any of the above categories, but are important for the customer. The customer might not know the existence of the product (Solar-operated buses, High-definition TV, etc.); or know but do not think of buying them (life-insurance, encyclopedias, greenstones, etc.). Thus, there might be new or existing products that are not sought by the customer. The customer does not normally buy such goods unless there is high-level of promotion campaign showing the necessity of those products for satisfying their needs.

It is important to closely look at the categories of consumer goods with their characteristics and marketing considerations so that a better assessment of the variety of goods could be comparably made. Product consists of a bundle of attributes (features, functions, benefits, and uses) capable of exchange or use, usually a mix of tangible and intangible forms. Thus, a product may be an idea, a physical entity (a good), or a service, or any combination of the three. It exists for the purpose of exchange in the satisfaction of individual and organizational objectives.

A well-structured product plan enables a company to pinpoint opportunities, develop appropriate marketing programs, coordinate a mix of products, maintain successful products as long as possible, reappraise faltering products, and delete undesirable products. A firm should define its products in three distinct ways: tangible, augmented, and generic. By considering all the three definitions, the company is better able to identify consumer needs, competitive offerings, and distinctive product attributes.

Activity -III

How do you classify the products?

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10.4 MARKETING STRATEGY FOR DIFFERENT TYPES OF PRODUCTS

In order to put the product into the market, the company must develop its marketing strategy. The strategy developed initially is subject to revision later. The size of the market, the target market, and the financial goals sought to be the achieved are specified. Thus, the target market for disposable watches will be the family who will accept a new disposable watch, which shows time, but, at the same time, is a fashion accessory. The watch will be moderately priced. The company initially intends to sell 5 lakh pieces. The profit margin expected is 15 per cent of sales. The company plans to raise the sales to 35 lakh pieces in the next three years.

The second part of the strategy spells out product's price, distribution strategy and the promotional budget for the first year. The watch will be given on plastic stand and will retail at Rs. 200 a piece. To begin with, dealers will be given one watch free for every few watches bought. To induce trials, coupons will be put in the press, giving a discount of 10 per cent. The promotional budget will be Rs. 50 lakhs. The budget will be split between 60 per cent for TV and 40 per cent for press. The theme of advertisement will be to emphasise the watch as a fashion accessory at a reasonable price. During the first year, Rs. 10 lakhs will be spent on marketing research.

The last part of the marketing strategy is to state the long-term financial and marketing goals. The company intends to acquire a 30 per cent market share of the total watch market and intends a rate of return on investment of 12 per cent. There will be further improvements in the product - straps and faces to match the current fashion trend. Price will be maintained at a low level. The promotional budget will be increased by 25 per cent every year. Marketing research expenses will be reduced in future years.

Business Analysis

We have already developed the product concept and the marketing strategy. It is now time to examine the proposal's business or financial worth. Here projections are made about the sales, costs and profits to see whether these meet our objectives. If yes, the proposal proceeds to the prototype development stage.

Sales Estimation

It is important to know whether the product will generate sales enough to yield a satisfactory profit. Products are classified for such estimation into three classes, a one-shot product, a frequently purchased product or an infrequently purchased product. The sales of a one time purchase product show a usual pattern. They rise, reach a peak and decline. If new buyers are added, the sales stabilise. Frequently purchased products are consumer nondurable or industrial products. First the sales rise, as new buyers are attracted.

The major factors controlled by marketing personnel are the selection of a target market, marketing objectives, the marketing organization, the marketing mix, and control of the marketing plan. One of an organization's/individual's most crucial marketing-related decisions involves the selection of a target market, which is the particular group(s) of customers the organization/individual proposes to serve, or whose needs it proposes to satisfy, with a particular marketing program. A firm can choose a very large target market or concentrate on a small customer group, or try to appeal to both with separate marketing programs for each.

In general, these questions must be addressed before developing a marketing program: Who are our customers? What kinds of goods and services do they want? How can we attract them to our company? When selecting a target market, the company usually engages in some form of market segmentation, which is the process of subdividing a market into distinct subsets of customers that behave in the same way or have similar needs.

Each subset may conceivably be chosen as a target market to be reached with a distinct marketing strategy. The process begins with a basis of segmentation — a product-specific factor that reflects differences in, customer requirements or responsiveness to marketing variables (possibilities are purchase behaviour, usage, benefits sought, intentions, preference, or loyalty). Segment descriptors are then chosen, based on their ability to identify segments, to account for variance in the segmentation basis, and to suggest competitive strategy implications (examples of descriptors are demographics, geography, life-styles, customer size, and industry).

Installations

Installations and accessory equipment are capital goods. They are used in the production process and do not become part of the final product. Installations are non portable goods involving a high degree of consumer decision making. They are very expensive, and do not change form. The major marketing tasks are direct selling from the manufacturer to the purchaser, lengthy negotiations about features and terms, providing complementary services such as maintenance and repair, tailoring products to buyers' desires, technical expertise, and team selling

The major marketing tasks are tying sales to those of installations; providing a variety of choices in price, size, and capacity; employing a strong distribution or sales force; stressing durability and efficiency; and providing technical and maintenance support. Raw materials, component materials, and fabricated parts are used up in production or become part of final products. They are expensive rather than capital items. They require limited buyer decision-making, are inexpensive on a per-unit basis, and are rapidly consumed. Compare the desired speciality goods with others. But they may take considerable time in deciding to start the special search required because goods are often in the luxury price class.

Activity - IV

What are the marketing strategies for a product?

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10.5 PRODUCT DIVERSIFICATION

In recent times sellers tend to favour the practice of diversification of their product lines. Diversification of product lines refers to the practice followed by a seller to add new product to the line of products presently handled by him. For example, if a dealer of radio sets adds to his product line the television-sets, he is said to have diversified his product line.

Reasons for product diversification

a) New technological development brings into existence new products. For instance, there is a talk about having a network of television stations in our country. This is bound to make manufacturers of radio-sets to add television-sets to their product line.

b) Successful firms like to deal in new products to create new market so that they can avoid or eliminate the inherent risk involved in the policy of narrow product line.

c) To minimise the risks arising out of changes in fashions and consumers' tastes.

d) To expand the activities of the firm, to utilise the idle plant capacity and for fuller utilisation of the financial and manpower resources of the firm.

Diversification can be achieved both by the merger of existing firms manufacturing different products and by adding to the manufacture of existing product lines by the same firm. Conditions for the success of the policy of diversification are briefly stated as under:

1. The new product to be added should be closely allied to the existing products.
2. Continuous efforts should be made to eliminate from the product lines those products which become obsolete or unprofitable.

Diversification is not advisable if it involves the use of new marketing methods and new marketing channels for the distribution of new products.

Simplification of product line

Notwithstanding the above-mentioned tendency towards diversification many sellers follow the practice of simplification of product lines as well. Simplification of product lines is just opposite to the practice of diversification. It refers to the practice of limiting the number of products a seller deals in. Simplification of product has following advantages:

1. Less capital is tied up in inventories.
2. Personnel have better opportunity for specialisation.
3. Manufacturing and marketing activities can be more effectively directed.

The initial product-planning decision is the choice of the type(s) of products to offer. Products can be categorized as goods or services and as consumer or industrial. Categorization is important because it focuses on the differences in the characteristics of products and the resulting marketing implications.

Product marketing entails the sale of physical products. Durable goods are physical products that are used over an extended period of time, such as furniture and heavy machinery. Non-durable goods are physical products "that are (1) made from materials other than metals, hard plastics, and wood; (2) are rather quickly consumed or worn out; or (3) become out dated, unfashionable, or in some other way no longer popular." Service marketing encompasses the rental of goods, the alteration or repair of goods owned by consumers, and personal services. A rented-goods service involves the leasing of a good for a specified period of time. Examples include vehicles, hotel rooms, office buildings, etc. An owned-goods service involves an alteration or repair of a good owned by the consumer. Examples include repair services (such as automobile, watch, and machinery), lawn care, car washing, equipment maintenance, and dry cleaning.

A non goods service involves personal service on the part of the seller; it does not involve a good. Examples include accounting, legal, and tutoring services. Sometimes goods and services are confused. However, when we buy the use of a hotel room, we take nothing away with us but the experience of the night's stay. Similarly, although a consultant's product may appear as a bound report, what the consumer bought was mental capability, not paper and ink.

Factors in Product Diversification

At marketing-oriented firms, the choice of a target market has a large impact on all other marketing decisions. For example, a book publisher choosing to appeal to the high school science market would have a much different marketing program than a publisher choosing to appeal to the adult fiction market. The first firm would seek an image as a prestigious, well-established publisher; specialize its products offerings; make presentations to high school book selection committees; sell in large quantities; offer durable books with many photos and line
13 drawings that could be used for several years; and so on.

The second firm would capitalize on well-known authors' names or publishing books on "hot" topics to establish an image; introduce books on a variety of subjects; place ads in newspapers and seek favorable book reviews; distribute through independent bookstores; sell in small quantities (except when large bookstore chains are involved); de-emphasize durability, photos, and line drawings and produce books as efficiently as possible; and so on.

Controllable Factors

a) Marketing objectives: The marketing objectives are more customer-oriented than those set by top management. For example, marketers are extremely interested in the image consumers hold of the company and specific products. Sales objectives reflect a concern for brand loyalty (repeat purchase behavior), growth through new product introductions, and appeal to unsatisfied market segments. Profit objectives are set in per unit or total-profit terms. Last and most important, marketers seek to create a differential advantage, the set of unique features in a company's marketing program that causes consumers to patronize the company and not its competitors. A differential advantage can be achieved through a distinctive image, new products or features, product quality, availability, customer service, low prices, and other characteristics.

A marketing organization is the structural arrangement for directing marketing functions. The organization outlines authority, responsibility, and tasks to be performed. Through the organization, functions are assigned and coordinated. An organization may be functional, with responsibility assigned on the basis of buying, selling, promotion, distribution, and other tasks; product-oriented, with product managers for each product category and brand managers for each individual brand in addition to functional categories; or market-oriented, with managers assigned on the basis of geographic markets and customer types in addition to functional categories. A single company may use a mix of these forms.

b) The marketing mix: Marketing mix refers to the specific combination of marketing elements used to achieve an organization's/individual's objectives and satisfy the target market. The mix depends on a number of decisions with regard to four major variables: product, place (distribution), promotion, and price.

c) Product decisions: involve determining what goods, services, and/or ideas to market, the level of quality, the number of items to sell, the innovativeness of the company, packaging, features (such as options and warranties), the level and timing of research, and when to drop existing offerings. Distribution decisions include whether to sell through intermediaries or directly to consumers, how many outlets to sell through, whether to control or cooperate with other channel members, what purchasing terms to negotiate, supplier selection, determining which functions to assign to others, and identifying competitors.

d) Promotion decisions: include the selection of a combination of tools (advertising, publicity, personal selling, and sales promotion), whether to share promotions and their costs with others, how to measure effectiveness, the image to pursue, the level of customer service, the choice of media (such as newspaper, television, radio, magazine), the format of messages, and ad timing throughout the year or during peak periods. Price decisions include determining the overall level of prices (low, medium, or high), the range of prices (lowest to highest), the relationship between price and quality, the emphasis to place on price, how to react to competitors' prices, when to advertise prices, how prices are computed, and what billing terms to employ (such as a cash-only versus a credit policy).

When developing a marketing mix, product, place, promotion, and price decisions must be compatible with the desires of the selected target market and with each other elements in the marketing mix; be compatible with the company's resource capabilities; be well coordinated; and communicate and deliver a clear differential advantage.

e) Marketing control: The last, and extremely important factor directed by marketing personnel involves control: monitoring and reviewing overall and specific marketing performance. Evaluations should be conducted at regular intervals. The external environment and internal company data should be reviewed continuously. In-depth research and analysis of performance (marketing audits) should be completed at least once or twice each year. Revisions need to be accomplished when the external environment changes or the company encounters difficulties.

Uncontrollable Factors

Uncontrollable factors are those elements affecting an organization's performance that cannot be directed by the organization and its marketers. It must be recognized that any marketing plan, no matter how well conceived, may fail if uncontrollable factors adversely influence it. Therefore, the external environment must be continually monitored and its effects incorporated into any marketing plan. Furthermore, contingency plans relating to uncontrollable variables should be an important part of a marketing plan. Uncontrollable variables that bear watching and anticipating are consumers, competition, government, the economy, technology, and independent media.

Although a marketer has control over the selection of a target market, he or she cannot control the characteristics of the population. Firms can react to, but not control, these consumer characteristics: age, income, marital status, occupation, race, education, and place and type of residence.

A company must understand the interpersonal influences on consumer behavior. Their family, friends, religion, level of education, and personal standards and by the taboos, customs, and other factors that shape a culture and society, affect the purchases that consumers make. For instance, in some parts of the United States, stores are not allowed to open on Sundays, liquor sales are strictly regulated (as to prices, other goods that can be sold, and days open), and movies are closely rated. In other parts of the United States, stores are regularly open seven days a week, liquor is sold in many types of outlets, and any movie can be shown uncut.

a) Consumers

Consumers act differently in purchasing various types of goods and services; a company needs to comprehend the consumer's decision process. The decision process explains the steps a consumer goes through when buying a product. In the case of an automobile, the consumer carefully searches for information about a number of [illegible] several alternatives, selects a favorite, negotiates terms, and finally completes the purchase. With a hamburger, the consumer looks at his [illegible] that it is lunchtime, and goes to a nearby fast-food outlet.

Today, consumer-rights groups and organizations speak out on behalf of consumers at public hearings, stockholder meetings, and before the media. To avoid negative consequences brought on by active consumer groups, a firm must communicate with consumers on relevant issues (such as a product recall), anticipate problems (such as delays in shipping ordered goods), respond to complaints (such as unsatisfactory customer service), and make sure that the company operates properly (such as sponsoring community projects).

b) Competition

The competitive environment frequently affects a firm's marketing efforts and its success in attracting a target market. Therefore, a company needs to analyze the competitive structure of the industry in which it operates and to examine competition on the basis of these characteristics. marketing strategy, domestic/foreign firms, company size, generic competition, and channel competition.

A company would operate under one of six possible **competitive structures:**

With a **monopoly**, just one firm sells a particular product. In the United States, this occurs if a firm has a patent (exclusive rights for seventeen years to a product it invented) or is a public utility such as a local power company. Depending on the product, the market may be small or large. Consumer reactions to price changes depend on their need for the product. For example, people continue to use electricity no matter how high prices go

With an **oligopoly**, a few firms — generally large ones — comprise most of an industry's sales. The auto industry is a good illustration of this. General Motors Ford, Chrysler, Honda, Toyota, and Nissan account for over 8[illegible] per cent of all automobiles sold in the United States. Other examples of oligopolistic industries are flat glass, cereal breakfast foods, turbines and turbine engines, household refrigerators and freezers, electric lamps, and cigarettes.

The market is often quite large and contains various segments. Consumer demand for one firm's offering drops sharply if its prices are increased because other firms do not follow along; and demand increases only slightly if its prices are decreased because other firms also cut their prices. Because there are a few firms, each is able to exert some control over its marketing plan. It is difficult for new firms to enter the market because capital (factory and equipment) costs are usually high. Oligopolistic firms seek to avoid price wars; instead, they try to distinguish their products on the basis of image, options, color, delivery, and other features. To be successful, oligopolistic firms need to convince consumers that their brands are distinctive.

Monopolistic competition occurs when there are several firms in an industry, each of which is trying to offer a unique marketing mix. In the United States, monopolistic competition is the most common competitive structure, followed by oligopoly. Service stations, garment makers, beauty saloons, furniture makers, and shoe retailers are examples of companies operating under monopolistic competition. In each instance, a firm tries to attain a differential advantage through a marketing mix that is different from competitors and desirable to consumers.

Competition can be intense because a number of firms are making and/or selling essentially similar items. The size of the market depends on the necessity of the product. Control over price is based on how unique consumers view a particular brand or firm to be. A firm can charge a higher price than the industry average and not lose sales if its offering is viewed as distinct from the competitor's.

Pure competition exists if there are many firms selling identical products. This situation occurs rarely in the United States and is most common for selected food items and commodities (and takes place only if there are a number of small firms competing with one another). The market for each firm is small. There is no control over price — because consumers are very sensitive to price changes; if a firm raises its prices, those consumers will purchase from competitors. And since standardized products are sold, there is little control over the other marketing variables. It is easy for new firms to enter the market.

With pure competition, no long-run differential advantage in the marketing mix is possible. It is essential that a firm develops a reputation for reliability, sell items at the lowest profitable prices, and convince as many distributors and retailers as possible to stock its products.

After analyzing the competitive structure of the industry in which it operates, a company should look at the marketing strategies of its competitors. Specifically, the firm should examine the target markets and marketing plans of competitors, the images of competitors, the differential advantages of competitors, which markets are saturated and which are unfulfilled, and the extent to which consumers are content with the level of service and quality provided by the competition.

Foreign competitors have a major role in many industries. In the United States, foreign-based companies are capturing large market shares over 30 per cent for automobiles, over 30 per cent for sporting goods and microwave ovens, 90 per cent for motorcycles, and almost 100 per cent for videocassette recorders. Also imported in large numbers are tires, calculators, televisions, watches, cameras, and a wide range of other products. At the same time, competition in overseas markets is more intense for U.S.-based firms than ever before.

The success of foreign firms is often due to their ability to capitalize on innovations, better quality control than U.S. companies, relatively low labor costs, an emphasis on cost-cutting practices, and good distribution and promotion. In many industries, there has been a trend towards larger firms because of mergers and acquisitions as well as company sales growth. Some recent mergers and acquisitions involved consumer-products companies (Philip Morris acquiring Kraft), airlines (Texas Air acquiring Continental Airlines), retailers (Chapeaux acquiring Allied Stores and Federated Stores), and media companies (Capital Cities acquiring ABC). Internal sales growth has been great for such diverse firms as Boeing, Wal-Mart, Apple, and Federal Express, each of which has annual sales of several billion dollars.

Finally, the firm should study the potential for competition with channel members (distribution intermediaries). First, each party in the distribution process has different objectives and each would like to maximize its control over the marketing mix. Second, many retailers carry their own brands in competition with the manufacturers' brands they handle. Third, in some cases, such as the supermarket industry, long-run relationships have been built up among manufacturers, wholesalers, and retailers.

The relationships become assets as much as any raw materials or equipment. As a result, new firms may be unable to distribute products properly, while existing firms may find it easy to place even the most innovative of products.

Activity - V

i) What are the reasons for diversification of product? State its controllable factors.

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ii) Explain the controllable factors in diversification.

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10.6 SUMMARY

The concept of the product becomes very simple to understand in terms of what the buyers buy. Perhaps there is a difference between what the marketers sell and what the buyers buy. The marketers are engineering-oriented and neglect the psychological benefits the product offers. One thing more, products can both be goods and services, or any combination of the two. Services are intangible and have no physical attributes. The last part of the marketing strategy is to state the long-term financial and marketing goals.

10.7 SELF ASSESSMENT QUESTIONS

I. Short Answer Questions

1. Explain the meaning of the product?
2. What do you mean by diversification?
3. Discuss the factors for diversification.
4. Distinguish between services and products.
5. Write a brief note on the following:
   a) Augmented products
   b) Convenience products
   c) Durable products

II. Long Answer Questions

1. Define the various levels of the product? Explain the importance of product levels in product policy?
2. Explain the importance in classifying the products.
3. Define various marketing strategies for consumer products.
4. What is diversification? Define with relevant examples.

10.8 FURTHER READINGS

1. Philip Kotler : **Marketing Management : Analysis Planning, Implementation and Control**, Prentice Hall of India Pvt Ltd, New Delhi 2002.

2. Stanton, William J : **Fundamentals of Marketing**, Mc Graw Hill International Book Inc, 2000.

3. Gandhi J.C. : **Marketing - a Managerial Introduction**, Tata Mc Graw Hill publishing Co. New Delhi, 1999.

4. Rajgopal : **Marketing Management**, Vikas Publishers Co. Ltd., 2000.

10.9 KEY WORDS

Product : A product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or a need.

Augmented Product : It is a broader conception of the product. It represents the totality of benefits that a person may receive or experience in getting the formal product.

Durable Goods : These products are tangible that remain in use months after months and years after years.

Services : These are activities or benefits that provide satisfaction to the customers. The services are normally intangible, perishable and are inseparable from the place (restaurant) or the performer (teacher, artist, etc.)

Convenience Products : They are bought with ease, and without consuming any time.

Shopping Products : They are purchased only when the consumer considers factors like price, quality and style and visits several outlets before deciding to buy.

Speciality Products : They are those products for which there are no reasonable substitutes. These have unique characteristics or strong brand identification. Consumers take lot of pain to buy these products.

Consumer Goods : Consumer goods are meant for use of consumption by the ultimate consumers.

Industrial Goods : Industrial goods are meant for use in the commercial production of other goods or in connection with carrying out some business activities.

UNIT 11 · NEW PRODUCT DEVELOPMENT

Aims and Objectives

After studying this Unit, you should be able to:

- understand the concept of product development;
- know the stages in new product development;
- explain the reasons for the failure of a new product; and
- describe the recent trends in new product development.

Structure

11.0 INTRODUCTION

Products are the bedrock of any organisation. Sales are realised through sales of the products. Thus the overall success of an organisation is dependent upon the planning and development of products. Between each new technology and man, there is a period of courtship. There is an inherent resistance to change symbolised by new technology and there is a desire to enjoy the novelty and excitement. Telephone took 50 years gestation period before its wider acceptance. We have to see how fast Internet gets accepted. Some inventions are awaited. As soon as they happen, they find acceptance, e.g., TV. Some inventions are resisted, e.g. electricity. It took quite some time to accept this deadly invisible power. Some innovations are accepted with warmth but the initial enthusiasm then wears off, e.g., the airships, which were welcomed, but the fervour waned when there was an air-crash.

Some inventions like [illegible] were initially viewed with suspicion and hostility. There was a red flag law for the cars. A man with a red flag [illegible] of the car [illegible] warn the public of the coming monster. The washing machine was saddled as a luxury item. It is only now that these have become a way of life. The public remains indifferent to any concept of electric cars, whereas a potential traffic hazard like Walkman (1979) has been successful. Think, how cellular phone is accepted, considering the antipathy to the public display of private function of telephoning. We have to see how on-line shopping will be accepted in future.

11.1 THE CONCEPT OF PRODUCT DEVELOPMENT

It has to be kept in mind that a product is a combination of attributes. These attributes are: colour, material design, features, performance, and ability of utility value, functions and qualities. Each of these attributes has to be determined if the product is to become the "quick-mover". Thus Product Planning and Development is concerned with the determination of the precise nature of the product.

The possible return on additional investment involved, total capital requirements, fuller utilisation of its present plant and equipment, the additional amount of marketing or advertising efforts needed to sell the product and the probable degree of competition are some of the more important considerations which weigh heavily in product planning and development of a new product by a firm already in the market.

Product Planning and Development, a sub function of product management includes following marketing activities:

i) Determination of the variety of products to be produced

ii) Decision regarding quality of product

iii) Diversification and Simplification of products

iv) Identification of the product or products by the use of a brand or trademark

v) Grading

vi) The design and use of a proper package.

First of all the manufacturer has to decide whether he should produce to satisfy demands for all variety of products existing in the market or he should attempt to meet demands of a limited variety of products only. Answer to these questions will determine the variety of sizes, of colours, or patterns, which would be offered.

The next question, which arises in performing the sub-function of Product Planning and Development, is whether to offer more than one quality of products. Many manufacturers prefer to restrict their offer to a single quality. This quality may be high quality meant for high-income groups or of average quality or market quality designed to sell at a standard market price. Alternatively, product of less than average quality meant to sell at a price below the general market level with a view to cover the very low-income group may be chosen. The choice of one or the other of the three qualities mentioned above depends upon, among other factors, market conditions and the objectives and resources of the particular manufacturer.

It is common experience for companies that out of several ideas considered for a new product, only a handful passes the idea screening stage. Each idea reviewed, however, costs a lot to the company. Only 50 per cent ideas of the screened out ideas might survive the concept testing stage, and only a half of these might reach the product development [illegible] [illegible] for concept testing, and product testing stage [illegible] ideas are then launched [illegible] successful. The total cost of developing the new [illegible] incurred at each stage of development. The [illegible] the [illegible] the costs at each stage to make the [illegible] process cost effective. The average cost [illegible] getting converted into a successful product [illegible] calculated. The products needed for a company multiplied by the average [illegible] the total [illegible] for new product development.

Activity 1

Define the concept of product development.

11.2 ELEMENTS FOR NEW PRODUCT DEVELOPMENT

In any marketing programme, the company has to segment the market, select some segments it will cater to, and then determine the positioning of the products it will adopt. The company is now ready to plan, develop and launch new products. Marketing management has to play a crucial role in this process, though the actual development takes place within the R&D department. In each stage of product development, marketing management has to participate along with other departments.

Development Time: Many companies may be working on similar ideas. Only those who can develop these ideas faster than the competitors have a chance to succeed.

Shortened PLC: Competitors imitate successful products thereby shortening their product life cycle. It becomes difficult to recover the development costs.

Any successful attempt to innovate basically depends upon the type of organisational arrangement made for managing the process of developing the new products. There are four factors that govern growth - population, penetration of infrastructure, ability of people/government to pay and new products. In developed markets, new products are the key to growth because all others have been exploited. In India, even the first three are important.

1. Need For New Product

As we have already observed, new products are needed for organisational growth. If we consider the product life cycle stage, we know that it is necessary to develop new products to rejuvenate the decreasing sales and profits of existing products, which are in the maturity stage or in the decline stage. Some important new products which have been introduced in the last few years are AIDS - antibody test by Abbott, lithium batteries by Kodak, Cholesterol-lowering drugs by Merck, minivans by Chrysler, Lotus 1,2,3 - software. Some companies like 3-M and Johnson and Johnson generate more than a quarter of their sales from new products put in the market, in the last five years. HLL introduced several new products in Indian markets last year. Most companies try to achieve a balanced portfolio of products by being innovative. New Products are a strategic response to competition. A company becomes successful by using flanker brands, line extensions and new products in competitive environment.

2. Organisation for New Product

Any programme of innovation can be successful only when it gets top management support on a continuous basis and this support is not withheld even in the face of failure of some new product development efforts. It is for the top management to define the overall domain of the business for new product development. The top management may spell out the product categories it wishes to emphasise. Top management has to set out the criteria against which new product ideas will be scrutinised. The top management might say that a new product proposal is acceptable if the product can be introduced within three ... and ... a market potential of at least Rs. 100 crore, and a growth rate of 10 per ... provide a return of 25 per cent on sales and 35 per cent on investment.

A very significant decision is about the budgeting of the new product development. Some companies finance several projects at a time, considering the ... of ... a few successful products at the end of different time periods. Some companies ... a percentage of sales to R & D efforts. Even competitive efforts are ... may first decide how many successful products a company must have and then ... backwards the investment needed. Several organisational mechanisms are ... handle the development of new products. There is no one-best organisational ... to do so. Some most widely used organisational ... are briefly explained ...

3. Product Planning Committee

In several companies, a committee is formed with representatives drawn from the top management for monitoring new product development. The committee usually consists of the chief executives and representatives from the marketing, financing, production and research departments. Once the product ... developed, the marketing responsibility is assigned to either a product manager or a new product department. The committee is an effort to pool the combined wisdom of different people. A resulting new product thus has the approval of the concerned administrators who were a party to its developmental decision. ... committee type arrangement is a time consuming process, and is slow to arrive at decis...

4. New Product Department

In large companies, a new product department under a senior manager ... sufficient authority and having access to top management is created. The manager ... department, which is compact, consisting of 4-5 persons. This department ... product programmes. It also monitors the development process ... developed, the new product is assigned to the concerned operating ... new product department in some firms is authorised to contract with outside ... to ... new product on par with competitive product. New product department can be authorised to farm out ideas to outside specialist firms who specialise in product development process. The new product department keeps track of patents and revives old patents. The products developed may ... be of ... use to the company.

The new product department can be authorised to sell off these products or technology to others at a price so as to cover the R & D costs. Routinely, all new product departments co-ordinate with R & D, generate and screen new product ideas, and test and commercialise the ideas developed.

5. Product Manager

He may be named as a product manager or a brand manager or a merchandise manager. He is after all responsible for either a product or a group of related products. He ... plans the strategies for existing products. He may be assigned the additional ... of developing and marketing new products. However, as the product manager is over burdened with his existing load, he may not do justice to the new product. At most, he can do ... line extensions and slight product improvements. Besides, he may not have the competence ... develop the new products. Being too close to the company's existing ... he ... blinkered to the possibility of exploring new product ideas.

6. New Product Manager

To overcome the drawbacks of an arrangement whereby new products are made the responsibility of existing product managers, some firms create the post of a new product manager who has to consider only about the development of new products. The new product manager reports to the Group Product Manager.

7. New Product Venture Teams

Here the major development work of new products is assigned to a venture team which is a small, multi-disciplinary group organisationally segregated from the rest of the firm. The venture group looks after the whole new product development process right from idea generation to full-scale marketing. It consists of representatives from the operating departments like engineering, production, finance, marketing research etc. The team acts as an entrepreneur within the organisation, as it is immune to organisational rules and regulations. It reports directly to top management, and has a single-minded commitment to enter a new market profitably. The group members are relieved of their other organisational duties. They are given a budget and a time-frame. Once a product is developed, it is turned over to the existing organisational arrangement or to a subsidiary company. The venture team is then disbanded.

Venture teams are organisations within organisations. They by-pass the traditional problems of bureaucratisation and red-tapism. Besides, in existing organisations, there is an inherent resistance to change. The existing arrangements lack the authority or the courage to see the product through all the developmental stages.

There are some categories of new products, which have been accepted all over:

1. Technological breakthroughs: Technological developments give place to really a unique product, e.g., an anti-cancer drug, an AIDS vaccine. These products are quite different from the existing products. Nylon or transistors when first introduced were technological breakthroughs. These products are new-to-the world, and will create their own market.

2. Significant Improvements: These products are significant improvements over the existing products, e.g., Instant coffee replaces the usual brew coffee. These have greater perceived value.

3. Modified Products: These are revisions in the existing product, e.g., addition of a new flavour or perfume, a new package, a revised size etc.

4. Products New to the Company: These products are new to the company but not new to the market. They are imitative products. These allow the company to enter an existing market with a me-too product.

5. [illegible]: Existing products are targeted to new markets or market segments.

6. Cost Reductions: The products remain functionally the same, but the prices are reduced.

A company is not 'led' by the marketing concept because it [illegible] a marketing department. Customer is too important to be left alone to the people with designations like Sales Manager, Advertising and Sales Promotion Manager, Marketing Research Manager, Brand Development Manager, or even Marketing Manager. To implement the marketing concept in an organisation, every employee has to dance to the tune of customer. No physical instrument is taken by the customer to make the organisation dance to his tunes. This is because, "ultimately, all the rewards that a corporation's suppliers, employees, and stockholders accrue come from one, and only one, source-the rupee of the satisfied customer," says management guru Mrityunjay Athraya.

To adopt customer orientation within an organisation is a big task. It is easy to pronounce that our long term survival depends upon the creation and keeping of the customer. It is, however, difficult to infest the customer orientation down to the employees, suppliers and middlemen. For example, since the re-entry of coca-cola into Indian soft drink market, the company is not having good relation with its bottlers (suppliers). The result is it is unable to take on its arch rival Pepsi Cola in its right spirits. In fact, the Coca-Cola experience in India is such that it is unable to adjust its marketing functions -Product (not adopted to Indian Taste), Promotion (used animated characters rather than Indian celebrities), Place (problem with bottlers), and Price (when brought coke can the price was at Rs. 18, now it has been slashed down to Rs. 13 per can). However, since then, the position has changed.

Recent Trends in Marketing for New Product Development

A marketer has to define the market to which it will direct its efforts. The specification and identification of market would enable the marketer to design specific marketing strategies. A target market is defined as a set of actual and potential buyers of a product, service, or idea. A buyer, who has interest in the product, income and willingness to buy, can broadly be called as potential buyer. However, it might not be possible for the marketer to target all of them. There might be geographical barriers, unsuitability of product to certain climatic conditions, or inability of the marketer to reach certain hilly, or remote areas. There might be some added qualifications that might be necessary to make the potential target to possess, before it is taken to be part of target market. Thus, a small portion of potential market might become part of the target market.

The assessment of customer's requirements or needs is a bit more difficult than defining the target market. This is because customer might not be able or willing to state the true nature of his needs. For example, seduced by the buying power of the fast growing Indian middle class with spiraling incomes, many multinational marketers (particularly Mercedes-Benz and Kellogg's) failed to offer genuine value to their customers, expecting instead that the buyer's money would chase their products because of mere brand image. Proctor and Gamble (P&G) had to launch Camay in the mass market rather than in a premium niche though the product was positioned that way.

1. Morph' Marketing: The Latest Arrival, Chaterjee (1995) puts forth the importance of customer satisfaction and customer delight in the concept of Morph' marketing. 'Morph' marketing is transforming products into services, rewriting the core benefits of brands, and delivering undreamt-of value to the consumer. The author evolves six laws of Morph marketing:

The first law: Make The Service A Surrogate For Product.

The second law: Track and Solve Customer's Problems.

The third law: Mould Your Service Through Feedback.

The fourth law: Create Contact Points With Emotional Value.

The fifth law: Educate Customers About Your Services.

The sixth law: Benefits From The Service Industry.

2. Social Marketing: It ... the design, implementation, and control of programs seeking to ... the acceptability of a social idea, cause, or practice among target group. For ... the publicity campaign for prohibition of smoking in Delhi explained the place where one can and can't smoke in Delhi.

3. Relationship Marketing: The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholders. For example, British Airways offers special lounges with showers at its airports for frequent flyers. Thus, providing special ... to ... customers to strengthen bonds. It will go a long way in building relationships.

To achieve relationship marketing, a marketer has to keep in touch with regular customers, identify most loyal customers, to provide additional services to select customers, design special recognition and reward schemes, and use them for building long term relationships.

4. Augmented Marketing: It is provision of additional customer services and benefits built around the care and actual products that relate to introduction of hi-tech services like movies on demand, on-line computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.

5. Direct Marketing: Marketing through various advertising media that interact directly with consumers ... the consumer to make a direct response. Direct marketing includes Catalogue Selling, Mail, Telecomputing, Electronic Marketing, Shopping, and TV shopping.

6. Enlightened Marketing: A marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system; its five principles include customer-oriented marketing, innovating marketing, value marketing, sense-of-mission marketing, and societal marketing.

7. Innovative Marketing: A principle that requires that a company constantly seeks real product and marketing improvements.

8. Value Marketing: A principle that holds that a company should put most of its resources into value-building marketing investments.

9. Sense-of-Mission Marketing: A principle that holds that a company should define its mission in broad social terms rather than narrow product terms.

10. Services Marketing: It is applying the concepts, tools, and techniques, of marketing to services. Service is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Services may be financial, insurance, transportation, banking, savings, retailing, educational or utilities.

11. Organisation Marketing: It consists of activities undertaken to create, maintain, or change attitudes and behaviour of target audiences towards an organisation. Both profit and non-profit organisations practice organisation marketing.

12. Personal Marketing: People are also marketed. Personal marketing consists of activities ... to create, maintain or change attitudes or behaviour towards particular people. For example, politicians, sports stars, film stars, professionals, market themselves to get votes, or to promote their careers and income.

13. Place Marketing: Place marketing involves activities undertaken to create, maintain or change attitudes or behaviour towards particular places say, business sites marketing, tourism marketing.

The innovativeness of the products is considered with reference to the company and the market. Market perception of the buyers is the ultimate test of the innovativeness. A new product becomes an existing product after some time, e.g., now cellular mobile phones are common in India. A company has a mix of the above categories. Really innovative products unknown to the world constitute only 10 per cent of total innovations. Most innovative products are restricted to product and process improvement. It is largely a process of improving the existing product rather than creating new products. Truly innovative products involve the greatest risk and cost. Their innovativeness is yet to be accepted by the market.

Those companies, which decide to develop new products, may do so in-house in their own laboratories or they can contract outside researchers and laboratories. Some companies adopt both the acquisition and new product development route for growth, depending upon the perception of opportunities by the management. If companies decide not to innovate in these competitive times, they are exposing themselves to a great risk. The existing product range needs to change to keep pace with the changing consumer needs, changing technology, the competitive pressures and ever-shortening product life cycles. Though innovation is necessary, it is not without its risks.

The failure rate of new products introduced is very high. Even service industry's products like insurance plans, credit cards, loan schemes and brokerage deals also show a high failure rate. Most of the new products fail at the time of launch. Product failures are defined in financial terms i.e., the products fail to generate the expected profits or do not generate profits at all.

There are other innovative marketing techniques that are thought to be new as part of **effective marketing strategies** for new product development:

a) Concentrated Marketing: A market coverage strategy in which a firm goes after a large share of one or a few sub-markets.

b) Differential Marketing: A market-coverage strategy in which a firm decides to target several market segments and designs separate offers for each. For example Hindustan Lever Limited has Lifebuoy, Lux and Rexona in popular segment and Liril and Pears in premium segment.

c) Demarketing: Marketing strategies to reduce demand temporarily or permanently the aim is not to destroy demand, but only to reduce or shift it. This happens when there is over full demand. For example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are over-crowded on Saturdays, Sundays and holidays; demarketing can be applied to regulate demand.

d) Synchro Marketing: When the demand for the product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity for over-worked capacities, synchromarketing can be used to find ways to alter the same pattern of demand through flexible pricing, promotion, and other incentives. For example, woolens or coolers; or hospitals under booked on weekend or end of week.

Any successful attempt to innovate basically depends upon the type of organisational arrangement made for managing the process of developing the new products. There are four factors that govern growth, population, penetration of infrastructure, ability of people/government to pay and new products. In developed markets new products are the key to growth because all others have been exploited. In India, even the first three are important.

Activity - II

1. Explain the elements for new product development.

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2. What are the recent trends that influence new product development?

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11.3 STAGES IN NEW PRODUCT DEVELOPMENT

As we have already observed, new products are needed for organisational growth. If we consider life cycle stage of the product, we know that it is necessary to develop new products to rejuvenate the decreasing sales and profits of existing products, which are in the maturity stage or in the decline stage. New Products are a strategic response to competition. A company becomes successful by using flanker brands, line extensions and new products in competitive environment.

Categories of new products

a) New to the world b) New to the market, c) New to the company.

Stages in New Product Development. The stages in new product development are discussed as under

1. Idea generation

The initial stage of new product development is idea generation. The idea should be generated and explored for any development activity. The searching for new idea may be generated irrespective of their soundness and perfection should be done fully. For this many sources are available.

The sources of new product development; are:

i) Customers, ii) Scientists, iii) Competitors, iv) Employees, v) Channel members, vi) Top management, vii) Inventors, viii) Universities, ix) Industrial Consultants, x) Advertising and Marketing Research agencies, xi) Industrial Publications. This is the stage at which we have to secure as many ideas as possible.

2. Idea Screening

After product idea have been generated from different sources, and the next step in the sequence of product planning activities is screening of these ideas. Screening means critical evaluation of product ideas generated by a company. The aim of screening is to close down from further consideration those product idea that are not matching with objectives and limitations.

DROP ERROR: When a good idea is dropped or dismissed an otherwise good idea.

GO ERROR: When a poor idea is developed, to move into development and commercialization of a new product.

Product failures can be of 4 types

a) Absolute product failure-Total loss of money;

b) Partial Product failure- Break –even loss;

c) Relative Product failure yields a profit that is less than the company's target rate of return;

d) Low profit.

Product ideas are described on a standard form. The description states the product ideas, target market, competition. market. size, price, development time and costs. Each idea is reviewed against a set of criteria.

3. Concept development and testing

A product idea is a possible product the company might offer to the market. A product concept is an elaborate version of the idea expressed in meaningful consumer terms. A large company gets the idea of producing a powder to milk to increase its nutritional value and taste. This is a product idea. But consumers do not buy product ideas; they buy product concepts. A product idea can be turned into several **concepts**:

a) Who will use this product? infants, children, teenagers, young, middle-aged, old.

b) What primary benefit should this product provide? taste, nutrition, refreshment.

c) When will people consume this drink? breakfast, lunch, afternoon, evening, dinner.

By answering these questions a company can form **several concepts**:

Concept I - An instant breakfast drink for adults who want a quick nutritious breakfast without preparing a breakfast.

Concept 2 - A tasty snack drink for children to drink as evening refreshment.

Concept 3 - A health supplement for older adults to drink in the late evening before they go to bed.

Each concept competes against different product categories. Suppose the instant breakfast concept looks best. The next task is to show where this powdered product would stand in relation to other breakfast products- cakes, eggs, noodles etc., Next the concept has to be turned into a broad concept i.e. current position of existing brands.

Concept of Testing

Concept of testing involves presenting the product concept to appropriate target consumers and getting their reactions. The concepts can be presented symbolically or physically. Concept testing entails presenting consumers with an elaborated version of the concept. Our product is a powdered mixture that is added to milk to make an instant breakfast that gives the person all the needed nutrition along with good taste and high convenience. The product would be offered in 3 flavors (Chocolate Vanila, Strawberry) and would come in individual packets, 6 to a box...After receiving this information, consumers respond to the following questions:

i) Are the benefits clear to you and believable?

ii) Do you see this product solving a problem or filling a need for you?

iii) Do other products currently meet this need and satisfy you?

iv) Is the price reasonable in relation to the value?

4. Marketing Strategy and Development

After testing, the new product manager must develop a preliminary marketing strategy plan for introducing the new product into the market. The plan consists of 3 parts. The first part describes the target market's size, structure and behaviour, the planned product positioning and the sales, market share and profit goals sought in the first few years. The second part outlines the planned price, distribution strategy, and marketing budget for the first year. The third part of the marketing strategy plan describes the long-run sales and profit goals and marketing mix strategy over time.

5. Business Analysis

After management develops the product concept and marketing strategy, it can evaluate the proposal's business attractiveness Management needs to prepare sales, cost, and profit projections to determine whether they satisfy company objectives. If they do, the product concept can move to the product-development stage. As the new information comes in, the business analysis will undergo revision and expansion

Management needs to estimate whether sales will be high enough to yield a satisfactory profit. Total estimated sales are the sum of estimated first time sales, replacement sales, and repeat sales. After preparing the sales forecast, management should estimate expected costs and profits. Costs are estimated by the R&D, manufacturing, marketing, and finance departments.

6. Product Development

If the product concept passes the business test, it moves to R&D or engineering to be developed into a physical product. Up to now it has existed only as word description, a drawing, or a prototype. This step involves a large jump in investment.

7. Market Testing

After management is satisfied with functional and psychological performance, the product is ready to be dressed up with a brand name and packaging, and put to a market test. In testing consumer products, the company seeks to estimate four variables: trial, first repeat, adoption, and purchase frequency. Management faces several questions:

i) How many test cities? ii) Which cities? iii) Length of the test? iv) What information? v) What action to be taken?

Test marketing permits testing the impact of alternative marketing plans.

8. Commercialisation

If the company goes ahead with Commercialisation, it will face its largest costs to date. The company will have to contract for manufacture or build or rent a full-scale manufacturing facility. Another major cost is marketing. In commercialising a new product, market-entry timing is critical. Geographic strategy is also important. The overall guide to the new product development is the product strategy of the organisation. The first three stages up to the concept development are the critical steps. These are the least expensive steps.

Further steps are escalating in terms of costs and commitment of scarce resources. Most product failures are attributable to an unviable idea or faulty concept development. The different stages help us to identify these situations.

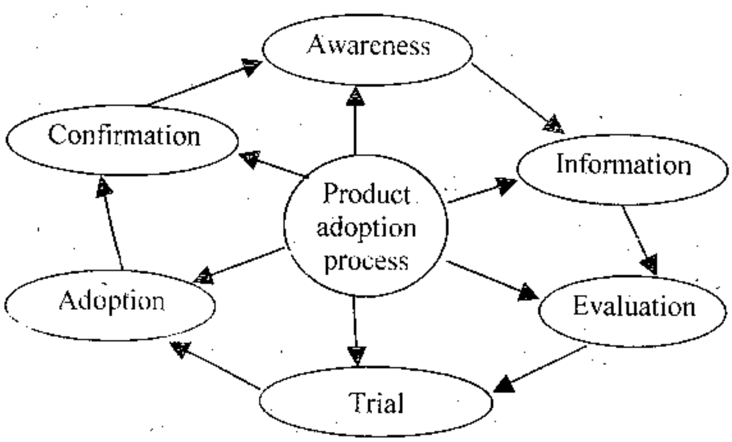
Market Evoluation for New Product

Market for a product evolves over the four stages of product life cycle. We shall first consider the evolution of market at the introductory stage. Here a new product is introduced. The sales are still low. This stage continues till sales begin to rise rapidly. Some products can have a very long introductory stage. Some products do not cross this stage at all. We call them product flops. Technological breakthroughs start an altogether new product life cycle, e.g., transistors, photocopiers, radial tires, new antibiotics. Being new, there are obvious difficulties in assessing the market reaction. There may not be a precedent to fall back upon. Perhaps, the product has not fulfilled the expectations of the buyers. Since consumers have no experience with the product, they cannot vouch for its benefits.

Consumers would like to know more about the product. Even marketers do not know how best to market the products. In this introductory stage, a market evolves on the basis of the rate of diffusion and adoption of the new products.

New Product Adoption Process

The new product's acceptance by the consumers is called its "adoption." It is a six-step process in which the consumer passes through:



If a person is exposed to the new product, he may become a prospect.

He solicits information about the new product by becoming interested in it.

He studies the merits of the new product mentally.

He tries the new product in a limited manner. He prefers a small quantity for trial.

Here he decides whether to accept the new product in a full-fledged manner.

The new product is adopted. He needs a constant reassurance about his choice.

The stage of information is also called 'interest' stage. The above progressive stages suggest that the marketer of a new product should facilitate the movement of the prospect through these stages. A product may be offered on a trial basis with an option to buy if the results are satisfactory. It may be noted that the ultimate adoption or acceptance is a result of the adoption process.

Between the stages four i.e., trial and five i.e., adoption or rejection we can add direct product experience; and product evaluation. The above diagram illustrates the adoption process. Awareness starts the adoption process, leading to interest in the product, and its evaluation. The product then can be either tried or rejected before or after the purchase. If tried, we get direct product experience resulting in confirming the product evaluation, leading to either rejection or adoption. The post adoption confirmation is a reassurance about our choice. Some adoptions affect us minimally, whereas some others drastically. Thus cars, fridges and TV have a major impact on society.

Activity - III

Explain the different stages in new product development.

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11.4 WHY NEW PRODUCTS FAIL?

It is a baffling question. Some new products fail. Some succeed. For a company, every new product that is developed is a star. But it may fade out. Some of the reasons for the failure of new product are:

1. Lack of organisational teamwork

In most of the organisations, there is a tradition to rely on R & D to come out with a bright idea and research it, which is then handed over to the design and production people. The ultimate end product comes to marketing department for selling. There are many problems in this segmental approach. The design people may revert to R & D, if they find the product unviable. The production people may ask the design people to redesign if the product cannot be turned out at the budgeted cost. The design people take their own time to redesign. The marketing department ultimately gets a product that is not acceptable to the customers at a price quoted. Perhaps, their needs are not met. Each party places the blame at the door of the other party. The solution to this situation is to have team-approach. At each stage, there should be cross-functional approach, e.g., examining the product idea.

New products should be linked to a strategic management process, and the new product development process should be under an effective organisational arrangement. A stage-gate process of development ensures that the product proceeds to the next stage only when cleared by a cross-functional team of gatekeepers. At each stage, while the gatekeepers decide whether to go further/no go and kill /no go and hold/recycle. The project leader decides the criteria for each stage. This is different from the department-to-department approach; where leaders change often.

Thus, if marketing research into consumer's wants and needs does not support a product, the product does not go ahead from the business planning stage to product development stage. Simultaneous product development by a cross-functional team turns out products quicker. It may be risky to do so. But where product life cycles are shorter, quick development of new products offers far more benefits than the risks associated with it.

2. Technical problems

Too complicated a product or poor performance of a product that is not superior to any of the existing products may fail.

3. Poor timing

Philips was too slow to bring improved generations of VCRs after it put its new product in 1972. In the meantime, Japanese companies put at least three generations of VCRs. Delay in introduction of new products may affect the marketing chances of a company. Even rushing a product in the market too quickly is not advisable. Hima Peas introduced by Lever several years back were not accepted by Indian consumers, who were not ready to accept packaged branded commodities then. In this age of working women, many fast-food items became acceptable, though it was unthinkable to expect so a few years ago.

Let us now examine **why new products succeed.**

a) Any product, whether new or existing, has to satisfy a consumer need or more than one consumer need.

b) The product advantage of being superior goes a long way in making the product successful. Xerox - a copying machine succeeded because it copied anything in seconds without any chemical/special paper. Polaroid succeeded as it took a picture, developed it, and gave a print in 60 seconds flat.

c) The product must be competitive cost-wise. It must be compatible with the distinctive competence of a company. Top management must support it. The environment should be conducive to developing new products. The management must be alive to new-product opportunities.

d) The product must have a marketing advantage, e.g., Avon is sold door-to-door Barbie doll can get clothes to drape her in.

e) The product must have a creative advertising advantage, e.g., Maggie's two minute noodles emphasised the two-minute solution to satisfy the hunger school going children.

The marketing department will launch a full-fledged production/promotion campaign for mass distribution. Distribution channels will be chosen to make available the product wherever it is demanded. After this, the life cycle of the product will start and the marketing manager will adopt different strategies during different stages of the product life cycle to maximise sales volume. Necessary improvements in the product may also be introduced as and when necessary in the light of changed customer requirements and innovations in technology. Each of the above stages becomes progressively more expensive in terms of money and scarce manpower. Just once the product idea passes through these stages and careful analysis has been done at each stage, the chances of product failure are reduced considerably.

Understand the Product Failure

When a product does not reach the target of sales and profits, it is said that the product has failed. Symptoms of product failure include the following:

1) Declining sales volume, 2) Declining profit margins, 3) Higher than expected costs, and 4) Higher than expected investment costs.

The failure of a product may be traced to the management's neglect or mishandling of the product innovation or the faulty management of the product life cycle. The important **causes of failure of a product** may include the following:

1. Conception of product idea or specification of the product may be faulty.
2. Design of product may not match with the needs of customers.
3. The strength of competition may not be properly studied.
4. Cost of production may be higher than the estimated cost.
5. The product performance may be unsatisfactory.
6. Market changes may not be understood properly.
7. Technical and production problems might have been underestimated.
8. Products may be introduced to the market untimely.
9. Stressing product attributes incorrectly.
10. Inadequate promotion.
11. Poor packaging, inappropriate size, etc.
12. Faulty pricing of the product.

In order to check product failure, timely care should be taken regarding the above factors. Product and marketing strategies must also be modified depending upon the changes in the market. The existing product has to be modified in order to suit the changing conditions. When a firm makes improvements in the existing product, by changing its quality, size, form or design etc., the process is said to be product modification. When changes are made, the existing product may look almost new. The purpose of this change is to increase the sales or to attract the customers.

Modification for failure of products are: (i) satisfying the additional needs of the buyers, (ii) upgrading or downgrading the quality of a product to suit the market-rich or poor. (iii) changing to attractive design, colour, shape, etc. (iv) meeting the consumers' demand.

Quality is a dynamic concept and so is its management. Total Quality Management has been accepted throughout the world these days. It calls for continuous improvement of quality with the cooperation of workers through innovation in product and technology so as to meet the changing requirements of the customer. The launching of ISO: 9000 series standards by the International Standards Organisation is an attempt to help the industrial organisation in adopting Total Quality Management to improve their quality and productivity and to serve their customers efficiently.

Elements of Total Quality Management

Quality may be described as fitness of a product for use. Total quality management refers to meeting the requirements of customers consistently by continuous improvement in the quality of work of all employees. For achieving total quality, three things are essential:

There are three elements of Total Quality Management

i) Meeting customers' requirement:

ii) Continuous improvement through management process;

iii) Involvement of all employees.

Total Quality Management is a dynamic concept, as the quality standards do not remain the same forever. They are to be modified or changed to meet the requirements of customers and to make use of new technology. Even the ISO: 9000 series standards have a provision of revision, modification or deletion of quality standards after every five years.

Total Quality Management also calls for involvement of employees in this programme. Without the active involvement of employees, high quality standards can't be achieved. Further, the whole concept of Total Quality Management is directed towards meeting the requirements of customers.

i) Meeting Customers Requirements: Under Total Quality Management, the term 'customer' means every user of a product or service and not only the end-user. This is a very broad meaning of the term 'customer'. For example, a product that passes through a number of stages, every next stage is a customer for the preceding stage. Total quality management aims at satisfying the requirements of customers which never remain constant, but keep on changing with the changes in time, environments, circumstances, needs, fashion, etc. Thus, meeting the changed requirements of customers is a continuous goal of the producer.

ii) Continuous Improvement: The change in customer requirements may be in terms of desire for better quality of product/services, bigger size, reduced cost, etc. So a producer has to cope with new requirements. A new process may have to be developed, or it may require a new design. The production process has thus to be attuned and accelerated to meet these changing requirements. The management has also to take care of competition in the market so that customers do not shift to other producers. For instance, introduction of 300 ml. cold drink bottles by one producer in 1992 led other producers to shift to bottling of 300 ml. of their brands.

The advancement in technology is another improvement factor in improving the quality. The innovations in a particular field may cause some of the existing technologies to become obsolete and as a result the survival of the producer not adopting technological advancements would become very difficult. For example, Photocopier was a big machine with a manual process when it was introduced in India for the first time. The process was time consuming and even quality was not up to the mark. Thereafter, new photocopiers (Xerox machines) were introduced and slowly old machines disappeared for the simple reason that customers' need underwent a sea change.

iii) Involvement of Employees: Total quality management requires a continuous improvement in quality of products. This calls for the improvement in the quality of work of employees through training and development. The enhancement of skills of employees will not only improve quality, but also bring down the cost of production through efficient use of machines and materials and reduction of wastages.

The employees must also be conscious about the need for improvement in the quality of work. Quality circle is an outstanding example in this regard. It is because of employees' involvement in improvement of quality that total quality management is referred to as people's process.

Activity -IV

Describe the reasons for the failure of new products.

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11.5 SUMMARY

New products should be linked to a strategic management process, and the new product development process should be under an effective organisational arrangement. A stage-gate process of development ensures that the product proceeds to the next stage only when cleared by a cross-functional team of gatekeepers. The marketing concept has its own limitations, which relate to one of the aspects of its implementation or extending extra services which help organisation to effectively achieve its goals. The overall guide to the new product development is the product strategy of the organisation.

The marketing concept holds that the key to achieving organisation goals consists in determining the needs and wants to target markets and delivering the desired satisfactions more effectively and efficiently than competitors.

11.6 SELF ASSESSMENT QUESTIONS

I. Short Answer Questions

1. What is a new product? How is it developed?
2. What is test marketing?
3. What practical sources of new product are available?
4. Who is new product manager?
5. What is repositioning?
6. What do you mean by Value Marketing.
7. Define Market Testing.

II. Long Answer Questions

1. Explain briefly the stages to be followed in new product introduction.

2. What do you understand by evaluation of the ideas? Explain with examples.
3. What are the stages in new product introduction? What happens at each stage?
4. What market factors need to be screened for? What is the relevance for each?

11.7 FURTHER READINGS

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4. Amnatullaha : **Principles of Modern Marketing,** Kalyani Publishers, New Delhi, 1999.
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11.8 KEY WORDS

Product development : If the product concept passes the business test, it moves to R&D or engineering to be developed into a physical product. Up till now it has existed only as word description, a drawing, or a prototype.

Market Testing : After management is satisfied with functional and psychological performance, the product is ready to be dressed up with a brand name and packaging, and put to a market test. In testing consumer products, the company seeks to estimate four variables: trial, first repeat, adoption, and purchase frequency.

Commercialisation : If the company goes ahead with commercialisation, it will face its largest costs to date. The company will have to contract for manufacture or build or rent a full-scale manufacturing facility.

Enlightened Marketing : A marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system; its five principles include customer-oriented marketing, innovating marketing, value marketing, sense-of-mission marketing, and societal marketing.

Innovative Marketing : A principle that requires that a company seeks real product and marketing improvements.

Value Marketing : A principle that holds that a company should put most of its resources into value-building marketing investments.

Place Marketing : Place marketing involves activities undertaken to create, maintain or change attitudes or behaviour toward particular places say, business sites marketing, tourism marketing.

Demarketing : Marketing strategies to reduce demand temporarily or permanently. The aim is not to destroy demand, but only to reduce or shift it. This happens when there is excessive demand.

Synchromarketing : Synchromarketing can be used to find ways to alter the same pattern of demand through flexible pricing, promotion, and other incentives.

UNIT – 12 : PRODUCT LIFE CYCLE

Aims and Objectives

After studying this Unit, you should be able to:

- understand the product development in product life cycle;
- describe the product life cycle and its stages;
- explain the strategies in each stage of product life cycle; and
- discuss the marketing implications with the help of PLC.

Structure

12.0 INTRODUCTION

The product life cycle is a concept that attempts to describe a product's sales, profits, customers, competitors, and marketing emphasis from its beginning until it is removed from the market.

The product life-cycle concept may be applied to a product class (watches), a product form (quartz watches), and a brand (Seiko quartz watches). However, product forms product life cycles vary a lot, both in length of time and shape. The traditional curve contains distinct periods of introduction, growth, maturity, and decline. The boom or classic curve describes an extremely popular product that sells well over a long period. A fad curve represents a product with quick popularity.

12.1 MEANING OF PRODUCT LIFE CYCLE

The product life cycle is a concept that describes a product's sales and profits. From a product-planning perspective, there is interest in the product life cycle for several reasons. One, some analysts have found that product lives are shorter [illegible] products are requiring increased marketing and other investment. [illegible] enables a firm to anticipate changes in consumer [illegible] distribution intermediaries and to adjust the marketing plan accordingly. [illegible] cycle concept enables a company to consider the mix of products that it should offer; many firms seek to attain a balanced product portfolio, whereby a combination of new, growing, and mature products is maintained.

It is very difficult for a marketer to take a decision about the number of products it should produce at a given time because the number of products of product-mix is affected by several factors. Changes in the product-mix, that is, adding or eliminating products, may be due to the following factors:

i) Change in demand of product.

ii) Change in purchasing power or behaviour of the customers.

iii) Change in company targets.

iv) Development of by-products by using residuals, at low cost.

v) The competitor's actions and reactions.

vi) Spare marketing capacity.

vii) Financial influences of the firm.

viii) Advertising and distribution factors.

ix) Goodwill of the firm.

x) Possibility of adding new product to its product line at less cost.

The product life cycle is an important concept that provides insights into a product's competitive dynamics. The product life cycle concept is best used to interpret product and market dynamics. As a planning tool, the product life cycle concept helps managers characterise the main marketing challenges in each stage of a product's life and develop major alternative marketing strategies.

As a control tool, the product life cycle concept helps the company measure product performance against similar products launched in the past. The product life cycle concept is less useful as a forecasting tool, because sales histories exhibit diverse patterns and the stages vary in duration.

According to **Philip Kotler,** product life cycle is "an attempt to recognise distinct stages in the sales history of the product". The lifetime sale of many branded products reveals a typical pattern of development known as PLC.

Activity - 1

Define the product life cycle.

12.2 PRODUCT LIFE CYCLE STAGES

Product life cycles vary a lot, both in length of time and shape. The traditional curve contains distinct periods of introduction, growth, maturity, and decline. The boom or classic curve describes an extremely popular product that sells well over a long period. An extended fad is like a fad, except that residual sales continue at a fraction of earlier sales. A seasonal or fashion curve results when a product sells well during nonconsecutive periods. With a revival or nostalgia curve, a seemingly obsolete product achieves a new popularity. A bust curve occurs for a product that fails.

A product life cycle has six stages viz, Introduction Stage, Growth Stage, Maturity Stage, Saturation Stage, Decline Stage and Obsolescence.

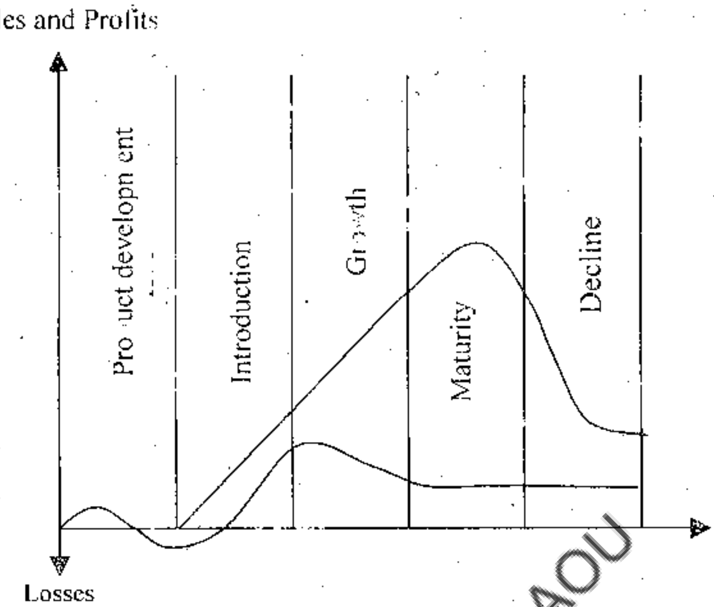


Fig. 12.1 – Stages of PLC

1. Introduction Stage

This first stage of product life cycle is launching of the product in a market. This stage is characterised by high operational costs arising out of inefficient production level or bottlenecks, high learning time, unwillingness of trade to deal in the product or demand of higher margins or extended credit terms and advertising. One of the crucial decisions to be taken in the market pioneering stage is the pricing strategy to be adopted for the product. Since the product is new, no past data or comparisons are available and the firm normally opts for one of the following pricing strategies: a) Rapid Skimming, b) Slow Skimming.

a) The **Rapid Skimming** Strategy of high price and high promotion effectively works only when the customer awareness for the product is not very high, and among those who are aware, willingness to pay any price to possess or buy is high. This strategy also works when the market size for the product is large and the threat from competition is imminent.

b) **Slow skimming** strategy is based on the assumption that the firm has sufficient time to recover its pre launch expenses. Rapid penetration strategy is based on the same assumption and environmental conditions as the one mentioned under the rapid skimming strategy. Slow penetration strategy delivers results when the threat from competition is minimal, market size is large, market is predominantly price sensitive and majority of the customers are familiar with the market. During the introduction stage of the product life cycle, a new product is introduced into the market place and the objective is to generate customer interest. The rate of sales growth depends on the newness of the product as well as its desirability.

Generally a product modification generates faster sales than a major innovation. At this stage, only one or two firms have entered the market and competition is limited. Losses occur because of high production and marketing costs; and cash flow is poor. Initial customers are innovators, who are willing to take risks, can afford to take them, and like the status of buying first. Because one or two firms dominate the market and costs are high, only one or two basic models of the product are sold.

2. Growth Stage

When introduction of the product is over, the growth, the demand for the product increases. During this stage the main problem is to produce the product in sufficient volume and market the output with minimum delay. The competitors are also entering the scene with similar or slightly improved versions of the product. During this stage, the manufacturing and distribution efficiency become important keys to marketing success. Profits increase during growth stage as promotion costs are spread over a larger volume and unit manufacturing costs fall faster than price declines owing to the product learning effect. The growth phase involves strategy of product modification, enlarging distribution and service network and maintaining a competitive price level. The strategy also involves one of the extending products to different use situations and considering newer packaging alternatives to attract more and more new customers.

The growth stage involves the strategies of product modification, enlarging distribution and service network and maintaining competitive price level. The strategy also involves extending the product to different use situations and considering newer packaging alternatives to attract more and more new customers. Products that survive the growth stage enter the third stage i.e., maturity stage. During this stage competition becomes more intense. The stage is characterised by slow growth rates of sales and profits. This stage is also marked by a cutthroat competition, which often narrows down to price and promotion wars.

This is the second stage of product life cycle. Many products are struck in the introduction stage itself. Entering this stage means that the product has overcome the hurdles of the introduction stage. The competitors also enter the scene with similar or slightly improved versions of the product. The market base expands and more customers are willing to buy the product. Profits increase during the growth stage as promotion costs are spread over a large volume and unit-manufacturing costs fall faster. More trade channels are now willing to accept the product.

In the growth stage of the product life cycle, a new product gains wider consumer acceptance and the marketing objective is to expand distribution and the range of available product alternatives. Industry sales increase rapidly as a few more firms enter a highly profitable market that has substantial potential. Total and unit profits are high because an affluent mass market buys distinctive products during growth; firms enlarge the market and offer alternatives.

3. Maturity Stage

During this stage, competition becomes more intense. This stage is characterised by slow growth rates of sales and profits. This stage is also marked by a cutthroat competition which often tends to narrow down to price/promotion war. Maturity stage also sees a boom in the market demand as more and more customers are now willing to accept the product. Internally, the firm derives benefits of economies of scale in production and distribution. Product modification programme is at a much higher level and the firm also introduces a modified product during this stage. Strengthening the brand through repositioning or making changes in the channels of distribution now become imperative. While the firm has to fight competition and take its product nearer to the customer, it has to also make adequate profits to remain in the business. Product modification programme is at a much higher level and the firm also introduces a modified product during this stage. Strengthening of the brand through repositioning or making changes in the channels of distribution now become imperative.

During the maturity stage of the product life cycle, the product's sales growth plateaus and companies try to maintain a differential advantage (such as a lower price, improved product features, or extended warranty) for as long as possible. Industry sales stabilize as the market becomes saturated and many firms enter to capitalize on the still sizable demand. Competition is at its highest level. Therefore, total industry and unit profits decline because discounting becomes popular. At this stage, the average-income mass market makes its purchases. A full line of products is made available at many outlets and many price levels. Promotion becomes very competitive.

4. Saturation Stage

In this stage, the sales of the product reach the peak and there is no possibility of further increase. The substitute brands begin to be popular. During this stage the rise and fall of sale is dependent on the basic economic factors of demand and supply. Markets are highly segmented and the number of competitors also stabilises.

5. Decline Stage

This stage is characterised by the product's gradual displacement by some new innovation evolving change in consumer/buyer buying behaviour. During the stage of decline industry sales drop off and the number of competitors shrinks. Customer's value perception of the product also undergoes a change. The marketing task is one of diverting and gradual with-drawal of the product. To cater to a small niche, a firm may consider generating primary demand for the product rather than the brand demand.

This is the stage when the sales decline because customer preferences have changed in favour of more efficient and better products. The number of competing firms also get reduced and the industry now has limited product versions available to the customer. The marketing task is to sustain the product at reasonable profit levels or abandon the product in a way that minimises the hardship to company profits, employees and customers.

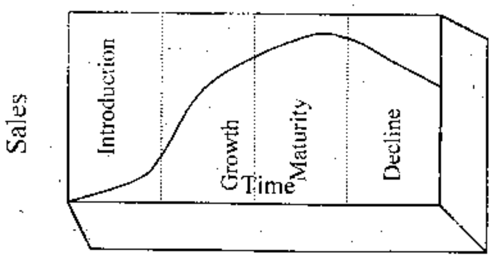
In the decline stage of the product life cycle, a product's sales fall as substitutes enter the market or consumers become disinterested. Firms have three alternate courses of action. They can cut back on their marketing programs, thereby reducing the number of product items they make, the outlets they sell through, and the promotion they use; they can revive the product by repositioning, repackaging, or otherwise remarketing it; or they can terminate the product. At this stage, as industry sales decline, many firms leave the market because customers are fewer and they have less income to spend. The product mix concentrates on best sellers, selected outlets and prices, and promotion that stresses in an informative way, availability and price.

6. Obsolescence Stage

At this stage, there is no chance of profitable sale of the product and the product becomes totally out of date. Hence the management has to drop it from the product line. In India, the glaring example of products in the obsolescence stage include gramophone, Electric Radio, etc.

Product life cycle remains one of the most useful concepts of marketing management and its usefulness varies in different marketing situations. It can be useful as a planning tool to analyse characteristics of each stage of product and relevant response or activity is required in each stage. It can be used as control tool to monitor the company's performance. It can be used as forecasting tool, where the company will project its sales and profit, depending upon the product stage of the life cycle. It is one of the powerful tools of marketing that is turning up in finance and management literature because it is useful for overall corporate planning.

The characteristics of different stages of Product Life Cycle, according to Philip Kotler, are:



CHARACTERISTICS

Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Increasing profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number

MARKETING OBJECTIVES

	Create product awareness and trial	Maximize market share	Maximize profit while defending market share	Reduce expenditure and milk the brand

STRATEGIES

Product	Offer a basic product	Offer product extensions, service, warranty	Diversity brands and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or best Competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Co selective: needed to retain hardcore loyals
Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain hardcore loyals
Sales Promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

Increasing the number of lines and/or the depth within a line may do expansion in the present product-mix. Such new line may be related or unrelated to the present products. When a new product is commercialised in the market, the product competes with the existing products to secure maximum share of consumer income. It brings in sales and generates profits. However, like human beings, every product has a life span at the end of which it dies and its capacity to generate sales and earn profits diminishes and ultimately vanishes. Just like a man, a product too has its childhood, adolescence, youth and old age i.e. life cycle. When applied to products, it is termed as product life cycle.

The correct organizational form depends on the diversity of the firm's offerings, the number of new products introduced, the level of innovation, company resources, management expertise, and other factors. A combination of forms may also be highly desirable. Among larger firms this is particularly common.

Furthermore, companies should keep the following in mind in setting up a product-management organizational structure. Successful companies are run by people who have their priorities straight, their values clear, their direction tight, and a strong grasp of culture.

Activity - II

What are the stages in product life cycle?

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12.3 MARKETING IMPLICATIONS IN EACH STAGE OF PRODUCT LIFE CYCLE

As described earlier, product life cycle is a series of successive stages a product class or product goes through from the time it is put in the market till it is withdrawn from the market. We employ different marketing strategies for different stages of the product life cycle.

1. Introductory Stage

Here we put the product into the market. Perhaps it has taken a long period of development. First the sales are zero. Even when the introductory stage ends, the sales remain low.

The basic reason for this is unawareness in the consumers about the product. Marketers use advertising and promotion to create this awareness. They try to induce the innovators to use this product.

As the product is new, there is still no competition. Promotion thus remains confined to one organisation. As advertisement costs are high and distribution has been set up at a high cost, the product sales do not yield any profits. Maybe the profits are negative during this stage.

2. Growth Stage

More and more consumers are attracted to the product after awareness is created. They adopt the product and sales rise up. Though sales increase, profits do not keep pace, and tend to fall down. This happens because competitors now enter the market, and the prices are thus lowered. Competitive advertising starts and consumers are persuaded to buy our product.

3. Maturity Stage

Sales continue to rise in the early part of the maturity stage. But they rise at a decreasing rate. At the end of this stage, sales start falling. Consumer durables have reached a maturity stage in many developed countries. Profits begin to decline. Marketing is done with restraint. Competition is fierce, and is based on price. As most brands have similar attributes, differentiation becomes difficult. Sales promotion is increasingly used to encourage brand switching. Sales promotion is also used to induce the retailers to stock the brand and give it the necessary shelf-space.

4. Decline Stage

Finally, sales start declining, sometimes too fast. May be, there is market saturation. All have electric irons. May be there is new technology that overtakes the existing one, we say colour TVs replace the B & W sets. Social values may change, say women do not like skirt hemlines to go up. Once there are no volumes, the costs rise up. These must be controlled. Sometimes dealers who sell a marginal quantity are eliminated. Advertising costs are to be cut. Sales costs are reduced. At times, the whole product is eliminated if it is unviable. All this aims at improving the profits. The product is 'milked' without adequate marketing support. Brand loyalty decelerates the rate of decline.

It is believed that a product goes through various stages in its life just like a human being. It indicates that many products encounter similar opportunities, problems and challenges. Product life cycle is a graph of sales against time. It is possible to revive a product at the maturity stage before it enters the decline stage.

Product Life Cycle Span

The life of a product varies from segment to segment. In health-care, for instance a product can last for 15 years. In other segments, products may have a four- or five-year lifespan. Industrial products generally have a longer lifespan than consumer products.

One example of a long product lifespan is sandpapers, which have been around for the past 60 years. Although the manufacturing process has changed, their usage has not changed. As product life cycles get shortened, it becomes necessary to cut down product-development cycles. In electronics operations, the product-development cycles are spread over a couple of months.

Are brand life cycles shrinking? The answer is perhaps, yes and no. Stephen King considers the brands to be ageless. Brands like Surf, Colgate and Iodex are as popular today as they were a decade ago. Companies, however, have to work harder to keep them that way. One way to keep brands from ageing is to introduce variants. Another way is to modify their packaging. Still another way is to change their formation. Surf is a good example. In the last two years, it has morphed from Surf Ultra, to Surf Excel, to Surf Excel with Active Oxygen. Like people, brands live on their progeny.

As we have observed already, a product is a very broad concept having several levels. Similarly, there will be several product life cycles corresponding to the different levels of the product. Product class or industry or product category is the highest level. Thus a product life cycle will correspond to product class level, say product life cycle for cleaning agents. Often next level is that of the product category. Thus there will be a product life cycle for detergents. Several brands will compete within this category. There will be several product forms or sub-categories leading a different product life cycle. Thus we will have a product life cycle for enzyme-based detergents. Last, there will be a product life cycle for an individual brand.

A brand manager or product manager is concerned with the product life cycle of a brand. We however, treat product life cycle of product class and categories as it becomes easy to generalize. Besides, product life cycles of a higher level is influenced by environment rather than by individual actions of the brand managers. Product life cycle in marketing refer to the aggregate product life cycle. But there are variations. Some life cycles have very short maturity stage or have no maturity stage at all. There can be several points of recycling during the growth and maturity stages of product life cycle. The revival or recycling may be due to repositioning, say Johnson's baby shampoo is promoted for use for adults or Cadbury chocolates are promoted for adults. New technology may create new uses.

Some product life cycles show growth-decline-plateau stages. This happens for goods, which are not purchased so frequently. The market is quickly saturated by new purchases. Thus there is growth. After saturation, the sales decline because then the market will depend upon the replacement demand, and new customers. It is to be noted that there are no standard definitions of product class and product form. Thus whether micro and mini computers are just product forms or they are new classes is difficult to decide. At first, it seemed that they are separate classes. Later micros started performing the functions of minis. The distinction thus blurred.

It is difficult to be precise about the end of a particular stage and the start of another stage. It is also not possible to project the previous stages to the next stages. Product life cycle is too simplistic. There are three factors involved - market evolution, technological evolution and competitive evolution.

Activity - III

What are the marketing implications in each stage of product life cycle? Explain.

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12.4 MARKET EVOLUTION FOR A PRODUCT IN PLC

Market for a product evolves over the four stages of product life cycle. We shall first consider the evolution of market at the introductory stage. Here a new product is introduced. The sales are still low. This stage continues till sales begin to rise rapidly.

Some products can have a very long introductory stage. Some products do not cross this stage at all. We call them product flops. Technological breakthroughs start an altogether new product life cycle, e.g., transistors, photocopiers, radial tires, new antibiotics, etc. Being new, there are obvious difficulties in assessing the market reaction. There may not be any precedence to fall back upon. Perhaps, the product has not fulfilled the expectations of the buyers. Since consumers have no experience with the product, they cannot vouch for its benefits.

Consumers would like to know more about the product. Even marketers do not know how best to market the products. In this introductory stage, a market evolves on the basis of the rate of diffusion and adoption of the new products. An individual product in a line is termed as a product item. Thus, there are many product items in a product line and a number of product lines in the product-mix.

Product Width and Depth : The width of the product-mix of a firm is determined by different product lines offered by a firm. It is a measure of diversification of the activities of the firm. The depth of a product line depends upon the number of product items offered in the line. It reflects the firm's segmentation approach and marketing orientation.

Product Consistency: The considerations in developing a marketing strategy are wide and varied. The overall question is the consistency of a product line (length, width and depth). Consistency refers to how closely related the product lines are in their end use, production requirements and distribution channels. Product lines are more consistent if they go by a particular distribution channel. But it has to look into different production requirements for the two, and, therefore provide different physical spaces, technology machines and personnel for their production.

The product-mix refers to all the products offered by a firm. Product-mix should be differentiated from the product line, which refers to the group of products which are classified together for reasons of similarities on any one of the several criteria such as customer needs, market-.served, channels used, or technology used in production.

For example, BPL is managed with different product lines-Refrigeration systems (Classic, Frost-free, Large-sized), Cleaning systems (Vacuum cleaner, Washing machine), TV system, Audio and Video systems (Stereo, Deck and VCRs) and Intercom systems. One may also refer to Usha line of fans and Lakme line of cosmetics. The product-mix greatly affects the positioning of the product (in reality to competitors, in relation to product class or attributes, price and quality, target market), and expansion plans (including line extension to related or unrelated product)

Expansion of Product-Mix: Expanding the line may be a valid decision if it is in an area in which consumers traditionally enjoy a wide variety of brands to choose from and are accustomed to switching from one to another; or if the competitors lack a comparable product or if competitors have already expanded into this area themselves. However, the main limitation in expansion is the availability of sufficient finance, time and equipment.

Increasing the number of lines and/or the depth within a line may do expansion in the present product-mix. Such new line may be related or unrelated to the present products.

Contracting or Dropping the Product: This is rather more difficult, because a lot of money has already been invested; and as far as possible, products are allowed to linger on for long until they incur a marginal loss. When contraction is decided upon, various alternatives are available to the marketers. The product may be consolidated with several others in the line so that fewer styles, sizes or added benefits are offered. Or, the position can be simplified within a line. Even then if a product fails, the company may stop it altogether.

Evaluating the Product Life-Cycle Concept

As mentioned earlier, the product life cycle is an interesting and useful concept for marketers; but although it provides a good framework for product planning, it has not proved useful in forecasting. In using the product life-cycle concept, these key points should be kept in mind, they are:

1. The stages of the life cycle, the time span of the entire life cycle, and the shape of the cycle (such as flat, erratic, or sharply inclined) vary in each product.
2. External factors such as the economy, the rate of inflation, and consumer life-styles may have a major impact on the performance of a product and shorten or lengthen its life cycle.
3. A company may not only be able to manage the product life cycle, it may also be able to extend it or reverse a decline. Effective marketing may attract a new market segment, find a new use for the product, or generate increased dealer support.
4. Some companies may engage in a self-fulfilling prophecy, whereby they predict that sales will decline and then ensure that this will occur by reducing or removing marketing support. With adequate support, these products might not fail to produce desirable outputs.

Marketing Planning for Product Life Cycle

Marketing planning is important. But planning is not our end. Marketing planning is only a means. It should not tend to become an end in itself. Planning is a means to a much more important end — the delivery of consumer satisfactions at an adequate return of income to the marketer. Please note that marketing plans, policies, programmes and procedures are not the purpose of marketing. In reality, performance is critical. Achievement of objectives is the ultimate goal, a plan which fails to achieve the goals is not a genuine marketing plan. Productivity and profitability without sacrificing social responsibilities are main ends in marketing planning.

Marketing plan is a system and its parts or components are subsystems. There are four components or subsystems of marketing plan or marketing-mix.

1. The product management system to manage products from introduction to market withdrawal.
2. Channel and physical distribution system to manage distribution channels and the flow of goods to the market.
3. Promotion system to coordinate all means of promotion to stimulate demand.
4. Price system-designing prices for a line of products sold to customers under different selling conditions.

Marketing management centers on these four areas of marketing mix or plan. Marketing information system provides data for decision-making in all marketing areas or problems. It is also a part of marketing system.

The systems model (plan-inputs-processing-outputs-feedback-environment) placed emphasis on the inputs of resources as per plan, discharge of outputs and marketing information flow. It enables the determination of goals as well as development of strategies and programmes to achieve those goals through feedback control mechanism.

Marketing process brings together producers and consumers the two main participants in exchange. Each producer or seller has certain goals and capabilities in making and marketing his products. He uses marketing research as a tool to anticipate market demand. Then he provides a marketing mix (product, services, promotion, advertising, pricing, distribution, etc.) in order to capitalise marketing opportunity. An exchange or a transaction takes place when market offering is acceptable to the customer who is prepared to give something of value (money) in return against the product so bought.

Marketing planning process usually begins with a review of current market situation through situation analysis. In this review we find out where we are now. The next step in the planning process is the formulation of corporate objectives, which will indicate where we want to go. Finally, we have to devise our strategies and action programmes (marketing-mix) which will point out how we go there. Thus, an organisation through planning process secures answers to three questions, viz., where are we now? Where do we want to go? How do we get there?

i) Marketing opportunity analysis providing analysis and assessment of marketing opportunity.

ii) Marketing objectives to match the marketing opportunities in a competitive marketing.

iii) Marketing strategy providing market segmentation, and market share.

iv) Marketing mix involving product, price, promotion and distribution strategies.

v) Controlling the marketing plan to achieve accomplishment of marketing objective.

Modern marketing plans and policies are based on two fundamentals: (1) The core marketing job as mentioned above, and (2) The profit concept, rather than the volume concept. Customer satisfaction alone assures profitability in the long run.

Promotion is an important part of the marketing-mix of a business enterprise. It is the spark plug of the marketing-mix. Promotion is a process of communication involving information, persuasion, and influence. It includes all types of personal or impersonal communication with customers as well as middlemen in distribution. The purpose of promotion is to inform, persuade and influence the prospective customers. Personal selling, advertising, publicity and sales promotion are widely used to inform the people about the availability of products and create among them the desire to buy the products.

Promotion is communication-from sellers to buyers in the market in as much as it tries to instill into consumer's minds images (through advertising, personal selling, sales promotion and publicity) that make them buy the product. Thus, the promotion message (i.e., information, advice or request by the sender i.e., marketer) to the receiver (i.e., consumer) must accomplish desired tasks to be effective.

Activity -IV

How market plan is useful in product life cycle? Discuss.

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12.5 SUMMARY

The lifetime sale of many branded products reveals a typical pattern of development known as Product Life Cycle. PLC is a series of successive stages, a product class or product goes through from the time it is put in the market till it is withdrawn from the market. We employ different marketing strategies for different stages of the product life cycle.

Marketing has been viewed as an ongoing or dynamic process involving a set of interacting activities dealing with a market offering by producers to consumers on the basis of reliable marketing anticipation (sales or demand forecasts). Marketing is a matching process by which a producer provides a marketing mix (product, price, promotion and physical distribution) that meets consumer demand of a target market within the limits of society. The process is based on corporate goals and corporate capabilities.

12.6 SELF ASSESSMENT QUESTIONS

I. Short Answer Questions

1. Define product life cycle?
2. What are the stages in product life cycle?
3. What is product life cycle span?

II. Long Answer Questions

1. What are the strategies suitable for the different stages in product life cycle?
2. What is meant by PLC? Explain its stages with examples.
3. What are the marketing implications in each stage of product life cycle?
4. Discuss the importance of marketing planning in product life cycle?
5. Describe the important aspects in evaluating the concept of PLC?

12.7 FURTHER READINGS

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4. Philip Kotler	:	**Marketing Management: Analysis, Planning, Implementation and Control,** Practice Hall of India.
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12.8 KEY WORDS

Product Life Cycle	:	Is an attempt to recognize distinct stages in product's life.
Rapid Skimming	:	The Rapid Skimming Strategy of high price and high promotion effectively works only when the customer awareness for the product is not very high, and among these who are aware, willingness to pay any price to possess or buy is high.
Slow Skimming	:	Slow skimming strategy is based on the assumption that the firm has sufficient time to recover its pre launch expenses.

UNIT – 13 : BRANDING AND PACKAGING

Aims and Objectives

After studying this Unit, you should be able to:

- explain the meaning and characteristics of brand;
- explain the branding decisions;
- discuss meaning and types of package;
- describe the decisions involved in packaging; and
- explain the functions of packaging.

Structure

13.0 INTRODUCTION

A product may be defined as a bundle of utilities consisting of various product features and accompanying services. The seller provides the bundle of utilities or the physical and psychological satisfactions that the buyer receives when he sells a particular product.

The customer does not buy merely the physical and chemical attributes of a product. He is really buying want satisfaction. He will buy a product, which can offer him expected satisfaction. In other words, what a buyer buys is a mixture of expected physical and psychological satisfactions. Therefore, the term 'product' does not mean only the physical product but the total product including brand, package, label, status of manufacturer and distributor and services offered to the customer, in addition to the physical product. Brands communicate three things, a distinct identity, a set of associations and image beyond the mere functional qualities or performance of the product. Any purchase decision posses a risk to the buyer. Brands reduce this perceived risk.

Branding started during the middle ages, when craft and merchant guilds required that each producer mark goods so that output could be restricted and inferior goods traced to the producer. The marks also served as standards for quality because items were sold outside the local markets in which the guilds operated. The earliest and most aggressive promoters of brands in the United States were patent medicine manufacturers.

A brand does not merely satisfy a need of the consumer. It is no use to force a brand on a consumer. A consumer as such has aims, ambitions, motivations, drives and desires. A brand should be a means to empower the consumer — he should feel more powerful when he uses the brand.

The emotional payoff of the brand should lead to enhancement of positive self-image. Self-image can be improved when a consumer's intrinsic or extrinsic worth is enhanced. Intrinsic worth denotes a better feeling about oneself. Extrinsic worth means a better feeling of the consumer in the eyes of the world around him. Brand payoff should ensure that emotional payoff is exclusive and relevant. It takes a brand to its destination.

13.1 MEANING OF BRAND

A brand is defined as "a name, term, sign, symbol or special design or some combination of these elements that is intended to identify the goods or services of one seller or a group of sellers. A brand differentiates these products from those of competitors"

An important part of product planning is branding, the procedure a firm follows in researching, developing, and implementing its brand(s). As already noted, a brand is a name, term, design, or symbol (or combination of these) that identifies the products of a seller or group of sellers. By establishing well-known brands, companies are usually able to obtain acceptance, extensive distribution, and higher prices.

There are four types of brand designation:

- **A brand name** is a word, letter (number), group of words, or letters (numbers) that can be spoken.
- **A brand mark** is a symbol, design, or distinctive coloring or lettering that cannot be spoken.
- **A trade character** is a brand mark that is personified.
- **A trademark** is a brand name, brand mark, or trade character or combination thereof that is given legal protection. When it is used, a registered trademark is followed by ®.

Brand names, brand marks, and trade characters are marketing designations that do not offer legal protection against use by competitors, unless they are registered as trademarks (which all of the preceding examples have been). Trademarks ensure exclusivity for trademark owners or those securing their permission and provide legal remedies against firms using "confusingly similar" names, designs, or symbols.

Manufacturers and sellers know that branded products can be sold more easily and at higher prices than competitive unbranded products. Therefore, branding is invariably used as a method of modern mass selling. The primary object of branding is to introduce "product differentiation" in the market, that is, to single out a product from its rivals.

Following factors have made the need of branding felt effectively:

a) The growth of competition.

b) The increasing importance of advertising.

c) Significance of packing as an important function of marketing.

d) The growing habit among consumers to buy goods of particular brands.

Aims of Branding

There are three aims of branding:

i) Manufacturers or sellers want to gain recognition for their products.

ii) They want to create preference for their products in the minds of users and consumers.

iii) They want to fix such an image about their product in the mind of user or consumer that a belief is created that no other product can be a substitute to this product in satisfying his needs.

Registration for Brand

Brand names and trademarks are registered with the government in order to prevent other manufacturers or sellers from using them. A brand to be an effective weapon in the hands of manufacturer or seller for the creation of consumers' preference or **"product differentiation"** must possess the following essential qualities.

Firstly, it should be simple, short and easy to memorise.

Secondly, it should be easy to recognise and recall

Thirdly, it should be distinctive and attractive to the eyes and pleasing to ears.

Fourthly, it should not be based on prevailing styles and fashions.

Fifthly, it should be easy and economical to reproduce.

Sixthly, it should be effectively illustrative.

Finally, its owner should be able to protect the brand or trademark in the law court.

Branding is an essential part of marketing a sub-function particularly in case of manufactured goods. Manufactured goods are standardised in the process of production. Thus they are of uniform quality, size, etc and do not require grading. But every manufacturer or seller feels the need of identifying his goods with some definite symbol, mark or [illegible] his goods catch the attention of the consumers. Also, a manufacturer or seller [illegible] establish certain definite image in the mind of the public about the quality, durability, shape, fashion and colour of his product. He does this by using a brand or trademark [illegible] his product. Consequently sales of this brand exceed that of the competing brands, which have not created such distinct image. Thus, brands provide the basis for selling [illegible]

Activity - I

Define the term 'brand'.

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13.2 CHARACTERISTICS OF BRAND

A brand is a complex symbol. It is not just a name. Branding, therefore, involves developing deeper meanings for the brand. The lesser the dimensions a brand possesses, the shallower it is. The more the dimensions, the deeper it is. A brand cannot be just a bundle of physical attributes. Attributes are very easy to copy. Besides, attributes valued today may not be valued tomorrow. Even benefit-oriented brands are not on firm grounds. Maruti's fuel economy can be attained by other brands. May be, the benefit valued today may not be valued tomorrow. A brand becomes enduring by its values, culture and personality. These constitute the essence of the brand. Mercedes stands for prestige, success and high technology. Actually, this should become the building blocks of its brand strategy.

Historically, most products were unbranded. Producers sold goods or commodities to fulfil our core or basic needs like taste, hunger or energy. These products did not have any identification mark on them. The first step towards branding a commodity is to package it, e.g., rice, papad, salt. The company enhances the value of the commodity functionally.

Branding started formally when craftsmen put trademarks on their products to protect them against inferior quality. Painters started signing their art works. Pharmaceutical companies were the first to put brand names on their products. Today hardly anything is unbranded. Products from unorganised markets like vegetables, salt, fruits etc. are unbranded. But now we have branded salts and atta too. In spite of a brand movement, products have been demanded in generic, unbranded form in pharmaceutical and staple consumer goods sector.

A good brand name should possess as many of the following **characteristics** as possible:

i) It should be distinctive: The market is filled with over-worked names and overused symbols. A unique and distinctive symbol is not only easy to remember but also a distinguishing feature. "North star" shoes have a distinct name.

ii) It should be suggestive: A well-chosen name or symbol should be suggestive of quality, or may be associated with superiority or a great personality. The name VIP Classic for travel wares is suggestive of a superior quality for a distinct class of people. Promise is suggestive of an assurance of tooth health.

iii) It should be appropriate: Many products are surrounded by a certain mystique in the minds of the consumers. Carefree is an appropriate brand name of a sanitary towel.

iv) It should be easy to remember: It should be easy to read, pronounce and spell. Tide, Surf, Gold Spot are examples of such brand names.

v) It should be adaptable to new products: Videocon is a good brand name for TVs and VCRs but when it is extended to refrigerators and washing machines, some of the sales appeal is lost. Hotline was a good name for gas stoves, but is definitely not a suitable name for TVs.

vi) It should be registerable under the Indian laws of Trade Marks and Copyrights: Mostly a company develops several names for a product and makes a choice later after debate and discussion.

A company has four choices in respect of its brand strategy

i) **Line extensions:** Extend the existing brand name in the existing product category.

ii) **Brand extensions:** Extend the brand name to new product category.

iii) **Multiple brands:** Have new brand names in the same product category.

iv) **New brands:** Invent a new brand name for a new product category.

Most of the new products in the day-to-day use and grocery products are line extensions. A few are brand extensions. A few new brand names appear in both multiple brand strategy and new brand strategy.

Line Extensions

Here the company introduces additional items in the same product category, keeping the same brand name. The additional items may be of a different size. There may be a new form, say Liquid Lifebuoy Soap. The additional item can be of different colour, say, a lilac soap instead of a white soap. The package may be different, say a sachet of a shampoo. Some additional flavours can be introduced.

Line extension, though very popular, is not without its drawbacks. The specific meaning of a brand might be lost by heavy extensions. Even additional sales may be at the cost of other items in the line. Line extensions work only if the sales are taken away from the competitors. Mostly, they eat up the sales of our own brands.

Brand Extensions

An existing brand name is extended to a product being launched in a new product category. Honda is a brand in the field of motorbikes. The same brand name is given to products in the field of lawnmowers, and marine engines. Brand extension works well for rubbing off the success of established brand names to new products. The new product, therefore, finds easy acceptance. However, if the new product is not satisfactory in performance, it might affect the reputation of the company's other products. Most of the times, brand name may not be appropriate for the new product category. While extending a brand, it is advisable to see how the associations of the parent brand are consistent with the extended brand.

Multiple Brands

This strategy is employed to saturate the market. Additional brands are introduced to cater to different segments. A competitor's 'fighting brands' are so priced that they beat those of the competitor. This way the main brand is protected, and its price is not cut. Multiple brand strategy may not allow the company's resources to be focused. They may get dissipated over a large number of brands. Besides, if each brand has a small market share, the overall profitability may get affected. Our brands should affect the competitor's brands, and not the other brands of our own. Sometimes, a company gets a legacy of new brands in the process of acquisition.

New Brands

To make brand names more appropriate, a company puts a new brand name when it enters a new product category. A new brand again has to be built up, and this is quite expensive. It should be considered whether the sales and profits estimated from the new brand justify it. Information technology, telecom, satellite communication and faster means of transportation have made the world really a small place. The tariff barriers are falling, and the world is becoming one big market. The days of globalization have arrived. This has given birth to global brands. A global brand has world wide recognition. Coke, Pepsi, Gillette, Bally footwear, Revlon cosmetics are some examples. These brands evoke similar perceptions across the globe, e.g., Pepsi is the choice of the young generation all over the world.

There are only a handful of global brands. Their promotional strategy remains universal as they represent universal values. India still has no global brands as such. Developing global brands is a different ball game. It calls for product development that conceptualizes a product for the needs of the global consumer, and manufactures it to the highest level of quality and aesthetics. It is a question of adaptation. It is no use to be just like any other brand abroad. To displace an existing foreign brand abroad, our brand must be superior. There should also be cost-control over the whole development procedure to maintain cost-competitiveness.

New brands should be distributed through our own warehouses or commission agents or by appointing a distributor. The channel chosen can be an up-market departmental store, specialist store or discount store. The distribution choices are product-specific and market-specific.

Number of Brands

Some companies have just one or two brand names, whereas some others have brand names in hundreds. A right number of brand names is a result of a trade-off between the value a brand name creates and cost of maintaining it. We should consider whether the brand is sufficiently different to get a new name and whether the new name will add any value. While extending the brand we should consider whether the core values are getting diluted or not. We should also consider what marketing support a new brand can be given.

Activity - II

i) Explain the characteristics of a brand.

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ii) What branding strategies may be employed?

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13.3 BRANDING DECISIONS

In any product strategy, a crucial decision is about branding. Branding a product means a long-term investment in building that brand by spending on promotion, advertising and packaging. There are manufacturers who manufacture a product but leave the branding decision to the marketers to whom they hand over the product. However, the fact remains that brand name gives power to the firm. Brand name marketers with no manufacturing base are still at an advantage. They can anytime change the manufacturer. Brands ultimately command customer loyalty.

Essentially, a brand is a promise of the seller to deliver a specific set of benefits or tributes or services to the buyer. Each brand represents a level of quality. Irrespective of the fact from which the brand is purchased, this level of quality can be expected of the brand. A brand is much more complex. Apart from **attributes** and **benefits**, it also reflects the following.

- **Values:** The values, which govern a producer, are reflected by the brand, thus Tata stands for quality, fair price and so on.
- **Culture:** A brand represents a certain culture, e.g., Coke is an icon of American culture, while Shilpa Bindis are typically Indian.
- **Personality:** A brand projects a personality. Had the brand been an animal or an object or a person, what would come to our mind? Videocon suggests a lion, MRF suggests a muscle man and Rin suggests a lighting flash. Sometimes a brand may take on the personality of an actual person, e.g., Charlie Chaplin and Cherry Blossom.
- **User:** The brand suggests its own target audience. We know what a Garden Woman is. We know that Sunny is for teenagers. We expect a Mercedes to be driven by an executive or a top-class businessman. These users correspond to the values, culture and personality of the brand. Because of the imagery associated with the brands, they actually have the power to enhance or limit a consumer's perceived image or self-image.

When commodities are branded, they have to counter the retailer resistance, who get greater pricing freedom when they are unbranded. Along with this, there is consumer resistance. A housewife loves to select food grains, clean them, and get them ground into flour. However, if we are successful in lessening the consumer resistance, there arises a demand. The pull effect compels the retailer to stock the brand and his resistance also comes down. Consumers want a good value for money from a branded commodity.

While branding the products, an attempt is made to go beyond mere functionality. Brand equity is to be built up by advertising appropriately to reduce the initial consumer resistance. The low involvement product can be made high-involvement product by certain situations e.g., Cease Fire demonstrated how a family's bliss can be shattered by a sudden fire.

Branding makes price comparisons difficult. Good brands help build a corporate image. Branding gives added prestige to the marketer. Branding also gives legal protection to the seller. Brand loyalty protects a firm against competition. Branding enables seller to segment the market. The distributors prefer branding as an identification tool for vendors, as a convenient tool to handle the products, and as a guarantee of certain production standard. These are some of the factors which encourage sellers to brand their products though branding is a costly proposition, involving the costs of packaging, labeling, advertising and legal protections.

Brand Strategy

To develop meaningful brand strategy, our brands should be treated as a system. We should examine the role of each brand and should avoid inconsistencies. Brands should fit into brand identity profile. Sub-brands should be considered to modify or change the brand identity. We should dwell upon how sub-branding a feature or component or service programme would support the basic brand. We should select strategic brands, and decide on the right number of brands.

A Note on Brand Names

The company has to choose its brand name strategy. Each product can have a separate brand name, or one family name can be extended to all the products.

1. Generic Brand

A brand that becomes generic becomes a product category, and no longer remains a brand. Frigidaire is GE's brand. But now we call any refrigerator a 'fridge.' So it has become generic. Other well-positioned brands have overtaken Frigidaire, and it is no longer a market-leader. Dalda Vanaspati has become generic. It is now again trying to lose its generic label. Though consumer asks a product by the generic name, he ends up buying a brand that offers attractive benefits. The generic brand sits on the shelf.

2. Family Brand

a) It is cost effective in as much as it reduces product launch costs and also the promotional expenses incurred on a continuing basis. The success of one brand when well promoted gives a push to the entire product line. Management of trade channel also is easier. In tyre marketing this approach is highly successful.

b) For products of uneven quality, this approach is a dicey proposition. Even in markets showing variations in consumer profiles, this approach is not useful.

c) Each product is denied a special identity, which can go a long way to make it click.

3. Individual Brand

a) Individual brand invokes associations and imageries. These psychological factors influence the buying decision.

b) Even if the product fails, the effects are restricted to that product only. They are not transferred to the whole product line.

c) Costlier strategy.

d) No benefit to the brand of the organisation's reputation.

Despite the branding, consumers may treat a certain product as a commodity, e.g., cement, since the price is the same for all the brands and all of them have established the same identity. To begin with, just a little value addition like packaging makes a commodity a brand but when all competitors do the same thing, there is the danger of the brand again switching back to its commodity status. Many consumers prefer lower priced generics, which are sufficiently satisfying. Generic products are a challenge to high-priced brands and weaker brands. Some companies cut their prices to compete with generics It is desirable, however to fight them on the basis of quality — offering greater quality than generics at competitive price.

As we have already observed, branding makes it easier for consumers to identify products and services. Brands ensure a comparable quality when products are purchased. Brands simplify a consumer's shopping. Choosing a commodity is far more complex than choosing a brand. Commodity selection is based on rational left-brain logic. Brands have emotive associations. They can be chosen on a more holistic basis involving parallel left and right brain processing. The firms find that brands can be advertised. The firms also get the advantage of recognition when brands are on the shelves of the retailers. There is no confusion between branded products amongst consumers.

Advantages of branding or Trade Mark: The practice of selling goods under a brand name or trademark brings advantages to manufacturers, wholesalers, retailers and consumers alike. More important of these advantages are discussed here.

a) Advantages to Manufacturers

1. *Easy for advertising.* Distribution of the product in a wider market with the help of effective advertising is made possible.
2. *Individuality.* The individuality of a product is established. This helps the manufacturer to distinguish his product from those of his competitors Thus a fixed demand and preference for the branded product are created.

3. *Advertising costs are reduced.* Once the brand has been made popular retailers are forced to keep the product in their stock because of its popularity.
4. *Preferable by middlemen.* Wholesalers and retailers have preference for branded products because they can be sold easily.
5. *Reduces distribution costs.* After some time, it is possible for the manufacturer to dispense with the services of the wholesaler. In such a case manufacturer reduces the expenses in distribution of goods.
6. *Manufacturer can directly control* the price of his product because in the case of the branded product, manufacturer fixes the selling price.
7. *Branded products are often handled on smaller margins.* Therefore, manufacturer is required to pay lower rate of commission to wholesalers (or retailers).
8. *Makes manufacture independent.* Manufacturer has not to depend upon the wholesalers and retailers for the creation of demand for his product. Branding aids the manufacturer to maintain contact with the consumers.
9. *Branding insures steadier demand.* Which leads to economies of planned and continuous production.

b) Advantages to Wholesalers and Retailers

1. *No efforts for promoting sale are necessary.* Consumers often know and accept many branded products. Therefore, consumers themselves come to the retailer for the purchase of such products.

2. *Less risk is involved* in the case of a branded product of a manufacturer for the retailer.

3. *Requires less time.* In the case of products with manufacturer's brands less time is required to sell them. This may help in the turnover of sales in retail shops.

4. Retailer is assured of a more or less stabilised demand for the branded products, which have been brought to the notice of the consumers.

5. *Branding aids in the standardisation of quality* and saves the retailer much trouble in choosing and buying his stock.

6. *It helps in advertising and display programme.* Brand name or brand mark gives a seller a short, quick method of attracting the consumer's attention and creating an impression which will "motivate him into buying action."

   A product sold on self-service basis has to rely heavily on brand appeal so that it can be immediately recognised and selected by the customer out of the mass of products displayed on shelves and counters.

7. *It helps in increasing control and share of market.* By putting his own brand on the product a manufacturer or a middleman can be sure of some control over the market. Branding also helps the owner of the brand to encourage "repeat sales" and to protect him against "product substitution." Unless the product can be identified by a brand, a wholesaler cannot be sure that a retailer will not substitute a product of another make.

8. *It reduces price comparisons and helps stabilise prices.* A brand differentiates a product and enables the brand-owner to establish a price for his product which cannot be easily compared with prices of competing goods. Also, branding reduces price-fluctuations. Prices of well-known brands tend to fluctuate less than those of non-branded products or of unknown brands.

9. *It facilitates introduction of a new item.* A firm sending one or more lines of branded products can add a new item to its line of products much more easily than a firm selling unbranded goods.

c) Advantages to Consumers

1. *Consumers cannot be charged higher prices.* Prices of branded products are fixed by the manufacturers, and they are well advertised. Thus the consumers know what the price is. Therefore, it is not possible for the retailers to charge higher prices of branded products.

2. *Consumers are assured of good quality.* Manufacturers have to maintain the quality of branded products, their reputation is to be retained, and product of inferior quality cannot be sold Therefore, supply of quality product is ensured to consumers.

3. *Quality goods are easily available.* Retailers have to keep ready in stock goods of all popular brands. Therefore consumers can get such goods easily whenever they want.

4. *Quality of branded goods is protected.* Branded goods are usually sold in sealed packages. Thus, they are protected from the effect of heat, moisture and dust. Adulteration by middlemen is also made impossible in the case of branded goods.

5. *Stability in price.* Generally the retail price of branded products is maintained steady because manufacturers do not find it advisable to change the prices as frequently as those of unbranded products.

Functional products and commodities take less to branding than inspirational products. Manufactured products are branded easily, whereas it is not so for agricultural products. Of course, a commodity can evolve into a brand in stages. Branding evolves through stages – a commodity, a functional brand, a high value added brand and a premium product.

Activity - III

i) Explain the brand name.

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ii) Explain the advantages of brand to the consumers.

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13.4 DEFINITION OF PACKAGING

A package is a container used to protect, promote, transport, and/or identify a product. It may consist of a product's physical container, an outer label, and/or inserts. Packaging performs the self-promotional function in addition to protecting the product By incorporating creativity in its design, a package can add the 'pick-me-up' appeal to the product. It also helps to communicate the product features, applications, and benefits more positively.

Packaging has one most widely accepted definition. It is an art, science and technology of preparing goods for transport and sale. Packaging has two dimensions - the technical dimension which is related to packaging materials, pack design and the behavioural dimension, which is related to the art of product, design which is so closely linked to consumer motivation and buying behaviour.

Packaging as an industry has two sectors. those who make packaging material and those who convert these materials into packages. In addition, there are printers and marketing research agencies to do packaging research. New packaging materials are fast replacing the traditional ones. Packaging materials include metal, plastics, wood, paper glass, laminates and polyester. There is a wide variety of package formations. However, the master-cartons in which unit packages are kept are standardised to facilitate handling and transportation.

A **label** indicates the product's brand name, the company logo, ingredients, promotional messages inventory control codes, and/or instructions for use. Inserts are

i) Detailed instructions and safety information that are carried in drug, toy, and other packages or
ii) Coupons, prizes, or recipe booklets.

Prior to the advent of the modern supermarket and department store, manufacturers shipped merchandise in bulk containers, such as cracker barrels, sugar sacks, and butter tubs. Retail merchants repackaged the contents into smaller, more convenient units to meet customer needs. With the growth of mass merchants and self-service, manufacturers came to realize the value of packaging as a marketing tool. Today it is a vital part of a firm's product-development strategy; a package may even be an integral part of the product itself.

The complete package redesign of a major product might cost several million dollars for machinery and production. Packaging decisions must serve the needs of both channel members and final consumers. Plans are often made in conjunction with production, logistics, and legal personnel. Errors in packaging can be quite costly. Package redesign frequently occurs when a company's current packaging becomes too expensive or receives a poor response from channel members and customers; the company seeks a new market segment, reformulates a product, or changes product positioning; or new technology becomes available.

A package must facilitate product usage. Multiple packaging and larger sizes encourage greater product usage. Product dispensement may be eased through a no-drip spout self-applicator, flip-top, squeeze tube, boil bag, oven-ready container, or other package design. Finally, some firms offer packages that are reusable once a product is depleted (such as a soft-soap dispenser).

The need for packing and packaging

1. **Protection from damage:** Goods are likely to get damaged in transit or while in store. Therefore, they must be kept in suitable containers.
2. **Prevention of evaporation:** Products like gas, spirits etc. are volatile in nature. If they are not kept properly packed they will evaporate.
3. **Protection against spoilage:** Products like sugar, tea, etc. are likely to get spoiled in transit or in store if they are not protected against dust and other articles. Also sugar, honey and such other products attract flies, ants, etc. Hence they must be kept properly and tightly packed in sealable containers.
4. **Protection against pilferage:** To protect goods from getting stolen also packing becomes essential.
5. **Protection against leakage:** To prevent liquid articles like oil flow away while in storage or in transit, these must be kept in barrels or containers.
6. **Protection of the quality of goods:** Packing is also necessary to prevent deterioration in the quality of goods because of the effect of light, air or other atmospheric effects.
7. **Convenience of consumers:** Goods are packaged in convenient sizes and units, which are easy to handle by the consumers.

Requisites of Good Packaging

To perform its function effectively in the process of marketing packaging must possess the following essential qualities:

i) Attractiveness, ii) Protective strength, iii) Consumer's convenience, and iv) Economy.

i) Attractiveness

The package must be attractive enough to tempt the onlooker to try it. Generally, colours are used to make the packages look attractive. But while using colour, certain caution is necessary. Firstly, colour to be used should be pleasing to eye. Secondly, while using colours it must be borne in mind that different colours are associated with different human feelings and emotions. For example, white colour is the symbol of purity and cleanliness, blue stands for coolness, green symbolises freshness and red indicates warmth. Thirdly, different colours should be used for packages containing goods for customers from different age groups. Bright colours should be used for packaging articles meant for children but use of such colours should be avoided if the article is meant for grown-up persons.

Usually, a picture is used on the package to make it attractive. In such a case, care should be taken to see that the picture suggests the nature of the product. Pictures having no relation with the product should be avoided. Printed matter on the package also adds to its attractiveness. But, to be effective, such matter should be informative and should occupy minimum of the space. Also it must have been printed clearly, attractively and in prominent letters.

ii) Protective strength

Basically packaging is concerned with the protection of goods. Therefore it should be strong enough to protect the goods from breakage or leakage, spoilage, pilferage etc. In the case of goods packaged in glass bottles or containers they should be further packed in good cardboard packing. Goods subject to deterioration in quality due to atmospheric effects should be packed in glass containers or in tight-capped metal tins.

iii) Consumer's convenience

Goods are packaged in the size, which suits the requirements of the consumers. Usually consumers prefer to purchase their requirements in small quantities rather than in bulk. Therefore, there is a tendency towards smaller packages.

iv) Economy

Another essential requisite of good packing is that it must be as inexpensive as possible. For this purpose, special efforts should be made to reduce the cost of packaging. Whenever possible containers should be so designed that they may be useful for domestic and other purposes even after the contents have been used. For example, glass cans, baskets, wooden boxes etc. have many uses. Sometimes packages are so designed that they may be returned for refilling, for example, milk bottles.

Activity - IV

Define packaging. State the requisites for packaging?

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13.5 DIFFERENT TYPES OF PACKAGES

Packaging differs from goods to goods. It depends upon the nature of the goods to be packed. For liquid products container made of materials, which can prevent its dispersal, is used. For solid product packing is necessary and helpful in retaining the moisture, freshness and such other characteristics of the product. For fragile articles like bangles, wooden containers are used to protect them from breakage.

The physical container may be

1. Cardboard
2. Metal
3. Plastic
4. Wooden box
5. Cellophane
6. Wax paper wrapper
7. Glass
8. Aluminum
9. Plastic jar
10. Can
11. Paper bag
12. Styrofoam
13. Tupperware
14. Some other material
15. Combination of these.

Products frequently have more than one physical container.

Different materials are used for the purpose of packaging. **Tupperware** is porous and helps in retaining the freshness of the products kept in it. Wooden boxes are used as the outermost packing because they are strong enough to protect goods even if roughly handled in the process of transportation. **Cardboard containers** have become popular and in many cases have replaced wooden boxes, particularly in the case of packing small articles. This is because [illegible] advantages over wooden boxes. Firstly, cardboard is cheap, though sufficiently strong [illegible] fragile goods. Secondly, it can be manufactured in varying thickness and different colours. Thirdly, [illegible] e can be used for marking and design or written material.

Straw baskets are used for packing vegetables and fruits. Cheapness is the advantage of straw basket. But it is fragile and goods packed in them may be damaged. **Gunny bags** are popular for packing goods like grains, cement, sugar etc. They are strong and can stand rough handling through long distance involved in the transportation of such goods. But they suffer from certain disadvantages. Firstly, they do not have advertising value because no material can be printed upon them. Secondly, they are [illegible] les as they cannot offer protection against breakage. Thirdly, they [illegible] against spoilage due to the effect of unfavorable weather and moisture.

Paper bags are popular as package for products solid in form. Paper bags are commendable because they can be given very attractive appearance and they have an advertisement value as it can be printed upon. But they suffer from certain limitations. Firstly, the freshness of the product cannot be preserved. Secondly, protection against damage is not possible. Cellophane is a good substitute for paper as packing material. It protects the contents from moisture. It cannot be easily torn. It is transparent and light and looks decent. But it suffers from one limitation. It cannot protect the product against the harmful effects of light.

Glass is another popular packing material. Its main advantages are that it is attractive; it can be given any shape and colour and it offers protection against the action of most of the chemicals. Its demerit is that it is fragile. Tin containers are used for both liquid and solid products. They are light, rigid and non-porous. But they are not proof against corrosive action of acid.

Plastic containers have gained extreme degree of popularity because they are light in weight and they can be made attractive by giving any shape or colour to them. They are rigid and non-porous too. But, in case of plastic, caution to keep them away from fire is always necessary.

Advantages of Packing and Packaging

Packing is very useful in the marketing of goods. Most of the products are packed for their protection. Apart from this "protective packaging", package is also used as a "powerful selling tool." This is particularly so in the marketing of consumer's goods. Chief advantages of packing and packaging are listed below:

1. It protects goods on its route from the manufacturer to the consumer or industrial user against breaking, spoilage, leakage or pilferage.
2. It facilitates branding and advertising of products.
3. It is useful in getting display in retail stores, which usually suffer from the shortage of space because of every small window space and non-availability of counter space.
4. It helps the seller to increase his sales and obtain higher prices than he could for similar goods handled in bulk.
5. It protects the quality of the products.
6. It ensures the supply of goods of right quality in desired quantity to consumers.
7. A company with several products gets the advantage of the goodwill or one product to push the sale of other products by using similar package with the "same colour scheme and name."
8. Printed literature containing information about the method of using the product can be easily passed on to the consumers by putting it in the package.
9. Packaging gives the product a prestige, an individuality which is not possessed by goods sold in the loose form by retailers. It helps to identify a product and thus may prevent substitution of competitive goods.
10. Compared with products sold in bulk packaged goods, usually, are more convenient, cleaner and less susceptible to losses from evaporation, spilling and spoilage.

11. At the selling point, the package serves as a 'silent salesman' encouraging impulse buying. While in the possession of the customer, it induces the customer to reorder the same brand and thus stimulates 'repeat sale.'

12. An increase in case of handling or a reduction in losses due to damage may cut marketing costs.

The placement, content, size, and prominence of the label must be determined. Both company and brand names need to appear on the label. Package inserts range from recipes to directions for use to safety tips to coupons for future purchases, and their inclusion should be noted on the label. Sometimes a redesigned label may be confusing to customers and hurt the product's sales.

Multiple packaging couples two or more product items in one container. It may involve the same product (such as razor blades or soda) or a combination of different products (such as a comb and a brush or a first-aid kit). The goals of multiple packaging are to increase consumption (hoarding may be a problem), get the consumer to buy an assortment of items, or have the consumer try a new item (such as a new automatic pencil packaged with an established ball-point pen). Most multiple packs, like cereal, are versatile because they can be sold as they are shipped or broken into single units.

Last, a company must be sure that the package design fits in with the rest of its marketing mix. A well-known brand of perfume may be extravagantly packaged, distributed in select stores, advertised in upscale magazines, and sold at a high price. In contrast, a firm making perfumes that imitate leading brands has more basic packaging, distributes in discount stores, does not advertise, and uses low prices. Although the two perfume brands may cost an identical amount to make, the imitator would spend only a fraction as much on packaging. Thus, packaging is important not only for the purpose of protection and convenience but also for product-differentiation and stimulation of demand.

A package also creates protection for a product while it is shipped, stored, and handled. In all cases, a package must protect a product against the effects of light, infestation, shock, vibration, breakage, evaporation, and spilling.

Activity - V

Explain different packaging types.

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13.6 FUNCTIONS OF PACKAGING

Packaging is no longer a mere outer cover for the protection of the product; it is very much a contributing factor to its increasing marketability. Ads after ads feature a beautiful package; and the product image in the minds of consumers is, to a good extent, due to attractive packaging. In the case of the similar products, the brand difference is only due to differences in packaging. Good packaging covers an idea of the quality of the product; it has a value, which is distinct from the value of the product. Attractive packaging is an effective **Point of Purchase** (POP), and stimulates gift sales.

As the old adage goes, "Clothes make the man." So, also, does the package make the product. Products are often judged by their packages particularly for impulse product. Perfume is a good example of this. There is a close interrelationship between the advertising and packaging components of the marketing mix. Several advertisements feature the product in its package.

Though packaging is primarily a means of protection during transportation and storage, our interest in it is primarily for its use as a marketing and promotion tool. Advertising people are involved because, in addition to being a protective device, packaging is featured as a campaign theme. The package is a vehicle for carrying the manufacturer's name, the brand name, the trademark, apart from the information it provides about the ingredients and direct advantages of product use.

The other marketing significance of packaging is that it helps in achieving product differentiation. Packaging is designed for convenience in the use of the product, and may be used to differentiate a brand from the brands of its competitors. Further, packages are designed to have a re-use value. Good packaging will gain for a product more shelf space than for a product with unsatisfactory or unattractive packaging, and will result in its extensive exposure to the customers visiting retail stores. This will improve the sales of the product.

A beautiful packaging is an advertisement at the point of sales. In short, packaging is an important advertising medium, carrying varying messages from the marketer to the consumer. In view of the advertising and promotional significance of packaging, professionals in this field should have a profound understanding of packaging so as to make it an effective marketing and sales tool.

Basic Packaging Functions

There are five key packaging functions:

1) Containment and protection, 2) Usage, 3) Communication, 4) Segmentation, 5) Channel cooperation.

Packaging as a function has two separate dimensions - the physical aspects related to the science and technology and the behavioural aspect related to the art of product design associated with buyer behaviour and motivational research. It enhances the value of the contents and passes on the impression to the consumer directly or subtly.

For consumer products, package serves as a silent salesman. It performs self-selling tasks. It should attract attention, and tell the product story. It should build the confidence and give a clean and healthy look. It should be convenient in handling and usage, as well as in storage. It must reflect good value.

A package is an important method of communication with the customer. It identifies the brand, provides ingredients and directions, presents an image, and displays the product. A package differentiates a product from competitors by its design, color, shape, and materials. It serves as a promotional tool and is the final form of promotion the consumer sees prior to making a purchase decision. Packaging is particularly valuable for firms with self-service operations and those concentrating on impulse goods, such as candy. A package also serves as a reminder after a purchase is made.

A firm must consider the needs of the wholesalers and retailers in its distribution channel and use packaging that makes a product easy to ship, handle, and store. Packages should also be durable, allow their contents to have a reasonable shelf life, fit into pre-existing dealer facilities and displays, provide a convenient place for the price, make inventory control easier by including computer codes on labels, and make shoplifting more difficult. Finally, packaging can be a major element of new-product planning. Some of the products successfully modified and presented as new as a result of packaging innovation.

Factors Considered in Packaging Decisions

Several key factors must be weighed in making packaging decisions. Package design affects the image a firm seeks for its products. Color, shape, and material all influence perceptions of a firm and its products.

A firm has a number of packaging materials from which to choose, such as paperboard, plastic, metal, glass, styrofoam, and cellophane. In the selection, trade-offs are probably necessary. For instance, cellophane allows products to be attractively displayed, but it is highly susceptible to tearing; paperboard is relatively inexpensive, but it is difficult to open. Also, a company must determine how innovative it wants it's packaging to be.

There is a wide range of package features from which to choose. depending on the product. These features include pour spouts, hinged lids, screw-on tops, pop-tops, see-through bags, tuck- or seal-end cartons, carry handles, product testers (for items like batteries), freshness dating, and blister cards (products are placed under a plastic dome mounted on a card with a hole in it and hung on a metal rack). These features may provide a firm with a differential advantage.

Next, a firm selects the **size(s), color(s),** and **shape(s)** of its packages. In selecting the package size, shelf life (how long a product retains its freshness), convenience, tradition, and competition must be considered. In the food industry, new and larger sizes have captured high sales. The number of packages used with any one product depends on competition and the company's use of differentiated marketing. By selling small, medium, and large sizes, an existing firm may ensure maximum shelf space, appeal to different consumers, and make it difficult and expensive for a new one to gain wholesaler and retailer support.

The packaging practices of some industries and firms have been heavily criticized and regulated in recent years because of their impact (or potential impact) on the environment and scarce resources, high expenditures on packaging, questions about the honesty of labels and the confusion caused by inconsistent designations of package sizes (e.g., large, family, super), and critics' perception of inadequate package safety.

Activity - VI

What are the functions of packaging?

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13.7 SUMMARY

Brands communicate three things - a distinct identity, a set of associations and image beyond the mere functional qualities or performance of the product. Good packaging covers an idea of the quality of the product; it has a value, which is distinct from the value of the product.

Packaging is primarily a means of protection during transportation and storage, our interest in it is primarily for its use as a marketing and promotion tool. Advertising people are involved because, in addition to being a protective device, packaging is featured as a campaign theme. The package is a vehicle for carrying the manufacturer's name, the brand name, the trademark, apart from the information it provides about the ingredients and direct advantages of product use.

13.8 SELF ASSESSMENT QUESTIONS

I. Short Answer Questions

1. Distinguish the terms brand, brand name and trademark?
2. Explain the difference between brand and a trademark?
3. What do you mean by registration of brand?
4. State the advantages of brand for the manufactures.
5. What is the need of packaging?
6. Explain the requisites of good packaging?
7. List out the functions of packaging.

II. Long Answer Questions

1. What are the issues involved in general in branding and brand name?
2. What are the advantages of branding to a manufacturer?
3. Define packaging? Mention the advantages of packaging?
4. Enumerate briefly the functions performed by packaging?

13.9 FURTHER READINGS

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4. [illegible]gan, J **Global Mar**[illegible] Pearson [illegible] (Singapore) Pvt. Ltd., [illegible]

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13.10 KEY WORDS

Brand Name : Brand name is a word, letter (number), group of words, or letters (numbers) that can be spoken.

Brand mark : A brand mark is a symbol, design, or distinctive coloring or lettering that cannot be spoken.

Trade character : A trade character is a brand mark that is personified.

Trademark : A trademark is a brand name, brand mark, or trade character or combination thereof that is given legal protection. When it is used, a registered trademark is followed by ®.

Generic Brand : A brand that becomes generic becomes a product category, and no longer remains a brand. Though consumer asks a product by the generic name, he ends up buying a brand that offers attractive benefits. The generic brand sits on the shelf.

New brands : Invent a new brand name for a new product category.

Packaging : A package is a container used to protect, promote, transport, and/or identify a product. It may consist of a product's physical container, an outer label, and/or inserts.

BLOCK - IV : PRICING AND DISTRIBUTION

This block discusses about two other major areas of marketing management. They are pricing and distribution. Price, as we all know, is concerned with the monetary value of the product or service. Pricing is a process of determining the price of a product or service. Distribution refers to the various intermediaries who help in moving the product from the producer to the consumer or user.

Unit - 14 of this block describes various policies, methods and strategies of pricing. While Unit - 15 explains marketing channels and the importance of physical distribution, Unit - 16 covers the new trends in marketing such as E-commerce, Tele-marketing and Customer Relationship Management (CRM).

UNIT 14 : PRICING POLICIES AND METHODS

Aims and Objectives

The objectives of this Unit are to help you to:

- understand the concept and role of pricing in marketing mix;
- explain the factors influencing price setting;
- discuss the various methods of pricing;
- explain the steps in selecting pricing strategy;
- distinguish between skimming and penetration strategies; and
- explain the pricing policies followed by the marketers.

Structure

14.0 INTRODUCTION

By now, you are aware that marketing mix comprises four elements – product, price, promotion and place. Of the four variables, the basic ones are product and price. It is through offering the right product at right price that marketer satisfies his customers and earns profits and image for his enterprise. In the previous units, you have understood the different aspects related to product. In this unit, we shall discuss the various aspects related to pricing. An understanding of the methods and strategies of pricing will help marketers make sound pricing decisions.

14.1 CONCEPT OF PRICING

It is known to you that marketing involves exchanging things that have value. *Value* is a quantitative measure of the power that a good or service has to attract consumer. In the earlier days, when there was barter system, one good was exchanged for another good. Presently, we have a monetary system. We assign money values (rupees, dollars, pounds etc) to the goods for exchange. *The monetary value of a good or service is called price.* The price is expressed differently in different countries. For example, it is dollars in USA, pounds in England and rupees in India.

Price has many names - fee, rent, honorarium and donation. A student pays tuition fees, a tenant pays rent, a professor charges honorarium for his lecture, and a charitable institution accepts donation for its services.

According to **Philip Kotler,** " Price is the amount of Money charged for a product / service or the sum of the values that consumers exchange for the benefits of having or using the product or service.

Pricing is a continuous process with multi-task orientation. In this context **William J. Stanton** defines that " Pricing is the art of translting into quantitative terms, the value of the product to consumers at a point of time."

Activity - I

i) Identify suitable products or services to match with the following types of prices and fill the gaps

Product / Service	Price form
. . . .	Toll
. . . .	Honorarium
. . . .	Salary
. . . .	Wage
. . . .	Commission
. . . .	Tuition
. . . .	Rent
. . . .	Fee
. . . .	Fare

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ii) Define the terms 'price' and 'pricing'.

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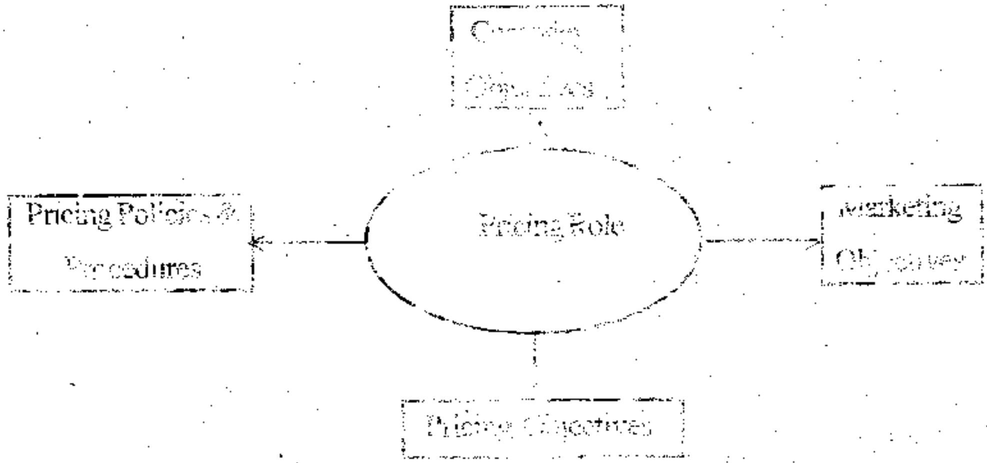
[illegible] has a [illegible] significant role to play both at Macro and Micro levels. [illegible] developing countries like ours, the contribution of pricing may be [illegible] and [illegible] of scarce resources. We can understand the role of [illegible] following figure 14.1.



Price has a special significance mainly for two reasons:

- It ultimately 'pays' for all of a firm's activities. [illegible] sales revenue (R) equals price (P) times unit sales volume (Q) i.e., R = P x Q. Price is a prime determinant of sales revenue
- Price, influences the quantity demanded. If the price is not affordable, buyers will look for substitute products. When price goes up, people buy less and consume the product conservatively. When price goes down, people [illegible] or [illegible] surplus.

Price has close relationship with other marketing mix variables. [illegible] the relationships.

(i) **Price and Product:** Price influences the perceptions of consumers about the product in many ways.

- A high price may suggest a high-status good, and a low price may suggest a low status good.
- A high price may represent high quality good whereas a low price may indicate a poor quality good.
- A price off or discount may be related to a new product introduction or clearance of unsold goods.

(ii) Price and Promotion: In setting prices, many marketers start with a basic price quote, called a *list price*. Price adjustments are made as and when considered necessary.

(a) Positioning: A list price functions as a communication tool by adding a symbolic value to a good or service. It helps to position the brand in relation to competitors. Consider the following positions.

Surf excel – High price but high quality

Rin – Economy product with good quality

(b) **Convincing consumers:** One job of promotion is to show potential buyers that an item is worth the price demanded. High prices are favourably viewed when we can all think that we are getting a good deal, a bargain, or high-quality workmanship. Such a view can be created by a convincing presentation in an advertisement.

(c) **Persuading:** [illegible] consumers are more interested in [illegible] consumption. [illegible] offering price-related promotions [illegible] or two products for the price of one.

(iii) **Price and Distribution:** For instance premium goods like Raymonds suitings are associated with high quality and high price. To support this, distribution is made through specially designed show rooms.

Activity - II

What is the role of pricing in Marketing Mix?

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14.3 FACTORS INFLUENCING PRICE SETTING

Setting the price for a new product or changing the price for an existing product involves the consideration of several factors. The factors may be classified as internal and external. The internal factors are: costs, product-line and marketing strategy. The external factors are: demand, [illegible] and politico-legal system. [illegible] these factors one by one.

COSTS

When price equals [illegible] break-even [illegible] represent a floor below which [illegible] not generally go. Facing [illegible] rapidly rising costs, companies may resort to any one or more of the following actions.

- Cost control [illegible] maintain the [illegible]
- Pass along cost increases to customers i.e., increase the price
- Search for new alternative products/processes to offer a new product at affordable price.

DEMAND

The reactions of consumers to price decisions can be explained by [illegible] principles.

1. **Law of demand:** A rise in price causes a fall in demand and vice versa, other things remaining constant.

2. **Price elasticity.** Goods are elastic when a slight variation in price brings large change in quantity purchased. In the case of inelastic goods, price rise or fall has no consequence. Inelastic goods include necessities of life like food grains, cereals, etc.

In the case of relatively elastic goods demand is based on three criteria:

- urgency of need ;
- shelf-life of the product; and
- availability of substitutes.

When there is urgency, price rise may not affect the purchase. When prices are lowered for a product which is perishable, such an action may not prompt one to buy more. In the case of speculation goods like shares one may adopt a waiting policy to see whether prices will still go lower. In such cases some times, a drop in price may immediately shrink demand instead of increasing it. When prices go up, search for substitutes will begin. When substitutes are found, the high priced products lose demand

COMPETITION

There are two conditions prevalent in markets which foster price competition. One is the difficulty of achieving product differentiation through advertising. The second one is the widespread use of product standards. When products are similar the competition will be focussed on price. This is the case of monopolistic competition. (Examples –toothpastes, soaps, detergents). In the case of oligopoly, to avoid price competition price leadership or formation of cartels is prevalent. It stabilizes prices and avoids price wars. The recent episode of Cement cartels stands as an example.

Product-life cycle, which Joel Dean has rightly termed as "the Cycle of competitive degeneration" begins with an innovation, and patent protection. From this introductory stage, the product passes through growth, maturity and saturation stages to enter into the final decline stage. The use of different pricing strategies—new product pricing, going rate, and discount pricing or low-pricing along with marketing mix components becomes necessary.

Product line: Many companies sell a full range of products and services. It is hence, necessary to find out to what extent the pricing of one product affects the pricing of other related products. Take the case of Hindusthan Lever Ltd. You know their offer Pepsodent and Close-up tooth pastes. Before fixing up their prices they have to see whether there is any relationship between them that adversely affects their sales.

Channel factor : For such of those products, which go through channels involving resellers consideration of trade margins is important. The kind of role the marketer expects from the intermediaries. Hence the level of margins besides the profit motive of resellers.

Marketing objectives and strategy: The price established for a product must be consistent with the overall marketing objectives and strategy of a firm. If a company seeks quality image, its products are to be sold at high prices and in speciality show rooms. If the objective is survival, it should be priced to cover variable costs.

Politico – legal – factors: The legal environment and the regulatory mechanisms created by government set limits to the area of decision-making by executives. The excise duties and sales taxes etc., imposed by government from time to time affect the price. At times, government itself establishes prices for particular products. Such prices are known as administered prices.

[illegible] pricing decisions are based on [illegible] ... competitive.

[illegible]

Cost is an important factor in pricing. You need to understand the various kinds of costs before you finalize the price for a new or existing product. [illegible] costs.

- [illegible]
- [illegible]
- [illegible]
- [illegible]

[illegible]

[illegible]

14.? PRICING METHODS

Companies set their pricing [illegible] by choosing a method that considers some or more of the three factors:

- Production costs
- Competitor's price and price of [illegible]
- [illegible]

[illegible]

- [illegible]
- [illegible] pricing
- [illegible]
- [illegible] value pricing
- [illegible]

(i) Mark – up Pricing

It is an elementary pricing method which is popularly employed by [illegible] consultants and professionals like accountants, lawyers and doctors. [illegible] and a predetermined percentage [illegible] among the products of the firm [illegible] involves the following [illegible]

[illegible]

[illegible] cost = (Variable cost + Fixed costs)/ Unit sales

(ii) [illegible]

[illegible]

Therefore [illegible]

[illegible] goods.

[illegible] high storage and handling costs

Mark up pricing is popular for the following reasons:

- Sellers have more certainty about cost than about demand. It is a simple way of reducing risk.
- When all the sellers use this method, the prices tend to be similar. Price competition is therefore minimized.
- Many people consider this method of pricing a fair one to both buyers and sellers.

[illegible] to [illegible] price competition

2) Target return pricing

The Marketer determines the price that would yield target rate of return on its investment. This pricing method is also used by public utilities that are constrained to get a fair return on this investment.

This is based on cost –volume – profit analysis. It is an extension to break –even analysis. Hence, in deciding the price, the cost per unit (C), the investment (I), the desired rate of return (ROR) and the sales (S) are considered.

Target return price = Unit cost + desired return

Target return price = C + (I x ROR)/S

Take for example:

Investment = Rs 250,000

ROR desired = 20%

Fixed cost = Rs 50,000

Variable cost Rs 2/unit

Sales = 100,000 units

Unit cost = 2 + (50,000/100,000) = Rs 2.50

Target return price = 2.50 + [250,000 x 20/100] / 100,000

= 2.50 + 0.50 = Rs 3

The risk involved in this method is that the expected price may not be realized. To be on safe side, the manufacturer has to develop a profit schedule using different cost and price figures that represent different situations. Out of them, the one that is close to reality should be chosen. Further, he has to search for ways to reduce the costs to lower the risks.

3) Perceived value Pricing

An increasing number of companies considered this price on the product perceived value. They see the buyers perceptions in the form of value, not the sellers cost, as the key to pricing. They use the non-price variables in the Marketing Mix, to build up perceived value in the minds of buyers and price is charged to capture the perceived value.

You might have observed that many advertisements today highlight '*value for money*' offers. Buyers are value-conscious. They compare one product with another and against the money they pay. Dupont, a renowned company in USA, has called this the value – in – use price.

The key to perceived value pricing is accurate determination of the market's perceptions of the value of the offer. To determine the perceived value, market research is needed. Methods for estimating perceived value prices are described below.

(A) [illegible] method

[illegible] value of a [illegible] is perceived. For example, you ask two buyers to rate similar suitings from [illegible] and DCM. They give more value to Raymonds and [illegible] higher price to it.

(B) [illegible] perceived value rating method

In this buyers are asked to assign value [illegible] buyers have assigned 52 points to Raymonds and 48 points to DCM. If the average market price of such suiting is Rs [illegible] the price of [illegible] can price at Rs (52/50)6000 = Rs 6240 and [illegible]

(C) [illegible] method

In this method, the buyers compare the [illegible] in competition.

First, they [illegible] of 100 [illegible] product.

[illegible]

[illegible] relative importance.

[illegible] they rate the attributes of each of the [illegible] and multiply the scores with the respective weights to obtain [illegible] weighted scores.

[illegible] find the sum of the weighted [illegible] product.

Finally, [illegible] compare the scores with the average score that [illegible] and determine the corresponding price for each product.

Illustration

[illegible] weights and scores [illegible] given below.

Importance Weight		[illegible]		
		A	G	V
[illegible]	[illegible]	[illegible]	50	[illegible]
[illegible]	[illegible]	[illegible]	30	20
25	Attractiveness	10	20	20
100		100	100	100

The weighted scores are

$$A = (0.35)(60) + 0.40(30) + 0.25(10) = 35.5$$

$$G = (0.35)(50) + 0.40(30) + 0.25(20) = 34.5$$

$$V = (0.35)(60) + 0.40(20) + 0.25(20) = 34$$

[illegible] is higher.

The [illegible] say the average market price is Rs. [illegible]

[illegible]

[illegible] = Rs. 10400

[illegible] 3020

[illegible]

[illegible] of the refer- [illegible] the product

[illegible] product's benefit.

(4) [illegible] 'Follow the [illegible]'

[illegible] this method [illegible] sets [illegible] at the prevailing market price or follows the leader. They [illegible] their prices when the market leader price changes the price rather than their [illegible] cost or [illegible] demand [illegible] competition oriented method [illegible] monopoly [illegible] prices [illegible]

The pros [illegible] of this method are:

[illegible] the firms may not [illegible] structure. Efficiencies differ.

[illegible] price may not be fair from customer's [illegible]

The [illegible] of exploitation

[illegible]

[illegible] will [illegible]

[illegible]

[illegible]

[illegible]

[illegible] them over [illegible]

[illegible] the expectations are right, [illegible]

For instance, A and B are bidding for a contract.

A has estimated the cost of the contract at Rs 2 lakh. If his bid price is Rs [illegible] [illegible] he may [illegible] B. [illegible] B is expected to be happy with only 10% profit. So [illegible] anticipated to bid [illegible] 000. Therefore, A will bid at Rs [illegible] and improve his chances of winning.

[illegible] STEPS IN SELECTING PRICING STRATEGIES

A six-step procedure is followed by firms in setting the [illegible]

1. Selecting the [illegible] objective
2. [illegible] demand
3. Estimating costs
4. Analyzing competition
5. Selecting a pricing method
6. Fixing the final price

1. Selecting the pricing objective

As a manager, you have to decide [illegible] determined objective. As such, the first step [illegible] objective. The key questions are:

- What does the company want to accomplish with the product?
- [illegible] product [illegible] to skim [illegible]
- Is it an existing product [illegible] in the market?
- Is [illegible] revenues for the firm?
- [illegible] market by offering the product [illegible]

Exhibit 14.1 shows [illegible] implications to pricing.

Exhibit 14.1 Pricing objectives and decisions

Objective	Situation	Decision
Survival	Overcapacity, intense competition, changing [illegible]	[illegible] variable costs
Maximum current profit	[illegible] market conditions. Demand and cost functions are known	Profit maximizing price
Maximum current revenue	Cost function too difficult to estimate due to joint and indirect costs. Demand function is known.	Revenue maximizing price with commissions to sales force on sales revenue
Maximum sales growth	Market is price sensitive. Costs fall with experience. Low price discourages competition and helps achieve maxi[illegible]	Penetration (Low) pricing
Maximum market skimming	Unit cost [illegible] for to [illegible] market. Need for [illegible] competition.	[illegible] (High) price
Quality image	To be a product [illegible] leader	P-Q relationship

2. Determining Demand

In the normal [illegible] and price are [illegible] related. The price and quantity demanded relationships are to be, therefore, established. Demand schedule (Table 14.[illegible]) shows the number of units the market will buy in a given period of time at alternative prices.

To prepare a demand schedule, one may depend on the following:

(i) Opinions of buyers – how much they intend to buy at different prices?

(ii) Behaviour of buyers – how much they actually buy at various prices?

The [illegible] relationship is measured in terms of price elasticity. It is given by the following formula.

Price elasticity of demand = % change in quantity demand / % change in price

Which products are price-sensitive and when?

(i) Products, for which there are no substitutes or competitors

(ii) When buyers, do not think the price is high

(iii) When buyers think that the high prices are justified by quality improvements, normal inflation, and so on,

(iv) When buyers are habituated or loyal i.e., when buyers do not switch over to other products or search for low price substitutes.

If demand is price elastic, sellers will consider lowering the price. A lower price increases volumes and revenues. Profits will be more when costs of production and marketing do not rise proportionally. In other words, when large scale economies are secured, profits go up.

3. **Estimating costs**

Costs set the floor, while demand sets a ceiling to the price that the company can charge for its product. In the first place, a firm wants to cover all the costs of production, selling & distribution and administration. Then, it looks for a fair return for its efforts and risk.

To price intelligently, management should know:

(i) total costs and its components i.e., variable and fixed costs,

(ii) how costs vary with different levels of production, and

(iii) how experience affects costs .

The short run average cost curve (SRACC) is U-shaped (Figure 14.1) and it will be beneficial to produce the least cost output volume.

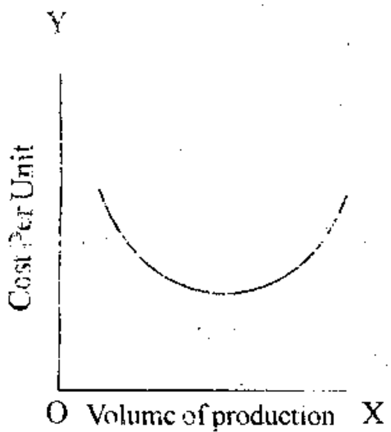

Figure 14.1 Short range costs

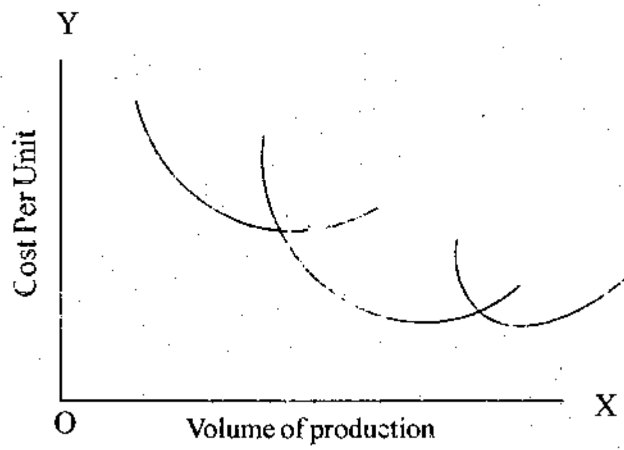

Figure 14.2 Long range costs

As volume of production increases, a firm decides to add capacities. Here it has to study the long range average cost curve (LRACC) shown in Figure 14 2 and decide the most efficient point of output [illegible] experience is [illegible]

[illegible]

[illegible] will [illegible]

[illegible] experience is not limited [illegible] experience in production [illegible] marketing [illegible] of operation.

[illegible]

[illegible] firms do [illegible] demand, [illegible]

[illegible]

[illegible] method

[illegible]

[illegible]	[illegible]
[illegible]	Markup pricing
	Target return pricing
[illegible]	Going rate pricing
Consumer oriented	Perceived value pricing
[illegible]	

[illegible]

[illegible] marketing mix elements [illegible]

[illegible] tion requires consideration of product, promotion and distribution [illegible]

[illegible] firms can charge high prices

(iii) Company pricing policies

A pricing policy should ensure

- consistency in pricing products in the product-line
- that sales people quote prices that are reasonable to customers and profitable to company

So the price fixation should be made keeping in view the guidelines offered by price policies.

(iv) Impact of price on other parties

Management must also consider, how other parties like suppliers, government and consumer councils react to the price. Whether the reactions would be favourable? Markets should be aware of the views of the public to avoid conflict and loss of business and image.

Activity - IV

Describe the steps involved in selecting pricing strategies?

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1[illegible].6 SKIMMING VS PENETRATION PRICING

In the introductory phase of a product, marketers can think of launching it at a initial high price or lower price. These two options are called skimming and penetration strategies. We will now try to understand what these strategies are and when they can be chosen by us as marketers.

Skimming Price: The product is initially priced high. It is systematically reduced over a time. As the life cycle progresses, prices are reduced in response to competitive pressures, and new market segments become the key targets.

Benefits

It allows companies to establish a flow of revenue that covers research and development expenses, as well as the high initial costs of bringing the product to market.

It helps to skim the cream of the market.

Suitable when?

- Price is used as a means to segment the market.
- The existence of a relatively strong inelastic demand for the product, often because the product has status value or because it represents a true breakthrough.
- Marketing managers are most likely to embrace a skimming strategy when

... capacity limits ... or when competitors face some barrier to market ...

Penetration Price: Marketers choose initially a low ... In the short run, it may even result in a loss. When the product is established in the market, price is raised.

Benefits: Its objective is to enable a new product to become established and survive in the long run. ... company achieves this objective by pricing ... that a profit is possible only if the company sells ... high volume and obtains a large market share.

... is likely to be the most effective and desirable approach under one ...

- ... very sensitive to price (elastic demand)
- ... the unit cost of manufacturing and distributing the product by operating at high volume (economies of scale)
- ... strong competitive imitation soon after introduction, because ... no patent ... no high capital requirement for production, and no ... competition out of the market (strong competitive threat)
- When market segments ... to be meaningful and there is mass market acceptance of the product (mass market acceptance).

Activity - V

Suggest market skimming or market penetration strategies for the following products

	Product	Pricing Strategy
1.	[illegible]	....
2.	... which lasts tw...	....
	[illegible]	
3.	Nicotine and ...	....
4.	[illegible]	....
	[illegible]	....
	[illegible]	....

[illegible]

A wide range of ... broadly categorised ...

Exhibit 14.1 Pricing strategies

Product-mix pricing strategies	Product-line pricing Optional-feature pricing Captive product pricing Two-part pricing By-product pricing Product bundling pricing
Differential pricing strategies	Variable pricing Penetration Skimming Discounting
Psychological and image pricing strategies	Reference pricing Odd and even pricing Prestige pricing
Distribution-based pricing strategies	F.O.B Delivered pricing Zone pricing Uniform delivered pricing Basing-point pricing
Competitive pricing strategies	Meeting the competition Undercutting the competition Price leadership Following the leader Predatory pricing Inflationary pricing

Here two of the pricing policies are discussed.

- Geographical pricing
- Promotion pricing

(A) Geographical pricing

The geographical distances matter most for companies planning to have a wider distribution. When distances are long, and transportation costs are formidable, company has to evolve a strategy to keep prices competitive.

We will now examine five major geographical pricing strategies

(a) FOB origin pricing : In this, the goods are placed free on board of a carrier. The customer pays the freight from the factory to the destination. As the distances increase the freight charges also increase raising the prices. It may become a disadvantage in a competitive market.

(b) Uniform delivered pricing: It is also called postage stamp pricing. Every customer pays the same price irrespective of their locations. The price includes the freight costs. This may be disadvantageous to local customers nearer to the factory. For the company, it offers many advantages

- It can maintain a nationally advertised price
- It is relatively easy to administer

(c) Zone pricing: We have seen that in FOB pricing, the distant customers face disadvantage. In uniform delivered pricing the local customer has disadvantage. Zone pricing falls between FOB origin pricing and uniform delivered pricing.

In zone pricing, a company establishes two or more zones. All customers within a zone pay the same total price. The price is higher in the more distant zones.

One disadvantage is: two buyers belonging to two different but adjacent zones may end up paying different prices. The one paying high price may be dissatisfied because the other buyer few Kms away in low price zone is paying less.

(d) Basing Point pricing: In this a firm may designate one or more places as basing points. It charges customers the freight cost from the nearest basing point, regardless of the place from which the goods are shipped.

Here also, depending on the distance from basing point, customers have to pay different freight costs.

(e) Freight absorption pricing: In this the seller does not charge his customers any charges. He absorbs them. This is done to get more business. The idea is, as business grows, the additional revenues will eventually compensate the extra freight charges.

(B) Promotion pricing: Pricing is quite often used as a promotional tool because for many products buyers are price sensitive. Promotional pricing takes several forms.

(i) Loss Leader Pricing

(ii) Special event pricing

(iii) Cash rebates

(iv) Low interest financing

(v) Discounts to middle men.

Loss leader pricing is used by retailers. Supermarkets and department stores drop the price on well known brands to generate store traffic. This may not be liked by manufacturers because such an action may dilute the brand image of their products and services. To avoid this, manufacturers maintain retail prices.

Special events like world-cup cricket and festivals, create a new enthusiasm among public. To exploit this, sellers announce special prices for their products. Consumers are offered cash rebates. To stimulate sales, this will help clear the piled up inventories or increasing the movement of brands.

Low interest financing is employed by companies selling durables. This helps the consumer to buy a product immediately and save for it, while using it. It has changed the rules of game – 'accumulate savings and buy in future' to 'buy now and accumulate savings to pay later'

Most companies offer discounts to reward middlemen for their active support.

(i) Cash discounts: A cash discount is a price reduction to buyers who pay their bills promptly. A typical example is 2/10, net 30, which means payment is due within thirty days, but the buyer can deduct 2 percent from the cost by paying the bill within 10 days.

(ii) Quantity discounts: A quantity discount is a price reduction to buyers who buy large volumes. A typical example is "Rs 10 per unit for 100 units and less. Rs 9 per unit for more than 100 units.

c) Functional or Trade discounts: The discounts are offered by the manufacturer to trade-channel members if they perform certain functions such as storing and record keeping.

d) Seasonal discounts: A seasonal discount is reduction to buyers who buy merchandise or service out of season. Seasonal discounts allow the seller to maintain same level of production throughout the whole year.

Allowances: Allowances are other types of reductions from the list price. We will explain two such allowances.

- *trade-in allowances* are price reductions granted for turning in an old item when buying a new one. Trade-in allowances are most common in the automobile industry and are also found in some other durable-goods categories.
- *promotional allowances* are payments or price reduction to reward dealers for participating in advertising and sales-support programs.

Resale Price Maintenance

It refers to enforcement of a price fixed by marketer for retailer to sell a product. When should marketer think of it? When retail price maintenance is practiced, marketer has control over price factor.

- In the first place, it restricts the freedom of retailer to employ price competition with a view to attract trade. He looks up at marketer for promotion support alternatively, he may turn to service competition or price competition on the other products which are not covered by retail price maintenance. Thus the policy may not infact reduce the amount of competition but merely change the nature of that competition.
- In the second place, retailer must be supported by company promotion, or manufacturer may add to the factor price, substantial whole sale and retail price margins.

Activity - VII

State the elements of pricing strategies?

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14.8 SUMMARY

In the marketing mix, price is a critical element, as it is a revenue generator. Price is market value of a product with several names like fees, rent, honorarium etc. Factors influencing price decision include cost, product line, marketing strategy, demand, competition, channels and politico – legal system. Price fixation can be in a range – the ceiling is fixed by demand and the floor by costs. The five pricing methods in vogue are: mark-up, target return, going – rate, perceived – value and sealed bid.

Pricing strategies are essential in a competitive environment. Strategizing involves a six step procedure: Selecting the pricing objective, Determining the demand, Estimating costs, Analyzing competition, Selecting a pricing method, and Fixing the final price. In the product introduction stage, two pricing approaches are practiced. They are skimming and penetration. Skimming strategy adopts high price to skim the cream of the market. Penetration strategy employs low price to grab a large slice of market.

Pricing strategies are categorized as – product mix strategies, differential pricing strategies, psychological and image pricing strategies, distribution based pricing strategies, and competitive pricing strategies. Geographical pricing policy variants are: FOB origin pricing, Uniform delivered pricing, Zone pricing, Basing point pricing and Freight absorption pricing. Promotion pricing takes several forms: loss leader pricing, special event pricing, cash rebates, low interest financing and discounts to middlemen.

Resale price maintenance refers to maintenance of selling price to consumers. When practiced, it avoids price competition but marketer has to provide promotion support to retailers.

14. 9 SELF ASSESSMENT QUESTIONS

I. Short Answer Questions

1. Define the terms 'price' and 'pricing'.
2. Explain the role of pricing in marketing mix
3. Identify the factors that influence pricing decisions.
4. Briefly explain (s) Sealed bid pricing and (b) Going rate pricing method
5 State the micro and macro factors influcing pricing?
6. What is going rate pricing? State its problems?
7. Define terget pricing

II. Long Answer Questions

1. Distinguish between skimming and penetration mehods of pricing. When are they employed?
2. What do you understand by the term price? Explain its significance.
3. What are the pricing policies based on geographical location?
4. Explain promotion pricing policies known to you with suitable example.

5. Explain (i) Mark - up pricing, and (ii) target return pricing. When are these methods suitable?

6. Explain (i) Mark - up pricing, and (ii) target return pricing. When are these methods suitable?

7. How do you determine price of a tractor in perceived value pricing methods?

7. Elaborate the steps involved in pricing strategy formation?

14.10 FURTHER READINGS

1.	Philip Kotler	:	**Marketing Management**, Prentice – Hall of India Pvt. Ltd., New Delhi, 2002.
2.	William G. Zikmund and Michael d' Amico	:	**Marketing** ,Thomson Asia Pvt. Ltd., Singapore, 2002.
3.	Rajan Sexena	:	**Marketing Management**, Tata McGraw Hill Publishing Company, New Delhi, 2002.
4.	R. S. Davar	:	**Modern Marketing Management**, Progressive Corporation Pvt. Ltd, Bombay, 2000.
5.	Rajagopal	:	**Marketing Management**, Vikas Publishing House Pvt. Ltd., New Delhi.
6.	J.C. Gandhi	:	**Marketing,** Tata Mc. Graw Hill, Publishing Co., Ltd., New Delhi, 1994
7.	William J. Stanton	:	**Fundamentals of Marketing,** Tata Mc Graw Hill, International, USA, 1997

14.11 KEY WORDS

Price	:	Monetary value of good or service in the market.
List price	:	Basic price fixed for the product and displayed.
Target return pricing	:	A target profit is included while fixing the price
Perceive value pricing	:	It is based on the understanding of consumer perceptions on value of the product.
Going rate	:	Firms price their product at the same level as that of competition.
Sealed bid pricing	:	Suppliers submit sealed bid to win the contract of supply.
Skimming price	:	Fixation of high price initially to capture selected market segments and lowering price subsequently to penetrate into mass market

Penetration price	:	Fixation of low price initially to penetrate into mass market and subsequently raise price when product is established.
FOB pricing	:	Goods are placed free on board or a carrier. The consumer pays transportation costs
Uniform delivered pricing	:	(Postage stamp pricing) – Every customer pays the same price irrespective of the locations.
Zone pricing	:	Company establishes two or more zones. All customers within a zone pay the same price.
Freight absorption pricing	:	Marketer bears the freight charges.
Loss leader pricing	:	Retailers drop the price of a well known brand to buyers
Cash discounts	:	Reduction in price to the customers who pay bills promptly.
Quantity discounts	:	A price reduction to buyers who buy large volumes
Seasonal discounts	:	Price reduction to buyers who buy merchandise or service out of season.
Allowances	:	Reductions from list price
Promotional allowances	:	Price reductions to reward dealers for participating in promotional activity
Resale price maintenance	:	Fixing the final price at which a retailer has to sell product to the customer.

UNIT-15 : CHANNEL MANAGEMENT

Aims and Objectives

The objectives of this Unit are to help you to:

- explain the nature and structure of marketing channels;
- discuss the importance of channel management;
- expalin the types of intermediaries, their importance and role;
- discuss the channel decision process and decision influencing factors;
- understand the evaluation of channel members;
- know why channel conflicts occur and how they are resolved; and
- explain the physical distribution aspects in channel management.

Structure

15.0 INTRODUCTION

Distribution is a key element in marketing-mix and important function in any economy. The very purpose of marketing is to satisfy human needs by delivering products and services of various types to buyers when and where they want them and at an affordable price. All marketing effort comes to nothing unless products are placed in the hands of those who need them. At macro-economic level, it creates and improves the standard of living of people and activates the process of economic development.

15.1 CONCEPT AND NATURE OF CHANNELS

The producers produce their goods and services in their manufacturing places and these goods will have no use if they do not reach the ultimate users. The Marketer will create the Market by transporting these goods and setting them through their outlets. But this system will not work if the product is consumed by a large segment of the market and if the consumers are scattered in different areas or territories. Therefore, for effective distribution of products, we need some important 'helping hands' or media to take these goods to all corners of the market. Distribution is concerned with the activities involved in transferring products from producers to ultimate buyers or users. However, the Modern connotation of distribution channels has been different. Like Marketing, distribution channels have also been defined by different experts in different ways.

According to **American Marketing Association** " A Channel of Distribution or a Marketing Channel, is the structure of intra-company organization units and extra- company agents and dealers, wholesale and retail, through which a commodity, product or service is marketed".

According to Mc Garry 'distribution channels is an identifiable, discrete, and indispensable function of Marketing'. **Processor Greather and Lox** defined distribution channels as"the combination and sequence of agencies through which one or more of marketing flows move".

A channel of distribution, consists of producer, consumer, and any intermediary organizations that are aligned to provide a means of transferring ownership (title) or possession of a product from producer to consumer.

(i) Distribution is an ancient function

It was found in a primitive economy in which people realized the need for specialization and exchange. They understood that efficiency can be gained if one person specializes in a certain activity, such as hunting, and another person specializes in a different activity, such as fishing or farming. They exchanged one good for another to satisfy their needs. In a primitive economy, distribution is straightforward; in today's global economy, it is far more complex. It is because of the distances, variety of supporting trade services, and variety of needs of buyers.

(ii) Key external resource

While manufacturing, research, engineering and field sales personnel represent internal resources, distribution represents a key external resource. It is an outcome of a significant corporate commitment to a large number of independent organisations whose business is distribution.

(iii) Link between seller and consumer

Most producers do not sell their product direct to consumers. They work with marketing intermediaries. The marketing intermediates act as a link between producer and consumer.

(iv) A channel with flows

The marketing intermediaries make up a marketing channel which is also called as trade channel or distribution channel. The channel facilitates forward flows (physical goods, title of goods, and promotion offers) and backward flows (ordering and payment)

(v) Complex

Channels represent a set of interdependent relationships among intermediaries and producer. Channels facilitate atleast five types of flows, which make simple marketing channels look complex. Channel design is long range proposition. It represents a significant corporate commitment to intermediaries.

Activity - I

State the nature of distribution channels.

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15.2 CONTEMPORARY MARKETING CHANNELS

The trends in marketing channels are stimulated by changing life styles and technological developments in communication and transport. Today more number of participants are involved in distribution function than before. Table 15.1 depicts them

Table 15.1 Channel Trends

	Traditional	Contemporary
1.	Direct selling to local markets	Direct selling to global markets : i) E-Commerce ii) Net work marketing
2.	Transactional marketing	Relationship marketing
3.	Traditional outlets - wholesalers, semi-wholesalers, stockist, C&F agents, itinerant traders, retailers, kirana, provision and medical stores. Pavement vendors, fairs, etc.,	Contemporary outlets - Departmental stores, super markets, hyper markets maals, petrol bunks, cooperative societies, NGOs, vans, public distribution system, Kisan kendras.
4.	Vertical marketing system	Horizontal and multi-channel marketing systems

Channel Structure

Channel structures are evolved based on the type of company products, target market segments and competition. Three different channel structures are briefly explained here.

- Vertical marketing system
- Horizontal marketing system
- Multi channel marketing system

1. Vertical Marketing System

A VMS comprises producer, wholesaler (s) and retailer (s) acting as a unified system. Mc Cannmon characterizes VMS as:

"Professionally managed and centrally programmed networks, pre-engineered to achieve operating economies and maximum marketing impact".

In contrast to this, he characterizes conventional channels which comprises an independent producer, wholesalers (s) and retailer (s*) as highly fragmented networks in which loosely aligned manufacturers, wholesalers, and retailers have bargained with each other at arm's length, negotiated aggressively over terms of sale, and otherwise behaved autonomously".*

VMSs achieve economies through their size, bargaining power, and elimination of duplicated services and channel conflicts.

We will now examine three major types of VMSs:

- Corporate VMS;
- Administered VMS;
- Contractual VMS.

A corporate VMS combines successive stages of production and distribution under single ownership. Vertical integration is favoured by companies that a high level of control over channels vertical integration can be achieved by backward or forward integration. Backward integration implies ownership of input supply operations. Forward integration implies owning product distribution outlets.

For example, Bata and Woodlands own their shoe shops across the country while also manufacturing footwear. Likewise, Raymonds owns some retail stores across the country while also produces textiles and woolens. In administered VMS, the key factor is not ownership but the size and power of one of the parties. A dominant manufacturer or wholesaler may coordinate successive stages of production and distribution.

- To integrate the operational programmes
- To obtain more economies or sales impact.

Firms like Hindustan Lever, Lipton, Proctor and Gamble, Nestle, TELCO, Maruti and others are able to get shelf space, support for promotion and price policies because their brands are market leaders.

In contractual VMS, independent members enter into a contract and operate. Such contract arrangements may take place at production and distribution levels – Some are wholesaler sponsored voluntary chains like the ones in vegetable and food markets, while others are retailer sponsored like Apna Bazaar in Mumbai (retail cooperatives); and yet others are franchises like Pepsi or Coke franchising a firm to produce and market their range of soft drinks in different areas. The form of VMS has great future as synergies are possible. In fact, the success of Parle (Exports)brands; Thums Up, Gold Spot, Limca, Citra and Maaza—could be attributed to its strong franchise network.

2. Horizontal Marketing Systems

Another contemporary marketing system that challenges the conventional one is the horizontal marketing system. This reflects the readiness or willingness of two or more non-related companies to put together resources to exploit an emerging market opportunity.

An interesting example of this was the tie-up between TVS-Whirlpool and Onida to market washing machines. The former manufactured washing machines in collaboration with the leading American firm Whirlpool and Onida advertised and sold them through its distribution channel. By doing so both were able to take advantage of the emerging opportunity in the Indian market. Adler calls this form of marketing as *symbolic marketing*

3. Multi channel marketing systems

Here, the firm uses two or more channels to reach one or more market segments. Lately, firms have been realizing that one system or a single channel system is not able to deliver the desired results.

- For one, the Indian market has grown dramatically over the last one decade with the emergence of the middle class, working couples and single child families.
- This growth is not just restricted to metros but spread across the country to towns and even rural areas.
- A single distribution system alone can not meet this opportunity.
- Even if it does, the cost of distribution will become highly prohibitive and hence the growth of the multichannel marketing system.

Consider the example of Larsen and Toubro's (L&T) standard switchgear products. This division has its own sales force to generate demand among switchgear panel builders and serve other major national accounts. It also has a dealer network who also sell to the same segments. Both, the company sales force and dealers depend on each other to successfully fight competition. For example, if the L&T salesperson finds that the chief engineer of a major project is looking for things beyond his reach, he introduces the dealer who may be able to take care of it. Or, if the dealer finds that a large and an important prospect has objections that are technical in nature and he cannot answer them, he gets the company's sales engineer to do the job.

Activity - II

i) Distinguish between traditional and contemporary channel trends.

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ii) State the different types channel structures.

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15.3 EVOLUTION OF CHANNELS

A well designed channel provides only a good beginning to your marketing effort. No marketing channel can be trusted to remain competitively dominant forever. Some of the causes are:

1. Consumer buying patterns

Some consumers may consider shopping as an entertainment. City dwellers may regard it as a stressful activity due to problems like traffic jams and lack of parking space. Tele shopping, Internet marketing and the direct to home channels providing customization and convenience are becoming popular.

2. Expansion of market

When market expands new channels may be discovered. For rural markets, new channels like vans, self help groups, cooperative credit societies, NGOs are employed. For cities, Maals and hyper markets are created.

3. New competition

As competition intensifies, marketers look for new channels.

4. Innovative distribution strategy

One should be innovative to keep abreast of competition. New technology in transport and communication opens up new ways of distribution. Such opportunities are to be tapped.

5. Product life cycle

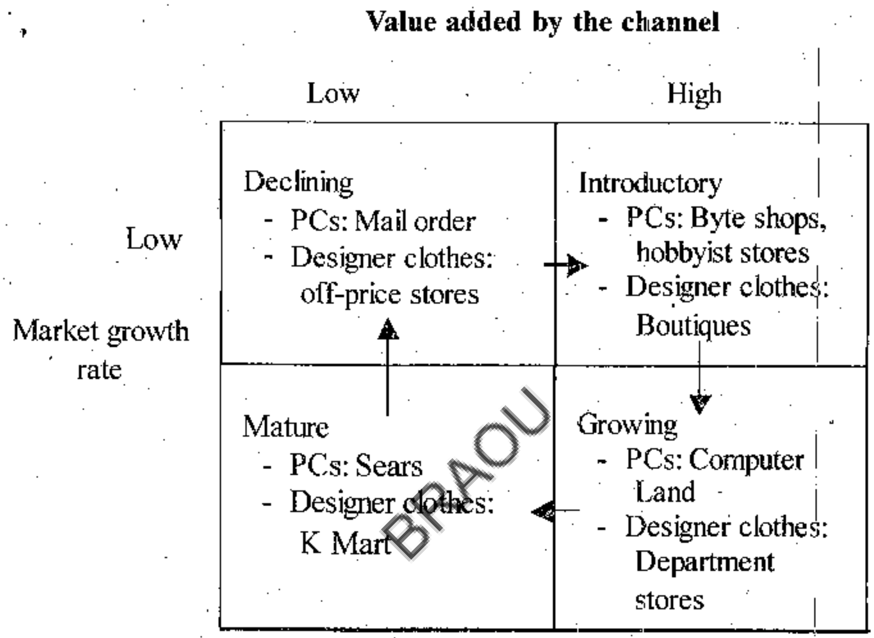
As Joel Dean pointed out a novelty product in course of time becomes a pedestrian product. It degenerates from a high-value offer to a low-value offer. Naturally, it moves from a speciality store to discount stores.

Miland Lee emphasising the same point developed a grid to show how marketing channels have changed for PCs and designer clothing at different stages in a product life cycle.

- *Introductory stage.* Radically new products or fashions tend to enter the market through specialist channels (such as hobbyist shops, boutiques) that spot trends and attract early adopters.
- *Rapid growth stage.* As buyers' interest grows, higher-volume channels appear (dedicated chains, department stores) that offer services but not as much as the previous channels offered.

- *Maturity stage.* As growth slows down, some competitors move their product into lower-cost channels (mass merchandisers).
- *Decline stage.* As the decline begins, even lower-cost channels emerge (mail-order houses, off-price discounters).

The earliest channels bear the problem of market creation; they are high cost because they must search for and educate buyers. They are followed by channels that must expand the market and offer sufficient services. In the maturity stage, many buyers want the cost to come down, and they patronize lower value-added channels. Finally, the remaining potential buyers can only be reached by creating extremely low value-added channels.



Source: See Miland M. Lele, "Matching Your Channels to your Product's Life Cycle, "*Business Marketing*, December 1986, p 64.

15.4 IMPORTANCE OF CHANNEL MANAGEMENT

Channel management is a significant part of marketing functions for the following reasons :

(i) Critical

Marketing channel decisions are among the most critical decisions facing management. The company's chosen channels intimately affect all the other marketing decisions. Consider the following:

- Pricing depends on whether it uses mass merchandisers or high-quality boutiques;
- Sales force size decisions depend on the spread and commitment of distribution network;
- Promotion decisions depend on dealer's motivation and training.

(ii) Long range impact

Channel decision involves relatively long term commitments to other firms. When an automobile producer appoints independent dealers to sell his automobiles, he cannot shift to another system overnight. The decisions as such require an understanding of the dynamics of market.

(iii) Channel dynamics are complex

The prime purpose of channels is to facilitate physical flow of goods and related flows. Managing these flows is one important aspect. Also different degrees of cooperation, conflict and competition are found within and between channel members.

(iv) Design decisions are difficult

Channel design decisions are difficult to make. Design considerations are many

- What is the distribution approach—intensive, extensive or selective?
- What are the characteristics of target market, product, competition and middle men?
- What are the resources available to company?

(v) Channel performance depends on management

Channel performance depends on how individual members are selected, motivated and evaluated.

15. 5 TYPES OF INTERMEDIARIES- ROLE AND IMPORTANCE

There are three types of middlemen that facilitate the flow of goods and services from the manufacturer to the customer.

a) Merchant middlemen: These are the intermediaries who take title to the goods and services and resell them. We know them as dealers, wholesalers and retailers. These middlemen get margins and bonuses as compensation. They share the risk with manufacturers when they take title and physical possession of the goods.

b) Agents: These are intermediaries who do not take title to the goods and services but help in identifying potential customers and even help in negotiations. The typical example is that of C&F agents, brokers, jobbers, and so on who act on behalf of the producer only to the limited extent of prospecting, warehousing and redistributing the products. They do not share risk with the manufacturers as they do not take the title to goods and services. Agents earn a commission and are reimbursed for all expenses by the manufacturers.

c) Facilitators: These are independent business units that facilitate the flow of goods and services from the producer to the customer, without taking a title to them or negotiating for them on behalf of the producer. Transport companies, banks and independent warehouses are examples of these institutions. These institutions are paid their service charges, as in the case of a transporter who charges freight or a banker who is paid service charges or warehouses, cold storages and godowns which earn rent.

15.6 CHANNEL LEVELS AND FLOWS

Five levels of distribution channels can be identified as shown below. Their characteristics are given in brief in Table 15.2

Channel 1: Producer – Consumer (direct distribution)

Channel 2: Producer – Processor – Local Trader – consumer

Channel 3: Producer – Processor – Cooperatives marketing Societies – Consumer

Channel 4: Producer – Processor – Wholesaler – Retailer – Consumer

Channel 5: Producer – Processor – Retailer – Itinerant Traders – Consumers

Table 15. 2 Characteristics of Different Distribution Channels

Channels	Advantages	Disadvantages
1.	• Maximum sales realization • Control over sales mechanism • Prompt and accurate delivery	• Difficult to withstand competition • Infrastructural problems • Problem in demand follow-up
2.	• Quick delivery of goods from local stockist/wholesalers • Equal responsibility on pricing, quality control • Low risk	• No scope for alternate decision making • Financial obligation and business set back • Lack of feedback for product improvement
3.	• Quality control & fixed prices • Equal sharing of profits between members of the society • Scope for expansion of market • State protection	• Political conflicts on co-operative banner • Vested interests • Managerial inefficiency
4.	• Distribution of risk • Delivery of goods may be done in bulk • Cost effective • Appropriate distribution and pricing strategy • Higher consumer coverage	• Lack of physical and financial loss • Transhipment of goods at various point may be difficult • Conciliation of profit and cost accounts are difficult
5.	• Appropriate for rural areas • More coverage in low income areas with consumer satisfaction • Appropriate sales strategy • Sales realization and profitability	• Area of marketing is limited • Risk in trading • Extent of credit transaction would be more • Marketing finance may be a problem

What will flow through these channels ? Only physical goods or services ? If we examine the channel flows we will be able to identify eight different types of flows through the channels. They are:

- **Information:** The collection and dissemination of marketing research information about potential and current customers, competitors, and other actors and forces in the marketing environment.
- **Promotion.** The development and dissemination of persuasive communication about the offer designed to attract customers
- **Negotiation.** The attempt to reach final agreement on price and other terms of the offer so that transfer of ownership or possession can be effected
- **Ordering.** The backward communication of intentions to buy by the marketing-channel members to the manufacturer.
- **Financing.** The acquisition and allocation of funds required to finance the carrying of inventory at any level of the marketing channel.
- **Risk Taking.** The assumptions of risks in connection with carrying out the channel work.
- **Payment.** Buyers paying their bills through banks and other financial institutions to the sellers for the goods and service provided.
- **Title.** The actual transfer of ownership from one marketing institution to another.

These functions and flow are listed in the normal order in which they arise between any two channel members. Some of these flows are forward flows (physical, title, and promotion); others are backward flows (ordering and payment); and still others move in both directions (information, finance, and risk taking).

Activity - III

How the producer service flows through the channels ?

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15.7 CHANNEL DESIGN DECISIONS

You have to understand that channel design decisions represent two levels:

(i) Conceptual

(ii) Operational

At conceptual design level, deciding on the best channels or ideal ones might not be a problem. But at operational level, the problem might be-

• to create a new channel ,or

• to convince one or few available middlemen to handle the line

Therefore, keeping in mind the operational aspects, manufacturer has to make decisions.

Channel design can be adaptive or creative. A new firm typically starts selling in a limited market. For instance, Karshan Bhai Patel started selling Nirma Washing Powder in the local market which included his friends, relatives and others. Since it has limited capital, it usually uses existing middlemen. The number of middlemen in any local market is limited to a few manufacturers sales agents, a few wholesalers, several established retailers, a few carrier (transport) companies, and a few warehouses. If the new firm is successful, it will branch out to new markets. Again the available network is identified and employed.

Thus the channel system design in an adaptive decision evolves in response to available local opportunities and conditions. Sometimes channel design decisions represent creativity. For instance,

- Eureka Forbes sold vacuum cleaners through personal selling
- Canybio health care products are sold though network marketing
- Hindusthan lever's products are sold through self help groups by undertaking micro – financing along with National Bank for Agricultural and Rural Development (NABARD) and Non-Government organisations (NGOS)

Steps

Designing a channel system involves the following steps

1. Analysing consumer needs for service outputs.
2. Establishing Channel Objectives and Constraints
3. Identifying the major channel alternatives
4. Evaluating channel alternatives
5. Selecting the right channel

1. Analyzing consumer needs

The marketing functions or flows performed by members of a marketing channel can be expressed in terms of *service out puts.* To design channel effectively, the designer must know as follows:

(i) The service output level desired by the consumers;

(ii) Aggregate demand function for each of the service outputs.

The consumer service output needs vary depending on the following factors :

(a) *Lot Size* – Some prefer to buy small lot size. More frequent the purchase is greater the level of service provided.

(b) *Waiting* – Waiting time is the period during which the consumer must wait after ordering. It should be short.

(c) *Spatial convenience* – To reduce transportation costs and time, greater dispersion of retail outlets (market decentralization) is required.

(d) *Product variety* – The greater the breadth of assortment provided by a marketing channel to the consumer, the higher the service output level of that marketing channel.

2. Channel objectives and constraints

Channel objectives should be stated in clear terms. They can be with reference to the following:

(a) Targeted service output level;

(b) Minimization of total channel costs;

(c) Desired market decentralization.

The objectives are to be considered in the light of constraints stemming from the company and environment.

i) **Product characteristics** : The nature of the product affects channel design.

- Perishable products require more direct marketing ;
- High unit value products are sold through authorized dealers or company show rooms;
- Non standardized products like machinery, material handling equipment, etc., are sold directly by company sales force.

ii) **Company characteristics : –** The size of the company, its goals, financial resources, product mix and marketing strategy influence channel design.

- Larger the size of a company, larger the market it services,
- Long run growth goals specify the channel development requirements,
- Financial resources impose investment and cost constraints,
- Wider product-mix, enhances company's ability to deal with customers directly. Greater the depth of the company's product mix, the more it might favour exclusive dealers. The more consistent the product – mix, the greater the homogeneity of marketing channels,
- Marketing strategy of displaying product along with those of competitors, speedy delivery to customers etc., influence channel design.

iii) **Competitor Characteristics :** What the competitors are doing and through which channels they are delivering goods? Should we follow them or set up a different channel? These are the relevant questions. For instance, Ponds and Godrej employ similar channels for their cosmetics. Some marketers want to avoid the channels used by competitors. They go for company show rooms or network marketing. We have seen Avon cosmetics are distributed through net work marketing.

iv) **Middlemen characteristics:** Marketing intermediaries differ in their aptitude for handling promotion, negotiation, storage, contact and credit. They differ in their strengths and weaknesses. An evaluation of these aspects is primary in choosing the middlemen.

v) **Environmental characteristics :**Legal regulations and restrictions, state of the economy; infrastructural developments and technology affect channel decisions. For instance,

- Liquor cannot be sold in all retail outlets. License is necessary for selling it.
- Inflation may require cost minimization and modifying channels to achieve that.

3. Channel alternatives

Obviously, a marketer has alternative channels to distribute his products. He has to identify and describe those channels. A channel alternative is considered based on three elements.

- Types of business intermediaries
- Number of intermediaries
- Terms and mutual responsibilities of each channel participant.

(a) Types of Business intermediaries, as stated earlier fall into three categories

- Merchant middlemen (dealers, wholesalers, retailers etc)
- Agents (C&F agents, brokers, jobbers etc)
- Facilitators (Warehouses, transport, etc)

For example, a computer manufacturer may consider the following alternatives

i) Company sales force

ii) Agents

iii) Distributors

iv) Own show rooms

v) Franchise units

(b) Number

Companies have to decide on the number of middlemen to use at each channel level. Three strategies are available. Table 15.3 presents a summary view of these approaches

- Intensive distribution........More retail outlets...
- Exclusive distribution.......Limited.....
- Selective distribution........Limited.....

Intensive distribution is preferred by marketers of convenience goods like toilet soaps, detergents, hair oils, cigarettes. They are distributed through countless wholesalers, pan shops, kiosks, super markets, departmental stores, provision stores and door-to-door sales force. Exclusive and selective distribution involves limited retail outlets and preferred by marketers of shopping and specialty goods like designer wears, automobiles, computers etc.

Table 15.3 Approach for Distribution Planning

(c) Terms and responsibilities

Planning Approach		
Exclusive Distribution	**Selective Distribution**	**Extensive Distribution**
Regional representation of suppliers Single authorised dealership Agreement of time and sales for the exclusive rights	Appointment of area stockist Selection of dealership based on the anticipated sale realization Spatial distribution of dealers Dealership selection based on consumer recognition and market credibility Retailing is more	Small outlets Random selection for dealership Smaller area of operation with large number of dealers.

The terms and responsibilities, when stated clearly pave the way for successful performance and durable business relationships. The main elements in the 'trade – relations mix' are:

- Price Policies
- Conditions of sale
- Territorial rights
- Specific services expected

Price policy establishes list price and discount structure. The discounts should be attractive and equitable to middlemen.

Conditions of sales refer to the payment terms and to guarantees. Generally, the payment terms induce early payment by offering discounts. For instance net 2/10, 30 payment terms offers 2% discount for paying on or before 10^{th} day. Guarantees are offered to replace defective merchandise or compensation in the case of price decline.

Territorial rights grant right to operate in the specific market area. Full credit for sales in that area is given to that particular middleman. Specific services expected of the middle man, if any, are to be specified. Generally, exclusive dealers or franchisees are provided with infrastructural and marketing support. In turn, they are expected to operate their outlets and perform services as stipulated by the company.

4) Evaluation of channel alternatives

Once, the channel alternatives are identified and described, the marketer proceeds to the next step – Evaluating major channel alternatives. Evaluation is to be done with reference to the objectives and performance expected. Three general criteria are helpful.

- Economic criteria-This refers to sales level and costs of distribution
- Control criteria- To what extent the channel meets the performance expectations in terms of customer relationships, sales and costs
- Adaptive criteria-To what extent there is possibility of switching over from one channel to another ?

Criteria		Own Sales Force	Sales Agents
1.	Economic		
	Sales level	Can be high by commitment	Can high , because well trained
	Cost (small territory)	High	Low
2.	Control		
	Relations with customers	Assured	Not assured
	Supervision	Vary, can be more effective	Less effective.
3.	Adaptive	Easy	Contratual : rigid

5. Selecting the right channel

Selection of channel depends not only on judgement of marketer but also the willingness of middlemen to be a channel member. Reputed companies like HLL, Godrej, WIPRO can attract any number of intermediaries. A new company has to work hard to line up the desired number of qualified middlemen.

Activity - IV

State the steps involved in designing a channel system.

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15.8 MOTIVATION AND EVALUATION OF CHANNEL MEMBERS

It is true that channel members are self – motivated to do business. But if they are to be motivated to further your business, your product, terms and conditions, relationships and strategies should be consistent with their expectations and needs. Then only they give top performance.

Motivating channel members involves the following

(i) Understanding needs and wants of middle men;

(ii) Offering incentives to satisfy their needs and wants.

Stimulating channel members to top performance must start with the manufacturer understanding the middlemen's needs and wants. The means to understanding them are:

i) Continuous, routine information collection through practices such as monitoring and interaction;

ii) Collection of problem – specific information from market research studies;

iii) Setting up of middlemen's committees;

iv) Conducting conferences and meetings.

A general understanding of middlemen interests and capabilities reveals the following:

- Middleman has self-interest that guides him to buy and sell profitable items
- He is purchasing many items from many companies to make his business competitive. As such, he is more a purchasing agency or a hired link of the organisation. He cannot think and work for any one company. He is thus not interested in maintaining separate sales records by brands sold.
- He is interested in stocking or selling brands the customers want. He pays attention to fast moving brands and discards the slow items. As much as a company is interested in pushing slow moving item, he is not.

Because of this, several complaints are heard of middlemen's behaviour. Some of them are:

- They fail to stress a given brand
- Their salesmen have poor quality of product knowledge
- They disuse suppliers advertising materials
- They maintain unrefined system of record keeping
- They neglect small segment of customers who prefer a traditional product

Tips for Motivational practices

Given an understanding of the middlemen, what do you do to motivate your middlemen? Here are some tips for motivational practices of marketers. They fall into three categories.

- Cooperation;
- Partnership;
- Distribution programming.

1. Cooperation

To obtain cooperation, most producers employ a human relations approach. They use the carrot and stick approach. They will use such positive motivators as higher margins, special deals, premiums, cooperative advertising allowances, display allowances and sales contests. The negative sanctions include – reducing margins, slow down delivery, or terminate the relationship.

2. Partnership

Partnership requires building a durable relationship based on mutual understanding and appreciation. The manufacturer spells out policies of compensating his middle men for various functions he expects them to perform. He obtains their agreements and ensures adherence to such policies. Instead of paying a straight 25 per cent sales commission, one company pays the following:

- Five percent for carrying the proper level of inventory;
- Another 5 per cent for meeting the sales quotas;
- Another 5 per cent for servicing the customers effectively;
- Another 5 per cent for proper reporting of customer-purchase levels;
- Another 5 per cent for proper accounts-receivable management.

3. Distribution Programming

Distribution programming aims at changing the thinking of distributors that they are on the buying side to seeing that they are on the selling side being part of a sophisticated vertical marketing system.

The manufacturer establishes a department within the marketing department called distributor relations planning. This department and the distributors jointly plan the merchandising goals, inventory levels, space and visual merchandising plans, sales-training requirements, and advertising and promotion plans.

Activity - V

Give the tips for motivational practices of marketer ?

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15.9 CHANNEL CONFLICT RESOLUTION

Channel dynamics involve cooperation, competition and conflict. A channel represents coalition of dissimilar firms working together for mutual advantage (manufacturers, wholesalers, stockists, retailers, etc)

They seek to cooperate with each other because;

a) they can more effectively sense, serve and satisfy the market

b) they can together produce greater profits than each one normally could achieve.

Channel competition arises because, the participants try to provide similar service inputs to the customers.

- Horizontal intertype competition is found when competitors at the same channel level seek sales in the same market.In India, Super markets, departmental stores, provision stores and kiranas, are competing to sell FMCG products like hairoil, soaps, detergents, mosquito nets etc

- Channel system competition arises when different channel systems compete for a product. For example, home appliances are today sold by door-to-door selling, multi-level marketing and conventional marketing channels.

Channel conflict occurs when competition becomes unhealthy or cooperation fails. Cooperation may become difficult because of perceptual and operational problems.

- Horizontal intra type conflict occurs between members firms at the same level of the marketing channel. For example, dealers of an automobiles company in a city may complain about aggressive pricing and advertising policies of other dealers of the same company.

- Vertical channel conflict occurs between channel members at different (manufacturers, wholesales distributors, and retailers levels). The **reasons** for the conflict can be

i) *Goal incompatibility.* A manufacturer may want to pursue rapid growth through low price, but the dealers may want to pursue profitability through high margins

ii) *Unclear roles and rights.* IBM sells personal computers to large accounts through its own sales force, and its licensed dealers. Territory boundaries, credit for sales, etc., are confused and causing conflict

iii) *Differences in perception.* Distributors might think that the manufacturer is trying to replace them when this is not the case

iv) *Level of interdependence.* Exclusive dealers, such as auto dealers, are highly dependent on their manufacturers. The greater the interdependence between channel members, the greater the potential for conflict.

Channel conflict cannot be avoided. Hence, attempts to reduce it are necessary. Some mechanisms for **conflict resolution** are:

i) *Channel captain leadership.* If one channel member acquires leadership and earns the trust of other members, it can set a tone that will reduce the potential for conflict and resolve conflicts more quickly.

ii) *Superordinate goals.* Members may cooperate more fully when they recognize a common outside threat to their survival.

iii) *Joint work.* Conflict is often lessened when channel members are able to meet more often,

iv) *Mediation and arbitration.* Administrative mechanisms such as mediation and arbitration procedures provide ways to resolve disputes when they happen.

v) *Communication.* An effective way to minimize channel conflict is to have regular communication between the manufacturers and the channel members. Most chief Executives today spend time with their channel members to understand market dynamics and communicate brand's positioning strategies. These meetings are also used to resolve channel member's problem. While these are many a time informal meetings some companies have an in-house newsletter which they send to all their major dealers.

This newsletter informs channel members of happenings in the market place and also the company's perspective of the products and markets.

Activity - VI

You are a leading retailer letting out prime shelf space demanding slotting allowance from manufacturers. The manufacturers of toilet soaps, packaged tea, pan masaala, shampoos and hair oils are willing to pay the allowance you have quoted to get shelf space in the front row. How do you resolve the conflict?

15.10 PHYSICAL DISTRIBUTION

Now we are in a position to examine the means and ways of stocking and moving goods from firm to customer.

Concept

The term physical distribution refers to the outbound logistics or to the flow of products, services and information from the firm to the customer through a defined network of transportation and information.

Several tasks are involved in physical distribution. The main **elements** are:

a) Order processing;

b) Warehousing;

c) Inventory;

d) Transportation.

Significance

Physical distribution is an important element in distribution.

(i) Time factor

Physical distribution creates place and time utilities to consumers. Companies lose their customers when they fail to supply goods on time.

(ii) Cost factor

Experts believe that substantial savings can be effected in physical distribution area, which has been described as 'the lost frontier for cost economies'. Physical distribution decisions when uncoordinated, result in high cost. There is a need to make use of modern decision tools for coordinating inventory levels, transportation modes, and plant, warehouse and store locations.

(iii) Promotion factor

It is not only a cost, it is a potent tool in competitive marketing. Companies can attract additional customers by offering better service or lower price through improvements in physical distribution.

Objectives

The objective of physical distribution is getting the right goods to the right places at the right time for the least cost. Evidently, this involves a trade—off between customer service and cost.

Maximum customer service implies large inventories, premium transportation and multiple warehouses all of which raise distribution cost. Minimum distribution cost implies cheap transportation, low stocks and few warehouses.

As such physical distribution decisions must aim at optimization of total system and not the sub optimization at the subsystem levels i.e., order processing, warehousing, inventory and transportation.

(i) Customer service

Marketers have to decide their service standards based on

(1) What the customers are looking for?

(2) What the competitors are offering?

Typical service standards are:

- Put the product within an arms length of customers;
- To deliver at least 95 per cent of the dealer's orders within seven days of the receipt;
- To ensure that damage to merchandise in transit does not exceed 5 percent.

(ii) Cost

The next step is developing a cost function for a service level as shown below.

$$D = T + FW + VW + S \text{ ——————— } (15.1)$$

Where ;

D = total distribution cost of proposed system

T = total freight cost

FW = total fixed warehouse costs

VW = total variable warehouse costs

S = Total cost of sales lost due to average delivery delay under proposed system.

The company should aim at minimizing the distribution cost of reaching a target level of customer service.

Key Decisions

We will now examine the four major decision issues

(1) How should orders be handled? (order processing)

(2) Where should stocks be located? (warehousing)

(3) How much stock should be held? (inventory), and

(4) How should goods be shipped? (transportation).

(a) Order Processing

The first phase in physical distribution is order – shipping – billing cycle. A customer order initiates several steps are:

i) Order department prepares multi copy invoices and dispatches them to various departments.

ii) Order is checked with available stock. Items out of stock are back ordered

iii) Items are shipped. Shipped items are accompanied by shipping and billing documents with copies going to various departments.

The whole process is now expedited with the help of computers by warehousing.

(b) Warehousing

A storage function is necessary because the production will be more than customer orders in general. Striking a balance between customer service standards and distribution costs, marketers have to:

- Decide on a desirable number of stocking locations depending upon the markets the firm intends to serve
- Choose the type of warehouses. Today a variety of warehouses, with advanced material handling systems and storage facilities are available.

(c) Inventory Management

Inventory management requires decisions relating to:

- Level of stock – Determining optimum order quantity;
- Time of ordering – Reorder point;
- Minimum stock level to meet emergencies – safety stock.

Today, just – in – time production practices and product customization are changing the inventory planning practices

(d) Transportation

Marketers have to make careful choice of transportation organisations. In choosing a transportation mode for a particular product, shippers consider such criteria as

- Speed
- Frequency
- Dependability
- Capability
- Availability
- Cost.

Activity - VII

What are the functions of physical distribution ?

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15.11 DISTRIBUTION PRACTICES IN INDIA

Pharma distribution

The distribution cost structure of this industry is higher as compared to other industries. The optimal country wide distribution system requires an in depth financial service analysis of the system such as carrying and forwarding agents, depots and super stock keepers. Pharma products go through a few more stages than typical products. They start from factory and reach the final customer, the patient, through the medical professional. However the value chain satisfaction is a debatable issue in this industry. The benefits are generally two-way. Fewer carrying and forwarding agents handling larger volumes, for instance, could save transportation cost. Agents will be satisfied with their space utilization so long as orders keep coming in. However, at every level of the distribution hierarchy an active salesforce seem to be playing an important role in pushing the orders in the pipeline that keeps their spirit up. In all, it can be stated that it is the logistics that make the distribution network profitable for the company.

The Usha International Ltd. (UIL), the company which is known for the sewing machines, also has the marketing arm of Rs. 1300 crore Siel Group selling the industrial and farm equipments as well as appliances. The company has a wide distribution network which includes:

- Divisional Officers (15)
- Warehouses (26)

- Company owned retail outlets (50)
- Exclusive sales and service centres and multi-brand outlets (5000). And
- Centralized spare parts facility centres for small appliances (8)

The UIL has a strong network of distribution channels and the products are made available to the customer at the low cost with higher extent of satisfaction as compared to the other companies. The distribution of 5000 sales and services centers of the company provides better access to the retailers and customers.

Jumpin soft drink of Godrej

The company had a small sales force in the beginning with a network of 17 carrying and forwarding (C&F) agents and 95 distributors spread countrywide. Within a span of 4 years, this number increased to about 200 C&F agents and a 1000 distributors. However the channel length is limited to two-tiers only.

Weighing Machines (Avery India Ltd)

Avery India Ltd has a concept of marketing products through its company sales force. Avery has no dealers. The company has 780 sales engineers out of over 2000 employers located at 86 stations spread all over the country. The engineer –marketing executives collect orders, place products and attend on post-sales requirements. Avery depends heavily on institutional sales. It sells brands to the client who recognise its quality and do not hesitate to pay 5 to 20 per cent more than the local brands. Hence, Avery has selective consumers and carefully segmented markets in the country.

15.12 SUMMARY

Distribution is important from firm as well as economy point of view. A channel of distribution links marketer and consumer directly or through intermediaries. Distribution is an ancient function, a key external resource, a link between seller and consumer, a channel with flows and complex in nature. Contemporary marketing channel include new intermediaries like NGOs, cooperatives, and self help groups. New approaches like network marketing and web marketing have revolutionised distribution. Channel structures present vertical, horizontal and multi-channel marketing systems. Vertical marketing system is of three types – corporate, administered and contractual.

Channel management has significance becase the decisions are critical; they have long range impact; channel dynamics are complex, design decisions are difficult and performance depends on management. Intermediaries are of broadly three types – merchant middlemen, agents, and facilitators. Five levels of channels are identified representing direct, and with a few to many intermediaries. The flows in a channel are information, promotion, negotiation, ordering, financing, risk taking, payment and title.

Motivating channel members is important. The popular motivating practices are cooperation, partnership and distribution programming. Channels once designed do not remain unchanged. Evolution with product life cycle, consumer preferences, market expansion and innovative distribution is quite common. Another important consideration is channel conflict. It arises because the participants try to provide similar service inputs to the customers. Horizontal intra conflict occurs between members of same level. Vertical channel conflict occurs at manufacturer, wholesaler or retailer level. Reasons can be – goal incompatibility, unclear role and rights, differences in perception and level of interdependence. Some of the conflict resolution techniques are – channel captain leadership, super ordinate goals, joint work, mediation and arbitration, and communication.

Physical distribution refers to the outbound logistics. The main elements in this part of distribution function are: order processing, warehousing, inventory and transportation. The objective of transportation is to maximize customer service level subject to cost constraints.

15.13 SELF ASSESSMENT QUESTIONS

I. Short Answer Questions

1. Define the term channels of distribution?
2. State the tips for Motivational practices.
3. What are the problems of the channel management
4. Explain the evaluation of channels.
5. What is channel conflict ? State the reasons?
6. Describe the distribution practices of some products in India.
7. Explain vertical marketing system in distribution
8. Highlight the importance of channel management
9. Explain the role and importance of intermediaries

II. Long Answer Questions

1. Explain the concept and significance of marketing channels.
2. Identify the contemporary marketing channels
3. What do you understand by horizontal and multi channel marketing system>
4. Discuss the merits and demerits of different levels of channels
5. Examine the factors influencing channel design decisions
6. How do you motivate channel members? What are the common complaints against them?
7. Why do channel conflicts occur? How do you resolve various forms of channel conflict?
8. What are the key decision areas in physical distribution? Explain the trade-off in its decisions.

15.14 FURTHER READINGS

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15.15 KEY WORDS

Channel of distribution : It consists of producer, consumer and any intermediary organisations that realigned to provide a means of transferring ownership (title) or possession of a product from producer to consumer.

Vertical marketing system (VMS) : Professionally managed and centrally programmed networks, pre-engineered to achieve operating economies and maximum marketing impact.

Merchant middlemen : Intermediaries who take title to the goods and services and resell them. Ex : Dealers, wholesalers and retailers

Agents : Intermediaries who do not take title to the goods and services but help in identifying and even negotiating with customers. C & F agents, brokers and jobbers.

Facilitators : Independent business units that facilitate the flow of goods and services from the producer to the customer without taking title to them.

Distribution programming : Producer planning jointly with the distributor the merchandising goals, inventory levels, space and visual merchandising plans, sales training requirements, and advertising and promotion plans.

Channel conflict : Difference of opinion among channel members owing to limited sources or opportunities.

Physical distribution : It refers to the flow of products, services and information from the firms to the customers through a defined network of transportation and information.

UNIT – 16 : E – MARKETING

Aims and Objectives

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

- understand the concept and features of E-commerce;
- discuss the web marketing issues;
- explain concept and applications of telemarketing; and
- understand concept and practices of Customer Relationship Marketing.

Structure

16.0 INTRODUCTION

As you have observed marketing management is undergoing revolutionary changes in the knowledge society and emerging global environment. Changes like shift from domestic family owned businesses to transnational business houses, expansion in market boundaries from local to global, preference to customized products in place of standard mass products, growing interest in consumption in place of savings, and increasing awareness of lifestyles worldwide are visible. Consequent upon this, there is a heterogeneous customer base which demands novel, more advanced techniques of marketing.

Now-a-days almost all the companies have started their business not only through old methods of selling but also via electronic media i.e., websites to inform, communicate and promote their products and service. This is done through development of interests and extranets.

16.1 NEW CONCEPTS

Some of the recent trends in marketing are e.-commerce, web marketing, telemarketing and customer relationship marketing. All these are new techniques of marketing to enhance customer satisfaction through provision of benefits in various stages of consumer buying and consumption process.

- E – Commerce – Business through internet which is becoming popular reaching a net worth of $ 300 billion.
- Web Marketing—Marketing products and services by creating websites or company portals
- Telemarketing —Salesperson initiating contact with a shopper and closing a sale over telephone.
- Customer Relationship Marketing—Company activities aimed at creating, maintaining and enhancing strong relationship with customers.

16.2 E – COMMERCE : THE NEW PLATFORM

Companies all over the world are finding E-commerce as the new platform for the business in the years to come. The application of E-commerce in the development has resulted in a paradigm shift in the business practices world wide. It is also termed as E-business, E-shop and E-market.

There are some successful organizations in India which are able to leverage through e – technology by cutting costs and increasing efficiency.

- LG India which has 25% of its dealer sales on line, expects to save Rs 40-70millions on a base of Rs 3800 millions of local parts procurement this year. LG electronics could cut its monthly telephone bills from Rs 9 millions to Rs 4 millions by using on line internal chat.
- SmithKline Beecham and HLL have realized savings in a range of 17-35% through reverse auction.
- TELCO, the automobile giant could reduce inventory from 65 to 20 days by using web enabled value chain management software.
- Maruti's extranet links it with 215 dealers and 300 suppliers. It has tie ups with Bank of America, Corporation Bank and ICICI Bank for payment gateways. Its e—auction for conversion from diesel to CNG of 17 fork lifts led to 40 per cent savings.
- Amul has leveraged its website to build a database of 1,10,000 customers. It receives 15,000 e -mails a day. The company uses e-mails to conduct market research, gauge customer expectations and promote new products like ice cream flavors.

As you have noticed Electronic-Commerce(e-commerce), internet, mobile commerce, B2B, B2C, email databases and www are the additions to our IT vocabulary. The word e-commerce is coined by the chief software architect of the world, Mr. Bill Gates.

1. Evolution of E-Commerce

Commerce, the exchange of valuable goods or services, has been conducted for thousands of years. Today, we think of commerce as conducting business, in which buyers and sellers come together in a marketplace to exchange information, products, services, and payments. Traditionally, business has been conducted in physical buildings, often referred to today as brick-and-mortar marketplaces. When the marketplace is electronic, business transactions occur across a telecommunications network where buyers, sellers, and others involved in the business transaction – such as the employees that process transactions – rarely see or know each other and may be physically located anywhere in the world. This process of buying and selling of products and services across a telecommunications network is often called electronic commerce, and the electronic market place is sometimes called a market space.

The initial development of electronic commerce began in the 1960s and 1970s, when banks began transferring money to each electronically using electronic funds transfer (EFT), and when large companies began sharing transaction information electronically with their suppliers and customers via electronic data interchange (EDI). Using EDI, companies exchange information electronically with their suppliers and customers, called trading partners, including information traditionally submitted on paper forms such as invoices, purchase orders, quotes, and bills of leading. These transmissions generally occur over private telecommunication networks called value-added net works, or VANs. Now small and medium – sized companies (and many large companies) are beginning to use the Internet, which is a less expensive network alternative to VANs for the exchange of information, products, services, and payments.

2. What is the Internet?

To understand the Internet, you must understand networks. A network is simply a group of two or more computers linked by cable or telephone lines. The group of linked computers includes special computers called servers that provide user access to shared resources such as files, programs and printers.

The **World Wide Web** (www), also called simply the **web**, is, therefore, a subset of the Internet where computers called **Web Servers** store documents that are linked together by hypertext links, called hyperlinks. A **Hyperlink** can be a text or a picture that is associated with the location (path and filename) of another document. The documents, called **Web pages**, can contain text, graphics, video, and audio as well as hyperlinks. A **Web site** is a collection of related Web pages. A **Web browser** is a software application used to access and view Web pages stored on a Web server. The two most popular Web browsers at this writing are Microsoft Internet Explorer and Netscape Navigator.

3 Concept of E-Commerce

Electronic Commerce (E-commerce) refers to use of computerized system in selling and distributing products. It can be described as "the buying and selling of information, products and services via computer network". This can be supported by a digital infrastructure called World Wide Web (WWW). Interactive media like text, sound and video are connected to an open net work.

E – Commerce is more than just buying and selling goods, it is about nurturing of relationship between consumers and organisations, between corporation and its employees, between government and the people it serves and between industry and society.

4. Functions

There are mainly four functions of E-commerce

- *The Communication Function.* It is aimed at the delivery of information and/or documents to facilitate business transactions at greater speed and accuracy.
- *The Process Management Function.* It covers the automation and improvement of business process (i.e., transfer of data from one computer to another computer)

- *Service Management Function.* It is the application of technology to improve the quality of service. Mainly customer service is greatly enhanced due to the website's capabilities.

- *Transaction capabilities Function.* This function provides the ability to buy or sell on the internet or other on- line services.

Thus the objectives and functions of E-commerce focus their attention on improving and strengthening the business performance.

5. Scope of E-Commerce

E – Commerce covers a wide range of products and services and people.

Model	Description	Types
B2C	Business to Consumers, sells products or services to consumers	e-retail(e-tail), brick and click companies, virtual malls, catalog merchants.
B2B	Business to business; sells products or services to other business or brings multiple buyers and sellers together in a central market place	B2B Store fronts B2B Aggregators B2B Trading hubs B2B post and browse markets B2B Fully automated exchanges.
B2G	Business to government ; business selling to local, state and central government	- -
C2C	Consumer to consumer, consumer sell directory to other consumer	- -
C2B	Consumer to business; consumer name own price, which business accept or decline.	Reverse auction Bids.

Following are some of the examples of e – commerce applications

a) Electronic Retailing

Electronic retailing is selling products to external customers through a computer network rather than through traditional retail stores or person-to-person sales processes.

Changes in the process of making airline reservations show how much is at stake in the way people purchase things. We will now see three of many possible processes for purchasing a seat on a flight. Using the first method, the customer works through a travel agent who uses a published airline guide but need to call individual airlines to determine seat availability and to make reservations. The second method shows the travel agent using a computerized database of flight availability information. The third method depicts the customer using the web to make the reservation directly, bypassing both the travel agent and airline personnel. In the first and second methods, the travel agent plays the role of broker by using information and expertise not readily available to the consumer; in the third method, however, the information system allows the customer to bypass the agent, and the travel agent loses a commission.

A traveller's choice between a traditional travel agency and an electronic one depends on whether World Wide Web access is readily available, whether it would be quicker to use the human travel agent, and whether the price or seat availability might be better with either choice. Some travel agencies are still thriving, however, because their business approach is to provide special services that are more convenient and more valuable than what one can find on the web.

b) Electronic Stock Trading

By 1997 web-based information and transaction capabilities spanned most of the customer involvement cycle for buying and selling stocks and bonds. Private investors could obtain readily available data and analysis software to identify stocks they wanted to buy and sell. Some of it could be accessed for free from the home pages of companies providing search engines and other services not specifically related to finance. Investors could make the purchases through Web transactions, touch tone phones, or human agents. Their stock and bond holdings and transactions could be tracked. They could obtain customer service information about the status of buy and sell orders.

c) Electronic Banking

The banking industry relied on computers for decades before electronic banking created new ways to provide service. A first step in electronic banking for consumers was the advent of automatic teller machines (ATMs) popularized by Citibank in the late 1970s. Thanks to ATMs, Citibank tripled its depositors from 1978 to 1987, increasing its local consumer market share from 4.5% to 13%.

The next step in electronic banking for consumers is to provide additional banking services and transactions through personal computers linked to the Web or to private networks. In addition to providing history and bank balance information, electronic banking permits people to pay bills without writing checks. The electronic banking customer starts by identifying checks that are written to the same payee repeatedly such as checks for rent, water, electricity, and car payments. The electronic banking system makes it possible to enter the amount of the check and then have the bank transfer the money into the payee's account without ever handling a physical check. For fixed payments such as rent, the amount can be entered once and then transferred automatically each month. For the customer, these electronic banking functions eliminate the annoyance of balancing a check book and some of the uncertainty about whether or not the check arrived. For the bank, the computer-to-computer transfers performed in electronic banking are more automatic and less expensive than processing paper checks for handling payment transactions.

d) Electronic Publishing

Publishing has taken on a new meaning in the world of electronic documents. Traditional publishing involved designing and producing a fixed document, such as a magazine or book, and distributing paper copies of it. Electronic publishing still involves producing the documents and distributing it, but the shift to electronic documents brings a wide range of new possibilities.

During the production process the document itself can be customized to the needs or transfer of specific readers. A multimedia document can augment text and graphics with audio, video, and models the user can execute.

User controls that can be designed into the document include scroll bars, outlining, active internal links, links to other electronic documents, and even links to page on the Web. The document can then be distributed in paper form or using a variety of electronic media including disketters, CD-ROMs, and access through the Web. The document can be sold as a fixed, resaleable object like a CD, or it can be sold more like software, based on a license that may be time-limited and may provide upgrades.

The Web provides one of the most intriguing areas for innovation in electronic publishing. Many print periodicals such as newspapers and magazines have created Web sites that provide excerpts from current editions and, in many cases, provide access to past editions and even search capabilities for finding information about specific topics. Some provide free access, but others, such as the Wall Street Journal, charge for access to archived articles. In similar fashion, a great deal of product-related information is available for free or on a subscription basis. One of the most significant trends in Web publishing is the juxtaposition of published content and advertising. Just as it happens with television programs, advertisers view the electronic publication as a way to contact potential customers whether or not the authors had something very different in mind.

6 Making E- Commerce work

E-commerce brings fascinating possibilities, but its success depends on resolving a number of tricky practical and technical questions. For example,

- How does the merchant know that the person buying something from a website is not an impostor?
- How does the customer know that the website is not fraudulent?

It is here that E-commerce needs a system to validate transactions and protecting messages in transit and transferring of funds.

a) Validating Transactions

The feasibility of consumers performing transactions using personal computers and networks depends on the development and implementation of effective schemes for identifying buyers and sellers and validating transactions. Fraudulent purchase transactions involving forged checks, stolen credit cards, and other types of fraud are already a multi-billion-dollar problem. Existing user name and password schemes are effective enough for restricting unauthorized access to private information in research reports and archival database on the web, but they aren't powerful enough to protect against fraudulent transactions that could create financial havoc.

An important step toward finding a practical way to validate transactions is the development of digital signature, which serves the purpose of a written signature by verifying the origin and content of a message. A digital signature is a number produced through complex calculations involving the message itself and a private encryption key unique to the sender. The recipient can use a public key, another number associated with the sender to decode the digital signature and thereby verify that the sender actually sent the message.

During a transaction, each party may want to verify the identity of the other party. This authentication can be done using a "trusted third party" called a certification authority. This is a company whose business consists of issuing digital certificates that provide an independent confirmation of an attribute claimed by a person offering a digital signature. A digital certificate is a computer-based record that identifies the certification authority, identifies the attribute of the sender that is being verified, contains the sender's public key, and is digitally signed by the certification authority. Digital certificates enhance the security of electronic commerce. For example, Visa provides digital certificates to card-issuing financial institutions, and those institutions provide a digital certificate to the cardholder. At the time of the transaction, each party's software validates both merchant and cardholder before any information is exchanged.

b) Transferring Funds

Debit cards, credit cards, smart cards, and electronic cash are alternatives to cash and checks for making payments. All of these options can be used to transfer funds. Specifically:

- Credit cards create a temporary loan due within a month after the credit card statement arrives.
- Debit cards transfer money from a buyer's bank account into a seller's bank account.
- Smart cards store a monetary value that can be increased by using a vending machine to transfer an amount such as $20 to the card, or can be decreased by using that card to pay for copies in a library or for telephone calls at a properly equipped pay phone.
- Electronic cash is like a smart card except that the cash balance is stored inside a computer rather than on a card.

The idea of electronic cash transfers the concept of a stored value card to a Web based environment. A person wishing to use digital cash, transfers money to a bank, which transfers the same amount to a digital purse that plays the role of a smart card in the computer. A user wishing to pay a small amount for accessing information or playing a game on the web simply transfers digital cash from the digital purse to the online merchant. Unlike a credit or debit card payment, the payment transaction is completed when the electronic transfer occurs. No record of who paid for what is necessary because the information regarding the purchase is delivered immediately and because the amounts are small, perhaps even fractions of a penny.

Digital signatures, digital certificates, and digital cash are all part of a new wave of identification and payment options that are being developed. These options extend an earlier wave of options based on checks and various kinds of physical cards. The challenges of moving in this direction combine technical, commercial, and societal issues. The technical issues involve tradeoffs between security, cost, and convenience, with the most secure approach being to simply avoid Web-based commerce. The commercial issues emphasize the merchant and customer's willingness and ability to adopt the new methods and to integrate them with existing business processes. The societal issues range from how the government will handle regulation and taxation to whether electronic commerce will become a way to exclude a sizeable part of the population from economic life.

Activity - I

i) Explain the concept of E-commerce.

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ii) State the functions of E-commerce.

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16.3 WEB MARKETING

The 21st century customer has several options to choose from. Unless you are unique, you cannot gain his attention. So you need have to make strategies for success. A comprehensive web strategy is complete only when:

- It attracts, invites and directs web surfers to the web presence that has been created web promotion;
- It manages to keep coming back regularly.

1. Website design and launch

The objectives of a site may be:

- Generate awareness for a product brand
- Build corporate image
- Generate sales enquiries
- Build an understanding of and relationship with customers via an inexpensive medium

Conduct e-commerce

The following guidelines help design the right website.

i) Length of the page should be short and interesting

ii) It must be different from all other web pages. Use attractive graphics and texts.

iii) Organize your website into a branching tree that starts with your home page and branches out into subsections of headers, fact paper, narratives, forms, thumb nail galleries, pictures, link pages and so on.

iv) Indicate your corporate logo at the top of every page

v) Provide for interaction. Surfer should be given an opportunity to interact with you, ask general questions.

vi) Make your website multilingual so that every visitor chooses his or her preferred language.

vii) Daily and weekly updating of products or information is a must. Every time the curious visitor finds something new to meet his requirements.

viii) Provide order form on a separate page along with a toll free phone number. Customers would, enter catalogue numbers and quantity in the form and would press 'submit' button when they've done

ix) Everywhere you describe an item, include its price. Price should be in US dollars because these are exchangeable through out the world. Provide a place for customer to enter a quantity and add a push button "Add to shipping cart"

x) Provide your standard shipment policy. Say for example, "In stock – 24 hours shipping guaranteed". Let customers choose from shipment method. Make sure your total include shipping costs and sales tax if that is appropriate.

xi) Display calculated discount prominently on order form. Display bold undiscounted total and your customer's special price. Offer a discount to people who order through web. The discount is justified because your transaction cost drop almost to zero.

xii) Test Your Web Site with a Beta Launch

Software companies allow users to test their software programs, which is called a beta test, before selling them to the public, in order to find problems—called bugs—in the software. For the same reason, it is a good idea for an e-business to test its web site with a beta launch. By allowing visitors to test its web site before marketing it to the public, an e-business can get critical feedback and make necessary changes before wide public exposure to the web site.

While a web site beta launch is being conducted, the marketing plan to launch the web site for public use must begin. Because there is a large time between the implementation of marketing initiatives and their effect on the public, the marketing efforts must begin before the official web site launch.

2. Web Promotion

One of the fallacies of the marketing approach adopted by many early e-business firms was the attitude that "If we build it, they will come". Even when viewers use search engines and directories to locate web sites more closely focused on their interests, the huge volume of available web sites may make it nearly impossible for any specific e-business's web site to appear in the viewer's search list. Unless an e-business makes a special effort to let potential viewers know how to find its web site, it is likely to have few visitors.

A comprehensive listing of the various options available are:

(a) Promoting via other sites

Banner Advertisements

Banner exchange schemes

Web Rings

Search Engines

Affiliate Programs.

(b) Promoting via your own site

Domain Names Registration

E-Mail and E-Zine

Contests

Building Communities—World of Mouse

Recommend-It.

(c) Promoting Elsewhere on the Web

Subject-specific outlets

Get reviewed

Get an award.

(d) Promoting off-line

Use your URL

Get some press.

Banner Advertisements

Banner advertising is an on-line advertising technique where small (usually about 6.5" x .8" or 400 x 40 pixels or 486 x 60 pixels) advertisements are placed on pages of a web site and are hyperlinked to the advertiser's website. The banner is the first thing seen as the page loads. These banner advertisements can contain logos, animations and messages as well as invitations to "click here".

Banner Exchange schemes

Under this, you would display a banner of others on your site for your banner to be displayed on another site.

Web rings

A ring is a collection of sites that agree to link to each other on the basis of similarity of content and/or target visitor. They are increasingly popular ways of trading links with similar sites. Their purpose is to allow more visitors to reach member sites quickly and easily.

Search engines and directories

One way to stand out is to make certain all major search engines and directories have information about the e-business in their indexes. Your web address (URL) should be easily available to surfers. For this, register your site with major web indexes, like yahoo, Lycos, Allavista etc. you can also register your website free of cost eg: Four //(**http://www.Four//.com**). This is an on-line directory that enables people to reach you by phone or E-mail you may also join who where? (**http://www.whowhere.com**). You can add your E-mail address, company name and home page to its directory at no charge.

The first step in submitting web site information is to carefully prepare a short description. Next, an e-business usually submits a set of approximately 25 primary keywords or phrases that potential viewers might enter when using a search engine or directory to locate web sites similar to the e-business's web site. These keywords should not duplicate the description, but complement it. Last, a directory generally requires information about an e-business's designated contact person. Figure16.1 illustrates the description and the key words submitted by foodlocker.com to various directories.

Figure 16.1 Sample description and key words

Description:
Famous restaurant specialties and regional delicacies. Local food and hard to find. Food you never forget !
Key words:
Specialty food, regional food, comfort food, local flavors, great food, home style cooking, food from home, online food store.

Affiliate programs

Affiliate programs are also known as referral programs or partnership programs. They offer a relatively simple way to attract the targeted audience of similar sites and to generate traffic and sales on your site. Only sites that sell goods or services online usually offer affiliate programs.

E-mail

E-mail is the oldest and most effective "push technology" available. E-mail is a proactive marketing communications method. E-mail is perfect for several marketing objectives including:

1. Building traffic to your site
2. Providing a direct marketing offer
3. Announcing a new product or building brand awareness

Contests

Contests capitalize on the "fun" element of the Web and involve target audiences in an experience rather than a marketing onslaught.

The range of contests that can be run are:

Opinion polls

Survey and/or feedback lucky draws

Online animated games

Build a community

The World Wide Web began as a forum of people from across the world sharing ideas and research. The most effective and time tested promotion for any web address is what is called "Word of Mouse". Word of mouse is when Internet surfers share their experiences with other Internet surfers either recommending site or warning others against it. Word of mouse is particularly powerful when surfers with the same interests t communicate with one another on or about your site.

Recommend-it

Recommend-it is an Internet service based on "word of mouth". It gives you a way of putting up a link on your web site that gives visitors an easy interface in which they can fill in the e-mail address of people they want to recommend your site to. The idea is to enable visitors who really liked your site to let others know of your URL by way of easy interface that eliminates the need to open a separate mail program.

Promoting elsewhere on the web

- *Register at association sites:* for example India mart, FIEO, India classifieds, specific product association sites.
- *Register at category journal/magazine sites:* And other interest sites in the category.

Listing your site at group sites with the same interest profile, same businesses, similar purpose for being on the web can lead to economics of site maintenance and promotion.

Large directory sites can organize joint promotions for all sites listed in the directory. They also have the advantage of being more popular with Internet visitors as they offer a wide choice of products/services/information rather than being limited to one company/service.

Promoting off Line

Use your URL like a brand name. Keep reminding your target audience that you are available on the net. Promote your website everywhere or rather cross promote.

- Put your home page address on all your business cards.
- Put it on your stationery say, letter heads.
- Put it in all your ads. Mention your URL in promotion in any other media – TV, print. Give a prominent place to your URL in corporate greeting cards.
- Encourage customers with off-line queries to visit your web site for product/service/ business details.

3. Web marketing evaluation

The performance can be evaluated by the following methods.

A. Benchmarking

Setting performance-based objectives and then measuring actual performance against those objectives enables an e-business to make effective decisions for both its current operations and its long-term strategies. The process for setting benchmarks includes:

***Determine the goal(s)*:** The first step in benchmark a web site is to determine the web site's operating goals. For example, if a web site goal is to increase sales, then the e-business will look for an increase in sales attributable to online ordering. If a web site objective is to reduce operating costs, then the e-business will look at the change in operating expenses over time, both in total dollars and as a percentage of sales.

***Set benchmarks*:** Once the web site's operating goals are determined, the e-business must then select the performance-based objectives, or benchmarks, to be measured against. These benchmarks may be developed from the actual performance of similar companies or from industry averages. For a brick-and-click e-business with historical brick-and-mortar performance, the benchmarks may also be based on expected annul increases over that historical performance. When determining its web site benchmarks, it is also a good idea for a new e-business to look at similar brick-and-mortar business as well as similar e-businesses.

Compare actual results to benchmarks: Once the set of benchmarks has been determined, the e-business should compare a web site's actual results with bench marks, to determine if the web site performed as well as, better than, or worse than the benchmarks.

Draw reasonable conclusions: Whether the web site meets its benchmarks or not, it is more important that the e-business's management arrives at meaningful conclusions on why the benchmarks were or were not met or exceeded. One measurement of web site performance is return on investment.

B. Return on Investment

However, an e-business must also be concerned with the ROI of its web site operations, and this ROI may not be initially measured as increased profit. There are many other ways to achieve Web site ROI that do not necessarily increase profit in the short run, such as:

Customer satisfaction: One of the primary returns on investment that an e-business generates is an increase in customer satisfaction. Although this may not be immediately measurable in dollars, it should lead to increased revenues and profits in the long term.

Increased sales: the ROI that most e-businesses are looking for is an increase in sales. They want to know that the capital they are spending is generating additional sales, which they expect will lead to increased profits.

C. Log file analysis

Web servers record all of the events that they process to files called log files. Every time a browser makes a call to a web server to download a web page, view an image, or submit a form, this event is recorded in the web server log file.

The following are examples of pieces of information that can be obtained from web server log files.

Visitors: Visitors are the actual number of viewers to visit a web site. A count of actual visitors is more meaningful than the number of hits. A hit is a recorded event in a web site's server log for each element of a web page downloaded to a viewer's browser. For example, if a viewer loaded a web page with four graphics in his or her browser, the web server would record five hits (one for the page and one for each of the four graphics). While early industry measurements were largely devoted to the number of hits at a web site, a hit actually bears no relationship to the number of pages viewed or visits to a site.

Page views: Page views, sometimes called impressions, indicate the number of times a given page has been viewed,. Page views can be examined to determine which people are – and are not – looking at a web site.

Page views per visitor: By dividing the number of page views by the number of visitors, the number of page views per visitor can be determined. This is a useful measurement of how deep visitors are going into the web site. A larger number means that visitors are looking at more pages and are likely to be spending more time at the web site.

***IP addresses*:** IP addresses can be used to determine a viewer's origin by looking up the domains that correspond to the IP addresses. Analyzing IP addresses enables an e-business to identify approximately from what countries its web site visitors are coming, as well as from what networks, such as AOL, MSN, or a university campus networks.

Referring URLS: A referring URL indicates how visitors reached the web site—whether they keyed in the URL directly or whether they clicked a link from another web site to view an e-business's web site. If the referring URL is a search engine, the search terms that the visitor used can usually be determined form the URL.

Activity - II

i) Explain the site objectives.

ii) What are Web Marketing evolution Methods?

16.4 TELE MARKETING

Tele marketing, the application of telephone to direct marketing efforts is the largest direct advertising medium in developed nations like USA. It is now becoming an important part of an integrated marketing communication program in developing countries like India.

1. Concept and Objectives

Tele marketing takes more than just telephones to get results. The most effective telemarketing programs make use of the latest technologies including communications hardware and software, particularly data base technologies. A well planned telephone marketing program is a carefully thought out and controlled activity which identifies and satisfies customers.

The objectives of telemarketing are:

- To reach a customer in a personalized, cost-effective interaction that meets customer needs.
- To identify the potential and actual members of a firm's target market
- To build and maintain satisfactory customer relationships

- To support direct mail, catalog, print advertising, commercial broadcasting, and/or field selling, and some times to replace sales representatives in handling marginal accounts.

2. Scope of Tele marketing

Tele marketing is a powerful tool because it has ability to create a positive image through a personal interaction with a customer or prospect. The scope of telemarketing is limited only by the imagination of the direct marketer. According to Fidel(1987), the seven most significant uses of tele marketing are the following:

1. Selling, including outgoing and incoming calling.
2. Setting qualified appointments
3. Generating leads
4. Surveying
5. Providing customer service
6. Advertising (public relations)
7. Pursuing collections

Selling

Tele marketing-based selling involves outgoing (or outbound) solicitations for a firm's products or services. Selling by telephone is the most profitable telemarketing application. With existing customers, it can be used to elicit reorders, sell additional products or services, or increase the volume of products purchased. It can also resell inactive customers, sell new prospects, and handle smaller customers that are not profitable to sell in person. Incoming (or inbound) telemarketing must be used in conjunction with some other method of promotion such as direct-response television advertising, print placements, or direct mail. In this role, telemarketing primarily involves order taking because the buyer sees an offer and calls to place an order.

Setting Qualified Appointments

Setting qualified appointments involves calling prospects, qualifying them, and setting appointment for salespeople. Even though salespeople may have much more knowledge about the firm's product line, telemarketers can also do better because of their concentrated focus on prospecting. Without the burden of prospecting, sales people are free to spend more time selling, which sharpens their selling skills and improves their closing ratios.

Generating Leads

A lead-generating program provides a source of information about prospects who have expressed an interest in the product or service offered by a firm. As a result, the prospect is contacted by a sales representative or is sent more information to stimulate a sale.

Surveying

Some firms use telemarketing surveys to gather market data about customers and prospects, including information about who makes the decisions in the household or business, what the customer(s) product needs, and product purchasing plans. This activity gives two benefits.

1. It generates leads by identifying potential candidates for future selling.
2. The information collected through surveys is entered in a database for further reference.

Providing Customer Service

Telemarketing is also used in connection with a customer service function. Customers call, for example, to inquire about where their order is, to complain that they have received the wrong products, or to report that their shipment has been damaged. After solving the customer's problem, the customer service representative may take the opportunity to announce new products or product modifications, along with price information.

Advertising (Public Relations)

Advertising that serves public relations function involves calling companies or individuals that could benefit from a firm's products or services and describing the opportunity to them. Such calls are scripted in much the same way as general advertising copy. The caller communicates about a new product or service or a modification to an existing product or service. No sales attempt is made on this kind of call because it just informs the other party of something he or she should find of interest.

Pursuing Collections

• Credit department telemarketing does not sell a company's products or services. Rather, it pursues receiving payment. Collections are an often overlooked aspect of telemarketing. The credit department's phone-related activities also include credit verifications.

3. Types of Tele Marketing

Telemarketing, the application of the telephone to direct marketing efforts, is the largest direct advertising medium in the United States today. Telemarketing methods are categorized as

- ***inbound***, where customers are calling a firm to place an order or to request more information or customer service, and
- ***outbound***, where the firm is calling customers and prospects to make sale or to offer information which it hopes will lead to a sale.

4. Telemarketing and Other Media

An important aspect of telephone marketing understands how it can best be integrated with other media. Both inbound and outbound telemarketing enjoy a synergy with other media because responses to a media combination will be greater than responses to only one medium. One reason for this is that people do not respond in the same way to messages in different media. A printed ad does not convey the same set of images as a person's voice elicits on a telephone. These differences argue for the use of a media mix to create varied yet mutually reinforcing impressions.

• Telemarketing and Print Advertising

Many newspaper and magazines ads feature either a local number or an 800 number for getting information or placing an order. Also, such space advertising usually contains a coupon the prospect can fill out and mail in. However, telephone inquiries and orders are increasingly more popular than mail-in options.

- **Tele marketing and the Yellow Pages**

National advertisers buy space in the yellow pages just as they do in magazines or newspapers. With a single space order, they can get either national coverage in many directories or regional coverage in just a few.

Firms put their 800 numbers in their yellow pages advertising to encourage inbound calls. This type of advertising is widely used by airlines. Most businesses, large and small, list their local phone numbers in their yellow pages ad to encourage potential customers to call and get more information about the products or services they sell.

- **Tele marketing and Catalogs**

Telephone ordering, especially the 24-hours-a-day, seven-days-a-week variety, has been a boon to the catalog business. Catalogs have enjoyed considerable success with 800 numbers because they offer callers toll-free ordering privileges. The average phone order is 20 percent larger the average mail order. Part of that difference in average order size may well be attributable to the use of credit cards, but some of it is clearly the result of personal interactions between the customer and a well-trained telemarketer.

- **Tele marketing and Direct Mail**

Tele marketers have learned that providing direct-mail recipients with the choice of either making a toll-free call or returning a reply card increases the total response to an offer. Compared to a mail solicitation, a phone call can evoke a more immediate action and a shorter response time to an offer. Telephone follow-ups can also clarify mailings that deal with complicated or complex products.

- **Tele marketing and Television Advertising**

Television offers exciting opportunities for selling goods and services directly to the consumer by linking the television ad with the telephone. Many direct-response marketers sell directly to the consumer through television, particularly when their products lend themselves well to demonstrations and/or testimonials.

- **Tele marketing and Radio**

Radio does well as a medium for promoting phone-in information request and orders. Radio has the advantages of specific program formats, which lend themselves to market segmentation, and low costs for its time periods. The key to success in radio is selecting the correct station format based on the audience the firm has decided to target.

5. Effective Tele marketing

Tele marketing is a powerful tool because it has the ability to create a positive image through a personal interaction with a customer or prospect.

Telemarketing can be made effective, by focusing on the following four key areas

i) Program — objectives, target audience and resources

ii) People — Tele marketing supervisors and representatives

iii) Equipment — Phones and information systems

iv) Process — Interaction style and script

A well designed program, furnished with latest technology equipment may fail if the people are not capable and their interactions are not meaningful.

(a) People

Most telemarketing operations can benefit from improvements in how they manage their phone representatives. Managing phone reps is simple in concept yet sometimes difficult in practice, because it deals with the least controllable aspect of a telemarketing operation, namely people. However, by carefully following a few tried-and-true steps, managers can make their jobs both easier and more rewarding:

- Determine exactly what the phone reps are to do, that is, determine their job responsibilities and operating procedures
- Establish performance measurements and expected performance levels
- Prepare a job description
- Provide phone reps with feedback based on the performance measurements

(b) Interaction

Telephone scripts are essential as each call is a sales presentation. These calls include the basics introduction, qualification of the prospect, presentation of the sales message, response to objections and closure.

Activity - III

i) Explain the objectives and scope of Telemarketing.

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ii) How do you Make effective Telemarketing?

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16.5 CUSTOMER RELATIONSHIP MARKETING (CRM)

'Caveat Emptor' – Customer is the king is what we know. Customer satisfaction and delight are overtaking brand loyalty today. The onset of internet and e-commerce has made the job even more difficult for companies. Comparison shopping has become easy and customers are becoming more demanding. In the light of these developments, more emphasis is being laid on relationship marketing. Customer relationship management, therefore, is a process whose objective is to enhance loyalty.

1. Concept of CRM

What is CRM? CRM is a well known concept to traders. Long since they have been practicing it. It has come to the centre stage since competition has intensified and facilitating technology is available. We will note some of the views on CRM

- CRM involves creating, maintaining and enhancing strong relationships with customers.
- CRM is oriented towards the long term goal of delivering long term value to customers and the measure of its success is long term customer satisfaction. It requires all the company's departments to work together with marketing as a team to serve the customer. It involves building relationships at many levels – economic, social, technical and legal – resulting in high customer loyalty.
- CRM is the marriage between the customer orientation and the emerging information technology to produce a memorable relationship experience to the marketers as well as to the customers.

Thus CRM presents a shift in marketing as depicted below

- mass marketing to personal marketing,
- passive, rational customers to active emotional ones,
- limited use of simple technology to widespread use of sophisticated technology,
- serving customers well to serving customers differently,
- measuring success with current profits/market shares to measuring success to life time profits/market shares, and
- customer acquisition to customer retention.

2. Significance of CRM

CRM is becoming essentially important for several reasons. Changing life styles of people, globalization, burgeoning middle class, commoditisation of brands, changes in brand evaluation parameters etc., are forcing marketers to focus on CRM. We will now present arguments why CRM is necessary in the present situation.

Many Indian companies have understood that their success is not on the factory floor but in customer's minds. They are struggling hard to build and maintain relationships with their customers.

- ***Club formation*** – Maggie club, BPL club, Barbie club, Saffola health heart club etc.
- ***Frequent marketing programmes*** – Free flights to frequent fliers by British airways, Indian Airlines, etc.
- ***Special facilities*** – Opel Astra card to car owners to provide special facilities like 24 hours service breakdown, etc
- ***Customer training*** – Hawkins offers training to cook effectively to its customers
- ***Relationship cells*** – Appolo Tyres opened this to specially develop and maintain relationship with customers.

- *Mystery Shopping Programmes* – Bank of America is using this to identify, appraise and reward on interpersonal skills and relationship building abilities of marketing personnel.
- *Awards*.– Welcome group gives awards to most loyal customers.
- *Digital Kiosks* – RPG's customers can create their own CDs from a base of 20,000 songs of their music world.

3. Implementing CRM

CRM has a significant role in creating strong customer bondage. It is an organizational process, which includes people, infrastructure, performance measure and controls, organizational alignment to the environment and new strategic patterns.

Basically CRM revolves around the management of customer life cycle. We start with customer acquisition either through the traditional advertising or through referrals. Then we move on to customer development through personalization of communication and customization of products and services through mutual learning process. We move to leverage customer equity and try to retain existing customers adding new customers.

Konosuke Matsushita, founder of Matsushita Electric, stated over 50 years ago, well before the computer revolution:

"We are responsible for delivering satisfaction to the customer not only by designing good products, but also by providing those products through carefully laid out distribution systems in which we should follow through to eliminate any inconvenience to our customers, such as difficulty in repair work"

Matsushita's broad view of the overall product offering is that the basis of customer satisfaction is the complete customer involvement cycle, the customer's entire involvement with the product starting with defining the requirements and acquiring the product. Figure 16.1 shows a five-step version of the customer involvement cycle along with some of the opportunities for improvement within each phase. The **steps** include requirements, acquisition, usage, maintenance, and retirement.

1. Requirements: Establishing what the customer wants, matching these requirements to the available alternatives, and, in some cases, customizing the product to fit the requirements.

Requirements features

- Increase product awareness
- Help define what the customer wants
- Help the customer identify the product that fits best
- Customize the product to fit the customer's needs

2. Acquisition: Determining the customer's acquisition cost, determining product availability, and performing purchase or acquisition transactions.

Acquisition features

- Improve timeliness of product availability

- Expedite the purchase transaction
- Provide discounts or other adjustments
- Simplify delivery of the product

3. *Usage:* The customer's efforts to maintain durable products over extended periods of time.

Usage features

- Provide training and/or information about product usage
- Make the product easy to use
- Provide information about product use

4. Maintenance includes the following features

- Provide ways to monitor product usage and operating cost
- Provide additional service in addition to a base product
- Help maintain the product

5. *Retirement:* Whatever must be done to get rid of the product or its remnants once it is no longer useful to the customer.

Each step in the customer involvement cycle provides a number of possible ways to improve customer satisfaction. Each of the five steps in the customer involvement cycle can be viewed as a separate subsystem that produces a product for the customer. Each of those products can be presented in terms of different combinations of information, physical, and service features.

Retirement features

- Help the customer dispose of the product when it is no longer useful
- Help the customer dispose of product-related waste

This CRM implementation process requires the following shown in Figure 16.1

(a) Creation and management of data mines and warehouses

(b) Development of appropriate organizational structures

(c) Investment in technology

(d) People development

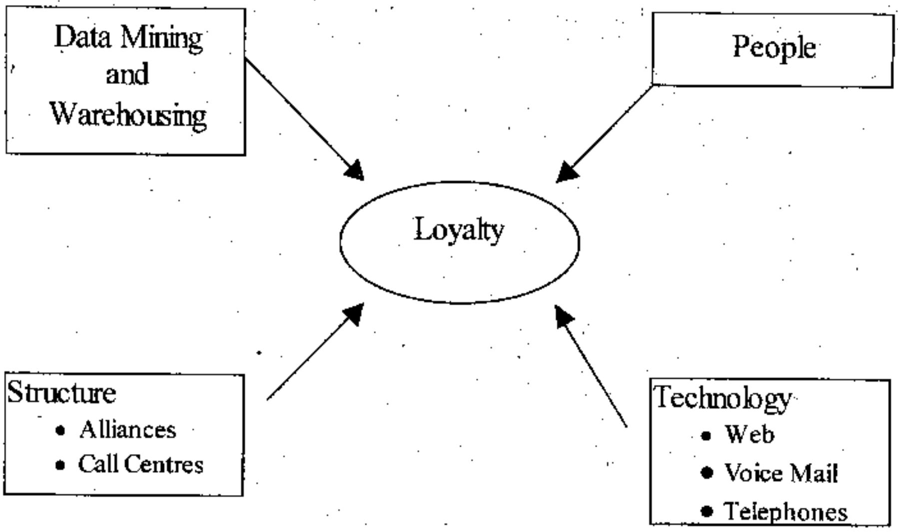

Figure16.1 The CRM process

Data Mining and Warehousing

Data warehouse refers to hardware and software that extracts data from a transaction database and stores it separately, for analysis and archival purposes.

Data mining is the use of data analysis tools to find patterns in large transaction databases.

Data mining should help the organization to disseminate information on customers to every one in the organization, which should facilitate each person's functioning and also make him or her customer responsive. The additional benefits of customer data warehousing in the CRM processes are shown in Figure 16.2 below.

While developing the data warehouse, the company needs to consider the costs that are going to be involved in it. Generally these costs are:

(a) ***Initial investment costs.*** This will include both hardware and software as well as resources (internal and external) to build the database.

(b) ***Running or operational costs.*** Costs involved in constantly updating with current information and practices. Without it, the investment will be outdated and ineffective.

(c) ***Enhancement costs.*** It contains more than name and addresses. It must contain demographics, purchase habits and preference. There is a cost to obtain it.

(d) ***Work force costs.*** Staffing costs are also involved in maintaining it.

These costs must be estimated at the start of the CRM process. Cost analysis could possibly lead the company to ask some fundamental questions on whether it needs to create its own database or could it buy from other sources.

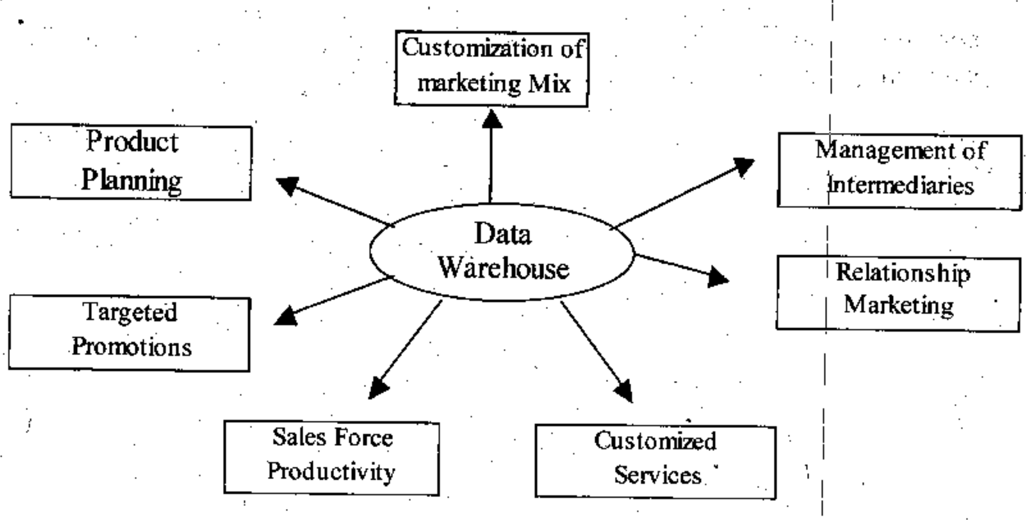

Figure16.2 Benefits of Data Warehousing in CRM

Organizational Structure

Vibrant and responsive organization is essential for CRM. Some approaches are:

- Development of inter-functional processes which ensure that customer problems are resolved by all the departments that have a role in it.
- Developing strategic alliances with other companies or intermediaries. Call centers are one example of a strategic alliance. Companies like General Motors, GE, airline companies all over the world and even telecom companies, have entered into strategic alliances with call centers that have been set up in India and other parts of the world.
- Appointing direct sales agents or independent marketing groups. These are more concentrated in the financial services segment and the cellular phone industry.

Technology

One of the key inputs in CRM is the use of technology for data mining and also for responding to the customer in real time. Some commonly used technological tools are the telephone, the internet, computers, fax and electronic data interchange

People

Eventhough technology today is extensively being used for the purpose of strengthening the linkage of the organization with the customer, one must not forget that behind all these technologies there is a human being. Unless the human beings have been empowered, have the knowledge and the right skills as well as a customer friendly attitude, the CRM process will just not work. In fact, it is one area where companies are realizing increasingly that they need to have the type of people who have the necessary perspective and understanding of their function, products, organization and a desire to be customer responsive.

CRM Evaluation

Companies could create unique score cards based on the following key parameters:

(a) how well the financial objectives have been achieved, as a result whether shareholders are satisfied with the organization?

(b) how well the customer perceives the organization/company's offer and do they feel satisfied and committed to the organization?

(c) organizational analysis with a view to identifying the process in which the organization has excelled and the ones where it is weak

(d) is the organization a learning organization and what has it learnt over a period of time?

(e) what are the knowledge management processes in the organization?

Evaluating the organization on the basis of such a score card could help the organization develop a cause and effect business strategy.

The other measure that has been suggested is the catalytic measure. This measure focuses on organization's efforts on identifiable changes. The implementation of such measures facilitates and speeds up the change in any area that the organization wants. According to Brown, the best catalytic measures are those that are considered credible by both customers and staff. Consider for example the communication at the back of a school bus, which tells the people that it is carrying school children and is being driven safely. It also gives the telephone number of the principal of the school. This announcement places pressure on the driver to be more cautious. This induces change in driving behaviour.

There are four steps that have been identified in implementing the catalytic measure. These are

1. identifying the area needing change
2. create a relevant yardstick of performance
3. develop the measurement approach through a consultative process
4. communicate and implement the problem.

Activity - IV

i) State the steps in implementation of CRM.

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ii) Listout the CRM process.

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iii) Explain the benefits of data warehoushing in CRM.

16.7 SUMMARY

Some of the recent trends in marketing are: e-comemrce, web marketing, telemarketing and customer relationship marketing. Many Indian companies like LG Electronics, Smithkline Beecham, and Maruti have been successfully engaged in e-commerce. In the place of brick and mortar companies, slowly we are finding the emergence of click and brick companies.

E-commerce refers to use of computerized system in selling and distributing products. The four main functions of e-commerce are: communication, process management, service management and transaction capabilities. The identified models of e-commerce are: B2C,B2B,B2G, C2C and C2B. The major problems in e-commerce are: validating transactions and transfer of funds. For validation, digital signature and certification authority are helpful. For transfer of funds options available include credit cards, smart cards, debit cards and electronic cash.

Web marketing strategy involves web design and launch to attract customers to website motivating them to visit it again and again. Several promotion measures are adopted. They include; banner ads, banner exchanges, web rings, search engines and directories, affiliate programmes, e-mails, promoting elsewhere and promoting off-line. Web marketing can be evaluated by methods likes bench marking, ROI, and log-file analysis.

Telemarketing is the application of telephone to direct marketing efforts. It is now becoming the largest advertising medium coupled with other media. For executing telemarketing, two options are available in-houe or outside bureau. Telemarketing can be made effective by focusing on program, people, equipment and process. CRM and e-CRM are gaining attention as customer retention is viewed more important than customer acquisition. Companies are adopting different programmes for CRM. CRM is based on customer life -cycle –requirements, acquisition, usage and retirement. Creating a CRM involves creating data mining and warehouses, organisation structures, technology and people. CRM can be evaluated by score cards and catalytic measures.

16.7 SELF ASSESSMENT QUESTIONS

I. Short Answer Questions

1. What is CRM? Why is it important?
2. Explain the scope of telemarketing.
3. How do you evaluate web marketing efforts?
4. What are the objectives of telemarketing?
5. Explain customer life cycle.

6. How do you implement CRM?

7. How do you evaluate CRM?

8. Explain : (i) Website (ii) Internet (iii) E-mail

9. Describe the following.

(a) E-tailing (b) e-banking (c) e-stock trading (d) e-publishing

II. Long Answer Questions

1. What are the functions of e-commerce?

2. What are the methods of e-commerce?

3. What are the new concepts of marketing?

4. Identify the companies engaged in e-commerce.

5. Identify the trends that have led to the emergence of e-commerce.

6. How do you make E-commerce work?

7. State the objectives of website in marketing.

8. Suggest guidelines for web design and promotion methods.

9. For telemarketing, do you prefer in-house or service bureau?

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16.9 KEY WORDS

E-commerce	:	Business through internet or world wide web.
Web marketing	:	Marketing products and services by creating and promoting websites or company portals.
Telemarketing	:	Sales persons initiating contact with a shopper and closing a sale over telephone.
CRM	:	Company activities aimed at creating, maintaining and enhancing strong relationships with customers.
Digital signature	:	It is a number produced through complex calculations involving the message itself and private encryption key unique to the sender.
Digital certificate	:	It is a computer based record that identifies the attribute of the sender.
Bench marking	:	Setting performance based objectives and then measuring performance against those objectives.
Log-file analysis	:	Web servers record all of the events that they process to files called log files. Analysis of visitors, page views, page views per visitor, IP addresses and referring URLs are examples of log-file analysis.
Data warehouse	:	It refers to hardware and software that extracts data from a transaction database and stores it separately, for analysis and archival purposes.
Data mining	:	It is the use of data analysis tools to find patterns in large transaction databases.

BLOCK - V : PROMOTION MIX

In this block, we have focused on the issues related to 'Promotion Mix'. Personal Selling, as the concept implies, is an individual to individual selling. Sales promotion is the method that makes use of incentives to complete the 'push-pull' promotional strategy of marketing. Publicity is non- personal stimulation of demand for a product or service by placing significant news about it in a published and non-published manner.

This block initiates a discussion on advertising, personal selling and sales promotion aspects. Unit - 17 discusses the role of advertising in marketing and also highlights the effectiveness of advertising in promoting the firms' product or service. The last unit i.e., Unit - 18 is related to the role of personal selling, sales promotion objectives and publicity.

UNIT – 17 : ADVERTISING

Aims and Objectives

After studying this Unit, you should be able to:

- understand the meaning of the terms, 'promotional mix' and 'advertising';
- know the role of advertising;
- determine the advertising budget;
- explain the method of selection of the media and measuring the impact of advertising; and
- understand the advertising agencies in India.

Structure

17.0 INTRODUCTION

We came to know from the earlier units that product planning, pricing and distribution activities are performed mainly within the company, or between company and its marketing partners. It is mainly through promotion the firm communicates to the present and potential customers in addition to the other related parties.

In fact, Marketing depends heavily on an effective communication flow between the company and the consumer. Manufacturing a product and making it available in the market is only part of the company job. It is equally important, or perhaps more important, to make it known to the consumer that the product is available in the market. In a competitive market, where several firms are striving to win over consumers, it is not enough if the availability of a product is made known to consumers. It is also essential to communicate the distinctive features of the product. The firm should also get feedback on how the consumers accept its products and interpret its messages. This multidimensional function can be carried out only through an effective, continuous and two-way flow of communication between the firm and the consumer.

In a free economy consumers are free to purchase what they want and from whomever they want. Hence, the promotion function becomes crucial. For example, while going for a major purchase, such as a washing machine, if no form of promotion existed, and if there are no advertisements informing you of the merits of the various brands of washing machines and no salesperson tells you the advantages of a particular brand over competing brands, you would have no means other than your own experience and the experience of people you know to provide you with information concerning the qualities of the various washing machines for sale. As a result of this lack of information, fewer washing machines would be sold. This would greatly increase the price you would have to pay for the washing machine when you finally decide to make a purchase.

17.1 PROMOTION MIX

Promotion is the persuasive communication about the product by the offerer to the prospect. It covers methods of communicating with consumers through personal selling, advertising, publicity, sales promotion, social contacts, public relations, exhibitions and demonstrations used in promotion. Largely it deals with non-price competition. The promotion mix consists of the following **elements**.

Advertising: Any paid form of non-personal (i.e., through some medium, such as radio, print, direct mail or e-mail) presentation and promotion of ideas, goods or services by an identified sponsor.

Personal Selling: A process of helping and persuading one or more prospects to purchase a product or service or to act on any idea through the use of oral presentation (person-to-person communication).

Sales Promotion: Incentives designed to stimulate the purchase or sale of a product, usually in the short-term.

Publicity: Non-paid, non-personal stimulation of demand for a product, service, or business unit by planting significant news about it or a favourable presentation of it in the media.

The overall objective of promotion is influencing the buyer behaviour and his predispositions. Of all the elements of promotional mix, advertising occupies prime role. As such first let us now discuss the role of advertising in marketing.

17.2 ADVERTISING

The basic purpose of advertising is to sell a product, a service or an idea. The advertisement seeks to influence the behaviour of customers. **According to Prof. E.F.L. Breach**, "The purpose of advertising is to reproduce percentage costs of production and distribution".

The term advertising originates from the Latin 'adverto', which means to turn round. Advertising thus denotes the means employed to draw attention to any object or purpose. In the marketing context, advertising has been defined "as any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor." Through an advertisement the advertiser intends to spread his ideas about his products/offerings among his customers and prospects. Thus, popularisation of products is the basic aim of the advertising activity.

Advertising is important not only to the business which uses it, but also to consumers and to the economy. Advertising is important to business because it is a means of speaking to many present and prospective customers. Advertising is important to customers because it is a means of finding out about various types of goods and services which are available. Advertising is important to the economy because it helps in selling goods, and this in turn creates jobs.

Advertising is the only means a marketer has to reach thousands or millions of people at the same time. It is by this method the marketer hopes to convince people to take the desired action. In this manner, advertising is mass selling. As mass selling, advertising must lead the customer through the buying process just as the salesperson does no personal selling. Therefore, advertising must attract the customer's attention, develop an interest in the product advertised, create desire for the benefits of the product, and convince the consumers to take same action. This action might be to mail in a coupon, to go to a store to further examine the product, or even to watch a particular television program. In order to be effective the advertisement must provide information about product availability and benefits.

17.3 IMPORTANCE OF ADVERTISING

Advertising is advantageous both to the manufacturers and to the consumers. Its advantages are as follows:

1. It enables the manufacturer to maintain the existing market and to create new market for his products.
2. It popularises a product and builds up prestige and goodwill for the producer.
3. It helps the manufacturer to appeal directly to the consumers. This is a direct contact between the manufacturer and the consumers and it results in the elimination of middlemen. The elimination of middleman helps the manufacturer to reduce his selling costs.
4. It brings to the notice of the consumers new products and guides them in the proper selection of products and helps them to satisfy their latest want.
5. It provides protection against deception because advertised goods are of good quality.
6. It saves the time, trouble and money of the consumers in obtaining information about the products.
7. It reduces the selling price of goods by expanding sales and production and by lowering the selling and production costs.
8. It raises the standard of living of the people by stimulating their desire for a variety of new products.
9. It increases employment by promoting sale and production. Further, many persons are employed directly in advertising.

Objectives of Advertising

The following are the main objectives of advertising.

1. It creates demand for the products in the market and gives information about the new products;

2. It increases the sales, goodwill and prestige of the firm;
3. It eliminates the middlemen and increases the standard of living;
4. It also provides information about the changes and make a reminder to buyers;
5. It compels the middlemen to sell and reduces the cost of production and distribution;
6. It also minimizes the seasonal fluctuations and helps in the recognition of a particular brand;
7. It helps to develop overseas markets;
8. It helps in effective competition and in building up the primary demand;
9. It reaches to those people to whom salesman cannot reach.

Activity – I

As we know the Advertising is important to the economy because it helps in selling goods, and thus creates jobs. In this connection what are the objectives of advertising?

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17.4 TYPES OF ADVERTISING

The objective of advertising may be to inform, pursuade, remind or reinforce the relevant people in the market. These advertisements may be broadly classified into the following **types**.

1. Product Advertising

All advertisements may be classified as either product or institutional advertisements. In product advertising, advertisers are informing or stimulating the market about their products or services. Product Advertising is often further subdivided into direct-action and indirect action advertising. With direct action advertising, sellers are seeking a quick response to their advertisements. An advertisement with a coupon may urge the reader to send immediately for a free sample. Indirect-action advertising is designed to stipulate demand over a longer period of time. Such advertising is intended to inform customers that the product exists and point out its benefits. The idea is that when customers are ready to buy the product, they will look favourably upon the seller brand.

2. Institutional Advertising

It is designed either to present information about the advertiser's business or to create a good attitude – build goodwill – towards the organisation. This type of advertising is not intended to sell a specific product or service of an advertiser. There are two types of institutional advertising.

a) **Patronage advertising:** This type of advertising presents information about the advertiser's business. A bank may advertise its new working hours or a change in the place of business.

b) **Public service advertising:** This type of advertising shows the advertiser as a "good citizen". A company's ads may urge the public to support a leprosy campaign (for example, TISCO) or to drive carefully. A company producing chemicals may tell what the company is doing to reduce the pollution caused by its factories.

Activity – II

How do you classify the Institutional Advertising?

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17.5 MEADIA OF ADVERTISING

Another important decision to be made relating to advertising is the selection of media. To reach hundreds or thousands of customers one requires a publicity media. The choice of publicity media, whether print, audio or visual depends upon the nature of product and the customers who will be its users. The following are the various types of advertising media:

1. **Print Media:** Print media means Newspapers, periodicals and various specialized magazines. Print media can be considered as a very powerful media to reach millions at a reasonable cost.

2. **Television:** The television network has undergone a sea change in India. Today one can have access to about 70% of the total population through television. It is the most powerful and at the same time most expensive media of advertising.

3. **Direct Mail:** The process of getting business through Direct Mail has not gained much popularity. In this approach, one sends message to a limited circle of individuals and try to personalize the message. It also allows for elaborate explanation about the product. It becomes difficult in preparing or updating of mailing list regularly. However, in the recent past due to increase in the numbers of internet connection, this media is becoming very popular.

4. **Outdoor publicity:** This includes advertising through hoardings, banners, bills, posters, etc. The key consideration is the proper location of these hoardings, so it can be seen by maximum number of people.

5. **Exhibitions:** Exhibitions are now being increasingly used as publicity media, even to an extent that exhibitions are being arranged for specialized product range only.

6. **Film and radio:** Film and radio are also used as advertising media. Films, both slides and documentary serve as audio-visual media. Radio is now available to common man and serves as a powerful audio appeal.

Essentials of an Effective Advertising

Thus, the ultimate purpose of advertisement is to induce the customers and influence them to buy the goods and services. To be effective, the advertisement must have right type of message. It must be communicated through proper media so as to reach the right people at the right time and at the lowest cost possible. To achieve this, advertisement should be properly planned and designed. Otherwise, it will fail to achieve its purpose and the money spent on it will be a waste. Designing an effective advertisement is a challenging task. But there is no definite formula for that purpose. But certain guidelines may be kept in view while designing advertisement.

Activity– III

Mention the various kinds of Advertising Media?

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17.6 ADVERTISING BUDGET

One of the important crucial decisions facing a company is how much to spend in promotion and more particularly on advertising. The amount of money required for advertising depends mainly upon the type of objectives set by the company.

The following are various methods for determining advertising budget of an organisation.

1. **Percentage of Sales Method:** It is the most widely used method of appropriation. There are several variations in the actual application of this method. The percentage may be based on last year's sales or on the estimated sales for the coming period or the combination of the two. Under this method, the advertising funds required are equal to rupee sales multiplied by the expected percentage. For instance, if the estimated sales are rupees 10 million and the expected percentage is 3, then the funds earmarked will be of the order of rupees 0.30 million. The merits of this method are the following.

Advantages

a) Promotion expenditures will vary with what the company "afford". This satisfies financial managers, who believe that expenses should be closely related to the movement of corporate sales over the business cycle.

b) It encourages management to think of the relationship among promotion cost, selling price, and profit per unit.

c) It encourages stability when competing firms spend approximately the same percentage of their sales of promotion.

Disadvantages

The disadvantages of this method include the following.

a) In this method, the sale works out as the determiner of promotion rather than as the result. It leads to a budget set by the availability of funds rather than by market opportunities.

b) It discourages experimentation with countercyclical promotion or aggressive spending. Dependence on year-to-year sales fluctuations interferes with long-range planning.

c) There is no logical basis for choosing the specific percentage, except what has been done in the past or what competitors are doing.

d) Finally, it does not encourage building the promotion budget by determining what each product and territory deserves.

2. **Objective and Task Method:** This method is gaining ground as it directs the attention to the objectives to be attained by the marketing programme. This method calls upon marketing managers to develop advertising budgets by defining specific objectives, determining the tasks that are to be performed to achieve these objectives and estimating the costs for performing these costs. Thus, this method, decides the appropriation of advertising funds on the basis of the objectives to be achieved and the tasks involved therein.

Advantages

- It requires management to spell out its assumption about the relationship among dollars spent, exposure levels, trial rates, and regular usage.

Disadvantages

- Theoretically this method is easy, but practically many problems may be faced in its implementation.

3. **Competitive Parity Method:** This method consists of setting the appropriation by relating it to the expenditure pattern of the major competitor or competitors. It is a matter of matching the annual expenditure of the competitor or an attempt to maintain the same set of relationship between the expenditure of the firm and that of a competitor. In other cases, this method may involve the use of average percentage so the sales spent by the firms in the entire industry and then applying that percentage to the firm's sales to arrive at the appropriations. For this purpose, the company must collect relevant, up-to-date and authentic data about competitor's appropriations in terms of sales ratios, percentages of advertising costs and sales.

Advantages: The following are the advantages of this method.

a) The competitor's expenditures represent the collective wisdom of the industry.

b) The other advantage is that maintaining competitive parity prevents promotion wars.

Disadvantages

The main disadvantage of this method is that there are no grounds for believing that competitors know better. Company reputation, resources, opportunities, and objectives differ so much that promotion budgets are hardly a guide. Furthermore, there is no evidence that budgets based on competitive parity discourage promotional wars.

4. **Affordability Method:** What a company can afford to spend is more important than what it thinks in terms of wonderful ambitious plan of advertising. Here, the company thinks in terms of its ability to spend depending on the prevailing business conditions and the resources at its command. This means that the advertising appropriation is possible only when the other more important and urgent needs are met. Under the method, the advertising expenditure is related to either the company profits or the assets. Thus, the management may decide, say 15 per cent of its profits or 5 per cent of its liquid assets for ad programme for the ensuing period.

However, this method completely ignores the role of promotion as an investment and the immediate impact of promotion on sales volume. It leads to an uncertain annual budget, which makes long-range planning difficult.

Activity - IV

As you know there are many methods available to you to prepare an advertising budget i.e., percentage sales method, objective and task method, competitive parity method and affordability method. State the advantages and disadvantages of percentage of sales method.

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17.7 MEASURING EFFECTIVENESS OF ADVERTISING

Management must know to what extent the message was received, understood, and believed by the target audience, as well as what effect it had on the behaviour of the receiver (trial, repeat buying). Message testing typically is concerned with alternative ways to present message to the target audience. The measurement of effectiveness of advertising can be made at two stages i.e., before and after the advertisement's issue.

1. Before Tests: No copy pretest can simulate exactly the conditions of exposure and the long-run effects of repetition on a particular audience group. There are, however, a number of ways to pretest message effectiveness, including the following:

- **Recall Test:** Recall tests of proposed print ads are inserted into a simulated magazine and respondents are told to read whatever interests them. After doing so, they are asked to "play back" ads they remember. They are also asked questions about ad credibility and product usage. Using the results, researchers can determine the extent to which the message got through and to what extent it achieved the communicator's objective. Unfortunately, recall scores too often reflect a brand's popularity rather than message content.

- **Commercial Test:** TV commercials are tested by exposing them in one or more cities and following up with several hundred phone interviews to find out how many remember the message. The results are compared with an average score obtained from similar studies and a decision made whether to accept or reject a commercial.

- **Sales Test:** Sales Tests commercials through the use of consumer panels located in a number of small cities. Purchases are recorded electronically by scanners at supermarket checkout counters by panel members using special ID cards. Behaviour Scan can inset test TV commercials into TV programs at the individual panel household level. They select household level. They select household samples on the basis of their purchase behaviour history.

2. After Tests: Measuring the effects of an advertising messages after it has run is difficult because the results are confounded by the effects of the media used and the frequency with which the audience received the massage. After tests tend to measure the effectiveness of the told advertising effort.

Advertising design after tests rely on the respondent's memory, which raises the problem of how soon after running the ad, the measurement should be taken. Also, testing that relies on a single measure in time does not reflect the learning that occurs with repeated exposure.

- **Recognition Test:** Recognition tests are most popular post exposure testing method for print media. Advertisers design these tests to measure the extent to which advertising copy is noted and read. Field workers interview people who say they have read a given issue of a magazine. Each respondent goes through the issue point out what was seen and read. When the respondent reports seeing an ad, the interviewer asks which parts were read. The interviewer starts each interview at a random point within the issue, so that the ratings are not affected by respondent fatigue.

- **Recall Test:** Recall Tests are another common way to measure the effectiveness of an advertising message, especially TV commercial, after it has been run. Respondents are typically aided in their recall. Interviewers show them a list of the advertisers and brands presented and ask which ones they have seen recently. Interviewers proceed to obtain playbacks of these ads from the respondents.

Activity - V

State the stages in Measuring Advertising effectiveness?

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17.8 ETHICAL ISSUES IN ADVERTISING

The statement "All advertising is a social waste" does not have much truth in the modern times. In modern competitive business, the importance and utility of advertising has proved its immense need to the business. So we cannot say that all advertising is a social waste. But advertising has been defamed on account of the evil deeds on the part of a few people. Even then we cannot say that advertising is a social waste.

Why Advertising is called a Social Waste?

As it has already been discussed that, the utility of advertising has proved its immense need to the modern business, but we should not pass over this question that advertising has been called a social waste. Advertising involves a lot of labour and capital. If it is not properly planned, it will not be able to attain the desired effect and the money spent on it will go waste. So, it becomes necessary to look to those causes which make it a social waste.

17.9 ADVERTISING AGENCIES IN INDIA

The growth of the advertising industry depends on the industrial development of the country. It also depends on the economic system followed in the country. Generally, Advertising industry will have more importance in a free economy. Since India followed mixed economy and gave more importance to public sector, the advertising industry in India did not grow well. Since 1985, due to the introduction of new economic policies allowing liberalization, privatization and globalisation, there is a tremendous change in the economy and it resulted in the phenomenal growth of advertising industry in India.

There are now over 400 advertising agencies as against just 100 advertising agencies around 1970. In the Indian market, today we have more than 11,000 branded products extensively advertised in all languages. Press advertisements account for about 50 per cent and TV advertisements account for about 18 per cent of the total advertising costs.

In the media sector, we have at present intense competition, e.g., TV/Radio, newspapers/magazines each attempting an increasing market share. In the press segment, we are witnessing regular media war. In the case of the press, competition is total. However, media owners are expected to adopt now customer-oriented approach to get rid of such unhealthy competition.

Advertising Agencies in India

The leading advertising agencies in India are: Hindustan Thompson, Clarion, Benson and Mather, Chaitra Advertising, Ulka Advertising, R.K. Swamy Advertising, Rediffusion Advertising, Sistas Everest, Lintas, Ogilvy and Mudra Advertising.

17.10 SUMMARY

Advertising decision involves decisions about the objectives, the budget, the message, the media, and, finally, the evaluation of results of advertising. As such, advertisers should set clear objectives as to whether the advertising is supposed to inform, persuade or remind buyers. The advertising budget can be based on sales, on competitors' spending, or on the objectives and tasks. The message decision calls for planning a message strategy and executing it effectively.

The media decision involves defining reach, frequency, and impact goals, choosing major media types, selecting media vehicles and deciding on media timing. Message and media decisions must be closely coordinated for maximum campaign effectiveness. Finally, evaluation calls for evaluating the communication and sales effects of advertising before, during and after the advertising is placed.

17.11 SELF ASSESSEMENT QUESTIONS

I. Short Answer Questions

1. Define advertising and discuss its advantages.
2. What are the different media of advertisement?
3. What are the purposes of advertising as a sales tool and as a communication tool? Does it fulfill its purposes?
4. Write a brief note on the following:
   a) Percentage of sales method
   b) Competitive parity method
   c) Recognition test
   d) Product advertising
   e) Institutional advertising

II. Long Answer Questions

1. Discuss the relative position of advertising objectives as communication tool and as a sales tool. Can you measure the effectiveness of advertising under these two sets of objectives?
2. Enumerate the important advertising media and point out their relative role and advantage.

23

3. What are the factors that have led to a boom in the advertising industry in India from 1991? Briefly discuss each of these with appropriate examples?
4. "All advertising is a social waste". Discuss.
5. It is said that advertising is a waste of scarce resources in a developing country like India. Do you agree? Substantiate your arguments with appropriate examples.

17.12 FURTHER READINGS

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17.13 KEY WORDS

Advertising Campaign	:	Advertising efforts relating to a specific product extending over a specified time period.
Product Advertising	:	The advertising promoting a company's products.
Media Plan	:	The plan that specifies the media mix and the date, time, and sequence in which advertisements are scheduled for release.
Television	:	It is a powerful communication tool.
Recognition Test	:	It is a post exposure testing method for print media.

UNIT - 18 : PERSONAL SELLING AND SALES PROMOTION

Aims and Objectives

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

- understand the meaning of personal selling and salesmanship;
- explain the objectives of personal selling;
- evaluate selection and training of sales force;
- explain the qualities of good salesmen;
- know the compensating potential of sales force;
- understand the functions of sales promotion along with the types of sales promotion; and
- explain the role of publicity and public relations in marketing.

Structure

18.0 INTRODUCTION

Personal selling occupies the predominant role in the marketing of products or services as it involves personal element. It is a marketing process with which consumers are personally persuaded to buy goods and services offered by a manufacturer. This process of selling is ensured by personal selling supported by advertising, sales promotion and publicity.

Personal selling is a component of the communication mix (Promotional mix). Personal selling is a two-way form of communication that has a number of advantages from the point of view of marketing organization. It is a crucial part of the total marketing process.

Personal selling is the only function in promotion mix that brings the buyer and the seller face-to-face. As a result of this contact, the marketer has the opportunity, through salespeople, to speak personally with the customer. Personal selling is important in almost all promotional programs because, as it has been said, "Noting happens in business unless the product is sold. " It takes personal selling, in most cases, to sell the product.

Personal Selling and Salesmanship

Selling is one of the oldest professions. The people who do the selling go by many names; salespeople, sales representatives, account executives, sales consultants, sales engineers, agents, district mangers, and marketing representatives to mention just a few.

The terms 'personal selling' and 'salesmanship' are often used without distinction. However, there are some vital differences between the two terms. Salesmanship is seller initiated effort, that provides prospective buyers with information and motivates them to make favorable decisions concerning the seller's products or services. 'Personal selling' is a highly distinctive form of promotion. It is basically a two way communication involving not only individual but social behaviour also. It aims at bringing the right products to the right customers. It is employed for the purpose of creating product awareness, stimulating interest, developing brand preference, negotiating price, etc. Thus, keeping in view the diversified nature of personal selling, let us now discuss in this unit the growing importance of personal selling, its changing role, functions and process.

Personal Selling - Definition

The American Marketing Association defines the term personal selling as "the personal or impersonal process of assisting and/or persuading a prospective customer to buy a commodity or service and to act favorably upon an idea that has commercial significance to the seller."

In the words of **Mr. Garfield Blake,** " salesmanship consists of winning the buyer's confidence for the seller's house and goods thereby winning the regular and permanent customer."

Professor William J. Stanton says, that "personal selling consists of individual, personal communication, in contrast to mass relatively impersonal communication of advertising, sales-promotion and other promotional tools.

Thus, personal selling has been defined as personal, persuasive communication that helps customers buy those products or services which will fulfil their wants, needs or desires.

Salesmanship - Definition

Dr. Carlton A. Pedecison and Dr. Milburn D. Wright have defined "Salesmanship as the process whereby the seller ascertains and activates the needs or wants of the buyer, and satisfies these needs or wants to the mutual, continuous advantages of both the buyer and the seller."

Harold Whitehead : "Salesmanship is the art of presenting an offer that the prospect appreciates the need for it and that a mutually satisfactory sales follow."

Thus, salesmanship is an oral presentation in conversation with one or more prospective customer for the purpose of making sales. Salesmanship is the ability to remove ignorance, doubt, suspicion and emotional objections concerning the usefulness of a product.

18.1 IMPORTANCE OF PERSONAL SELLING

The increase in complexity or products has increased the importance of personal selling. Manufacturers of highly technical products such as computers, electronic typewriters, digital phones, micro wave kitchen appliances, remote control equipments etc., depend more heavily on personal selling.

The growing competition from domestic and international markets also increased the importance of a sales person in the marketing effort of a firm. In personal selling, company's sales person pushes the product in the market by positively motivating the prospective customer through oral presentation or demonstrating the product in question. The following are reasons for the growing **importance** of personal selling.

(a) **Flexible tool :** Personal selling is more flexible and adaptable to the varying purchase situations. It is possible for a salesman to adapt himself to the needs, motives, impulses and other behavioural traits of the prospective consumers so as to communicate the message and clinch the deal.

(b) **Target orientation :** In personal selling, the possibility of wasted effort is minimal because, unlike advertising, the whole effort is focused on a qualified target consumer. Also, there is a minimum possibility of message diffusion when a message goes to a large number of unintended audience and distortion arises when there is a 'noise' owing to a plethora of messages being transmitted or flashed at consumers. The salesman is better placed to focus his message on qualified consumers only and undo distortions by suitably manoeuvring the messages.

(c) **Regeneration of interest :** It is possible for a salesman to detect loss of consumer attention and interest and regenerate them by frequent repetitions and reinforcements.

(d) **Logical process :** In personal selling, it is possible for the salesman to carry the qualified target consumer through a logical and persuasive reasoning process so as to consummate sale.

(e) **Profitable relationship with customers :** A relatively durable relationship may be developed between salesman and consumer(s) which makes future sales exploration much effective. "The salesman can help his firm achieve the objective of perpetuity or hiring for ever, by establishing a lasting, mutually profitable relationship with his customers.

(f) **Marketing research :** The salesman acts as a marketing researcher also. He gathers and promptly transmits relevant market information which often helps the company in making timely strategic and tactical adjustments. Levit has aptly remarked that "selling is as basic to our society as metabolism is to life," and further adds that it is the salesman because of whom the "the wheels of industry are made to hum, income is generated, standards of living are raised, and in the process even leisure time is generated."

Activity - I

How is personal selling important ? Discuss.

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18.2 PERSONAL SELLING OBJECTIVES

The first task in sales management is to determine precisely the place of personal selling in the marketing mix and to set the personal selling objectives. The role as well as objectives of personal selling may vary from company to company. They depend on the overall objectives of the firm, the overall strategy adopted by it, the type of products, marketed, the nature of the target market chosen, the type of channel pattern chosen, the resources available, and competitors' practices in these aspects.

The personal selling has many objectives. They are ;

- to search for the new customers.
- to increase sales to contribute to profit objections by selling proper product mix.
- to educate customers regarding product improvements.
- to keep customers by informing changes in product line.
- to keep personal selling expenses.
- to attract dealers to stock and sell more
- to bring more customers to dealers, and ensure good relationship among them.
- to attract sales force to take higher targets, and ravened them for retire role in customer services.
- to build company good will, etc.,

18.3 PERSONAL SELLING PROCESS

Personal selling is an ancient art that has spawned a large body of literature and many principles. Effective sales people operate on more than just instinct - they are highly trained in methods of territory analysis and customer management.

Companies spend lakhs of rupees on seminars, books, cassettes, and other materials to teach salespeople the "art of selling". Many are curious to know how and the salesman to through the process of selling. Millions of books on selling are purchased every year, with tantalizing titles such as "How to Sell Anything to Anybody, How I raised Myself from Failure to Success in Selling. The Four - Minute Sell, The Best Seller, The Power of Enthusiastic Selling. Where Do You Go from No.1 ? and Winning through Intimidation." One of the most enduring books on selling is Dale Carnegie's "How to Win Friends and Influence People."

Steps in Personal Selling Process

The Salesman has to provide satisfactory services to the customers by providing right goods **of right quality** in right quantity, at right place, at right time and at right price. The selling process can be divided into following seven stages :

1. Prospecting
2. Pre-approach
3. Approach
4. Presentation and Demonstration
5. Overcoming Objections and
6. Closing the sales
7. Follow-up.

Let us now discuss these stages step by step.

1. Prospecting

Prospecting : Prospecting is the first stage in the selling process. Searching for prospects is called prospecting. Prospecting implies finding out new customers. It means collecting names and addresses of persons who are likely to purchase the products and who have adequate money to buy the product and also have the need of the product. Such persons are termed as prospects. The salesman searches or explores for valuable prospects, people with a need for the product or service which he sells.

Selection of Prospect : In order to select a prospect or to qualify a person as a prospect, the salesman has certain qualifying test questions. It is difficult for a salesman to meet each person and prospecting him, i.e., salesman has to qualify a few selected persons who are likely to be his customers.

2. The Pre - Approach

A salesman collects information i.e., names and addresses of prospects in order to convert these prospects into customers. Conversion of prospects into customers requires an approach. If salesman effects this approach without any preparation, he may not be able to achieve desired results. Therefore, before approaching the prospects, it is necessary for a salesman to have additional information about these prospects. This information normally includes, likes and dislikes, habits, tastes, financial standing, social esteem, marital status, family background , etc. Such details enable the salesman to prepare effective sales talk.

Pre-approach : Pre-approach means preparing sufficient ground for approach. It can be termed as an effort to get more information for ascertaining whether particular individuals have really the purchasing ability, authority and whether they have really the need for the product.

Pre-approach thus implies getting more detailed information about a particular person to have effective appeals . Many times a question arises as to when the prospecting ends and where pre-approach begins. As selling is a continuous process, it is difficult to state with absolute certainty the point of start and end. However, it can be said that prospecting ends when the salesman arrives at a conclusion that he has sufficient knowledge of a prospect whom he can convert into customer.

There are various sources of information which can be tapped by a salesman in order to have successful pre-approach and approach. These include : fellow salesmen; local newspapers; sales office; customers; trade directories; personal observation; and special investigations.

3. Approach

Once the process of prospecting is complete, the prospects are finally determined. A salesman has to meet every one of the prospects of persuade them to buy the product. Approach means face-to-face or personal contact of the salesman with the prospect and the actual beginning of the sale. The salesman should be careful to make his first impression favourable. He should be neatly dressed, courteous, and friendly in his behaviour and tactful and sincere in his talk. He should know how to get along with all types of people. Approach is regarded as a delicate stage where the sales are won or lost. Approach is a stepping stone for sales presentation.

Requisites of a Good Approach

A good approach is one that is characterized by the following essentials which can be expected of an effective approach. These requisites are very nicely developed by Russel, Beach and Buskrik in their standard work namely "Text Book of Salesmanship". These essentials can also be called as principles. These are :

i) **Making suitable appointment :** The appointment of a salesman with a prospect may be definite or elastic in terms of time. Whatever may be the type, the salesman is to plan his visits with sufficient margin of time between two appointments or interviews. Much depends on the prospect himself as to prefer a definite appointment to elastic one or vice-versa.

ii). **Timing the approach :** Wise salesman meets his prospects at the most opportune time. Opportune time implies his receptive mood. To sell the products like fans, refrigerators, air-coolers etc.,he will meet just before the summer season. The person, selling cars, T.V. sets, scooters should see the prospects just after their promotion and so on.

iii). **Using the business cards :** It is almost a necessity these days to use vising cards. The question is that of handling over these cards before or after meeting the prospect. In addition to these cards, it is suggested by some veterans that these cards should be accompanied by some presentations.

iv) **Looking good/attractive :** Appearance of a salesman is of top significance in approach. What impression others carry about him is a key factor. It is his look or appearance that creates an atmosphere of talking to him. It is his appearance that clears the way and can straight talk to the prospect. Appropriate appearance fits the occasion and make him more important that speaks of his poise and dignity.

v). **Avoiding the early dismissal :** Quite often, the salesman has the fear of being dismissed well before he could present his ideas of his proposal. This happens either because of the disinterest of the prospect or the inability of the salesman to make the sale. The secret lies in his appealing to his buying motives and presenting interesting and latest information to him.

vi) **No apology :** The salesman should never apologize for taking the valuable time of the prospect. In fact, he should feel that he is doing the prospect a favour by calling on him. Apology for taking time indicates that salesman is guilty of making a call and even unsoundness of his proposal.

vii) **Winning undivided attention :** Salesman should command undivided attention of the prospect to involve him in sales proposal. Some prospects have the habit of listening to others and doing their work too. A prize, awaiting an exhibition or a present may help capturing his attention.

viii) **Centering the attention :** As soon as the salesman meets the prospects, the attention of the prospect is focused on the salesman and not on his proposition. That is why, the salesman is to be the effective conduit pipe to center his attention not on him but on his product for sale. He will do so if he demonstrates or speaks about the features of the product.

ix) **Removing the sales tension :** Removal of sales tension is the major mission of a shrewd salesman. The moment the salesman starts speaking of his products, some try to avoid it by having barrier of resistance. Such frigidity or tension can be eased in case he tells the prospect that his intention is not to sell but to present his ideas on his proposal. His honest and sincere way of convincing evaporates the likely resistance.

x) **Calling back :** All salesman will not succeed in selling the product at the first attempt. Failures at first sight need not lead to total rejection. Second and subsequent calls may result in sale. New approach from change angle should be his aim, as the prospect has many dimensions of looking at the proposal. It is not the number of attempts, but the success that is to be counted.

Methods of Approach

There are eleven standard methods of approaching the prospects. The knowledge of all these divergent methods is must for a salesman for it helps in combining these different methods to his advantage to get maximum for his efforts put in. These methods are :

1. **Introductory Approach :** This is the most common approach. The salesman introduces himself by saying . "Good Morning, I am so and so and I am representing XYZ company. Then the salesman starts his talk on sales proposal. If the company is unknown to the prospect then such an approach fails to gain favourable attention. Sometimes the prospect may not be interested in the product or in the salesman. Then, there will be no appeal.

2. **Product Approach :** Many times the customers like to handle and examine the product before they form their opinion. Under this method, the sample product is handed over to

the prospect. In order to make appealing, the product offered should be popular, attractive and unique so that the product tells its own story.

3. **Consumer benefit Approach :** The consumers are interested in products wherein guarantee regarding performance of product, economy, space, physical appearance etc., is given. Consumer benefit approach is designed for the consumers. Hence it is likely to be more appealing.

4. **Curiosity approach :** Under this approach, the salesman for attracting the attention of the prospect instantly, appeals to the instinct of curiosity. The salesman may simply send a message on a separate paper along with his visiting card. The message may run as "Can you spare few minutes to advice me in solving a business problem?" This idea proves useful in many cases. This idea can be fully exploited by the salesman.

5. **Shock approach :** Shock approach is another useful aid of a salesman. It may be old age, sickness, death, security, theft, depreciation that have greater and deeper concern in one's life. It is fear over all these that makes the prospect to think and act. The salesman particularly selling service can take full advantage of this. This approach makes the prospect to think about reality of life, thinking about the things which he avoids normally.

6. **Showmanship and imaging Approach :** This approach is not appreciated by all the prospects. The salesman can arrange for good show manship for the benefit of some significant prospect. It is rather difficult to say about the shape of show manship. An enterprising man can do anything to dramatize this approach when the situation demands it. The salesman should adopt this approach carefully.

7. **Questions approach :** Use of questions for opinions of getting an interview is important. In that, it is an art itself, use of questions can be effectively used with other complementing approaches like consumer benefit or curiosity. The questions must be suitable and specific according to the needs of a prospect. These questions must be asked keeping in mind the buying motives of the prospects.

8. **Statement approach :** Under this approach, the salesman can open interview with some solid statements of achievements or benefits to the prospect. Such achievements have their own impact. Sometimes, statements may contain facts regarding the products or its use for the prospect. Such statements are normally concluded with a question seeking prospect's reactions.

9. **Premium approach :** Sometimes the salesman virtually bribes the prospect to get his attention. The certain things like pencils, cigarette cases, lighters, memo-books are distributed to them because it is the human urge to get something for nothing. It brings prospects in a good frame of mind and creates a more permissive atmosphere.

10. **Survey approach :** The prospect is more likely to receive the salesmen and will listen to his proposition with interest and involvement, in case the salesman comes with a detailed analysis presented under survey. Care is to be taken to see that there should not be imagination in the real findings. A research work proves very useful to the salesman. This method has been misused by some unscrupulous salesmen.

11. **Complimentary approach :** There is no harm in complimenting a deserving prospect. Appreciation, praise and compliments can be good tools open in interview. However, the salesman should not push this belt of flattery too far, his trick is brought to light. Of course, there are some people who tolerate the insincere compliment.

4. Presentation and Demonstration

Presentation refers to the arrangement and decoration of articles in the shop. Effective presentation helps the salesman in convincing the customers his proposition to sell. Effective presentation is a vital factor in selling process increasing and holding the interests of the customers towards articles. Properly designed presentation can create new wants.

Essential features of a good presentation : The following are the essentials of an effective presentation

a) Promptness in presentation

b) Clarity

c) Showing the goods of proper quality and quantity

d) Arousing interests

e) Suggesting tests

f) Handling the goods with appreciation

Demonstration in the sales process

Demonstration is one of the effective methods of good presentation of the goods to the customers. All the features of all the goods cannot be orally explained to arouse interest in customer. Demonstration is a way of assuring with proof to intensify the desire. The demonstration must be done in a very methodical way, hence it should have been prepractised and rehearsed by the salesman. Demonstration should cover every presentable feature of the product. The prospects must be induced to buy the product after seeing and following the demonstration. While demonstrating, a salesman can use films, slides, video casettes, testimonials, pictures, photographs, charts, models, samples, advertisements, etc.

Successful and effective presentation and demonstration of products play an important role in effective sales. It helps in pushing up sales. So a successful salesman should be able, careful and better skilled in the art of presentation. Hence, a salesman should be very intelligent and alert in course of presentation of goods, meant for sale.

The salesman should show the customer as many varieties as he can, politely talk to him, and remove his doubts. These treatments will result into the confidence in the mind of the customer regarding the price and quality of the product. In this case, the salesman should offer customer tremendous opportunity to make choice between the varieties of articles. While explaining the qualities of the product, the salesman should follow an appealing, impressive and persuasive style of speech. Each of his words should convince the customer that the product, presented is suitable for him and the price charged is also reasonable. At the moment of explaining the selling points in favour of the article, the salesman should also point out the demerits of the competitive goods running in the market. The customer should also be convinced about the price differences. Thus, the presentation if done in right manner brings confidence and better impression in the mind of the customer in favour of the product and there is automatic increase in the volume of sales.

5. Overcome Objections

An objection is the expression of disapproval of an action taken by the salesman . An objection is an adverse reason or an argument. Objections indicate various things. For a salesman, it means that the prospect is not willing to buy or the salesman has not been able to convince the prospect. In every case, the salesman should accept it as a challenge in a sportive manner. Beginners and inexperienced salesmen do not like objections. They have fear complex to meet objections. Such salesman takes them as personal defeat when the prospect raises objections. An experienced salesman welcomes them because they indicate the reaction of the prospect to their sales talk. Objections indicate the exact nature of the prospect and the precise state of his wants. Objections are very useful in developing sales talk. The objections are the clues to the reasons of the prospects.

Reasons for Objections : The following are the reasons behind raising objections by the prospects.

1. The prospect may not be fully convinced about the product.
2. The prospect is unable to pay for the products.
3. The prospect might not have understood the worth of the product.
4. Some prospects want to humiliate the salesman
5. Some prospects may not like the approach of the salesman
6. The prospect may fail to understand the salesman's idea.

Objections like excuses are the result of doubts and suspicion existing in the mind of the prospects. .Sometimes, he may not raise the objections specifically. In any case, unless the objections are answered to the satisfaction of the prospect, he would not demand the product. In order to convert desire into demand, a salesman should remove the excuses and answer the objections. The objections should be treated as invitations to salesman to explain more clearly and describe completely the benefits to be obtained from the purchase of a product.

Procedure for Handling Objections

The procedure for handling objections can be described as under :

1. **Listen attentively :** The salesman should listen to the talk of the prospect additively, and without interruption. Interruption would inflate the objection and make the salesman's job more difficult. Lack of adequate attention, ignoring the doubts of the prospects and losing temper will surely spoil the chances of a sale. An experienced salesman pays complete attention to each and every sentence of the prospect and reacts tactfully and skillfully.

2. **Anticipate the objections :** The salesman should anticipate the objections before they are raised by the prospects. This can be done by incorporating the answers in the sales talk. In the light of such an anticipation, the salesman can change his presentation right at early stage (i.e., he should anticipate) and such objections, can be met properly during presentation stage. A proper planned presentation would cover all but the unusual objections which are to be met, as and when they arise.

3. **Prevent mistakes in presentation :** The salesman should take certain precautions in the sales presentation so that he can avoid certain mistakes which are normally committed by him. A salesman commits certain common mistakes knowingly or unknowingly. For example, a salesman goes on talking without active participation of the prospect. Similarly, a salesman selling modern equipment should not irritate the prospect by creating an impression that the prospect is traditional minded or old fashioned.

Further, some salesmen are egoistic and over positive in their approach. In such cases, the prospects may challenge the salesman's statement which results in inviting objections unnecessarily.

Closing the Sale

The final step in the selling process is 'closing the sale'. The close is a very important part of the selling process. Closing the sale is a technique of securing the action from the prospect. Once the desire has been converted into demand, the term 'closing the sale' really means closing the sales talk effectively by securing an order from the prospect. Closing the sale is a technique of converting the mental decision to buy the product into the physical action of buying the product. Thus, the whole object of the process of prospecting, pre-approach, presentation and demonstration as well as meeting of objections is to induce the buying decision and close the sale.

A salesman who is unable to close well will have lost the sale transaction. Thus, a poor closer is a poor salesman. The ability of a salesman is tested by his efforts to close the sale i.e., conclude the sale. The patronage of the prospect should be continued for ever.

The step is mainly aimed at persuading the prospect that he should act now and not later. A good demonstration may convince the prospect that what the salesman is offering is the best article, he can use to gain the advantages. The objective of the close is to get the customer in the mood of saying "Yes" so that the salesman can ask for the order. The positive attitude, responsive mood and self-confidence play a decisive role in converting a wish into a decision.

Follow Up

After a sale is closed, it should be properly followed. The salesman should ensure that the delivery instructions given by the customer are properly followed. The salesman must visit the customer often to learn what problems or questions have arisen regarding the product. "After -Sales Service" should be punctual, quick and satisfactory.

Activity - II

i) Explain the seven steps involved in personal selling process

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ii) State the standard methods used by salemen in approaching the prospects.

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18.4 SELECTION AND TRAINING OF SALES FORCE

The term "selection" implies choice. It means choosing sales force from among available for selection. Selection means taking up the efficient candidate by various acts from the application forms invited through different of internal and external sources. In the words of 'Dale Yoder, "Selection is the process in which candidates by employment are divided into two classes - those who are to be offered employment and those who are not." A manager should bear in mind that every job requires investment. Considerable money has to be sent for the induction and training if the person is selected. Hence,there is a risk in selecting a candidate. The inability of a manager to identify the right person for a particular job will make his efforts and investments go waste. The term' recruitment' means,securing the services of certain persons for a certain job. Appointment is a part of selection. Though there can be recruitment without selection, generally recruitment is done after selection.

At the heart of any successful sales force operation is the recruitment and selection of good salespeople. The performance difference between an average salesperson and a top salesperson can be substantial. According to one study, a super salesperson sells on an average 1.5 to 2 times more than the average salesperson. In a typical sales force, the top 30 per cent of the salespeople might bring in 60 per cent of the sales. Thus, careful selection of salespersons can greatly increase the overall sales force performance.

Beyond the differences in sales performance, poor selection results in costly turnover. The costs of high turnover can be great. When a salesperson quits, the costs of finding and training a new salesperson - plus the costs of lost sales may run to thousands or lakhs of rupees. Further, the sales force with many new people is less productive.

18.5 QUALITIES OF A GOOD SALESMANSHIP

1. Product Knowledge

The salesman should know thoroughly the products he sells. The knowledge at product makes salesman's job interesting and meaningful. It gives him confidence in selling. A salesman may have an exceptional personality but he will be at a handicap, if he has neglected acquiring a complete and useful knowledge of the products salesmen are required to sell. If a salesman has complete knowledge of his products, he will increase his sales, obtain larger orders and render better service to his customers.

Self confidence

Adequate and accurate knowledge of his proposition will help him to make specific statements instead of vague or general ones. The salesman will acquire confidence in himself and be able to induce customers to spend more. The salesmen will thus be able to uphold and increase the reputation of the organization in which he is employed. The salesman without proper knowledge of a product and its technicalities becomes a danger to the customer. Sometimes, if he salesman does not know the technicalities of his product and if some customer knows it, the customer may put the salesman in tight corner and humiliation of salesman is possible. The salesman should be in a position to explain the salient features of all the goods which he is selling. There is is no limit for the amount of knowledge the salesman should have about the goods, but there is certainly a limit to the minimum. The salesman should know origin, utility, brand names, trademarks, competitive position and special features. In the case of technical articles, a lot of useful information can be conveyed to the customer. When a salesman does not know details, the talk becomes unimpressive and useless. A salesman should know physical dimensions of goods such size, weight, color, nature, source, quality control, etc.

Specilised Skills

The knowledge of goods which is essential is sometimes of a general kind or it may be of a highly specialized kind. Dealing in general commodities demands only knowledge pertaining to various goods, their features of beauty, utility, durability and facility in using or handling them. But when the goods are of a technical and complicated nature of a delicate and sophisticated type, for example motor bikes, tape recorders, T.V. sets, V.C.Rs., Refrigerators, Washing Machines, Artistic paintings, Sculptures etc. the knowledge required of a salesman should not only be complete, but perfect by being up-to-date.

The salesman should have the knowledge of the strengths of the products, their limitations, cost of operation, maintenance, cost of replacement, substitute products etc. The salesman should also have the knowledge about the services offered such as installment facility, credit facilities, demonstration, guarantee, after sales services etc. He should have capacity to convert the prospect into a customer.

2. Knowledge of Self

There are various fundamentals of successful selling viz., knowledge of products, knowledge of customer and knowledge of self. Thus, knowledge of self gives us qualities required for successful selling. Any man can become a salesman, though everyone obviously does not become a successful salesman. In order to become a successful salesman, one must posses and develop certain qualities. These qualities together give him sales personality. Personality is not a quality. But it is an ability of salesman to impress his prospects and customers. Various qualities possessed by a salesman shape his personality. The salesman should have a pleasing, agreeable, delightful, magnetic and friendly personality.

3. Other Qualities

Finally, Charles Garfield in his study of superachievers, concluded that super sales performers exhibit the following traits : risk taking, powerful sense of mission, problem - solving ability, care for the customers, and careful call planners. Robert Mc Murry wrote: " It is my conviction that the processor of an effective sales personality is a habitual 'wore', an individual who has a compulsive need to win and hold the affection of others." He listed five additional traits of the super salesperson: " A high level of energy, abounding self-confidence, a chronic hunger for money, a well-established habit of industry, and a state of mind that regards each objection, resistance, or obstacle as a challenge". Mayer and Greenberg offered one of the shortest lists of traints; they concluded that the effective salesperson has two basic qualities : empathy, the ability to feel as the customer does, and ago drive, a strong personal need to make the sale.

Training of Salesman

After the selection of an employee in an organization, the next logical step is to train him for better performance. Training is the process which tries to increase the knowledge and skill of the employee, thereby making him better equipped to perform his job or take on greater amount of responsibilities. Training is such an area of management where employer and employee both have mutual interest. As far as the employee is concerned, training increases his efficiency which enables him to avail of better opportunities provided within the organization. Also, the employer gets a better employee.

However, the objective of training should not be considered as the growth of the employee. Growth of employee should be viewed in conjunction with the growth of organization. The training should enable the trainee to adapt himself to the changing environment and serve the organizational objectives in an effective manner. It is the duty of the personnel department to determine training needs of various units and different individuals and schedule them. The type of training, the method of training, the duration of training and all such matters should be taken care of, by the personnel department.

Activity - III

What type of qualities should a salesman have?

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18.6 COMPENSATING SALES FORCE

To attract sales people, a company must have an appealing compensation plan. These plans vary greatly both by industry and by companies within the same industry. The level of compensation must be close to the "going rate" for the type of sales job and needed skills. For example, the average annual earnings of an experienced, middle- level industrial sales person amount to about Rs. 96,000. To pay less than the going rate would attract too few quality salespeople; to pay more would be unnecessary.

Compensation is made up of several elements - a fixed amount, a variable amount, expenses, and fringe benefits. The fixed amount, usually a salary, gives the salesperson some stable income. The variable amount, which might be commission or bonuse based on sales performance, rewards the salesperson for greater effort. Expense allowances, which repay salespeople for job-related expenses, let salespeople undertake needed and desirable selling efforts. Fringe benefits, such as paid vacations, sickness or accident benefits, pensions, and life insurance, provide job security and satisfaction.

Management must decide what mix of these compensation elements makes the most sense for each sales job. Different combinations, fixed and variable compensation, give rise to four basic types of compensation plans - straight salary, straight commission, salary plus bonus, and salary plus commission. A study of sales force compensation plans showed that 70 per cent of all companies surveyed use a combination of base salary and incentives. The average plan consisted of about 60 per cent salary and 40 per cent incentive pay.

The sales force compensation plan can both motivate salespeople and direct their activities. For example, if sales management wants sales people to emphasize new account development, it might pay a bonus for opening new accounts. Thus, the compensation plan should direct the sales force toward activities that are consistent with overall marketing objectives.

1. Motivating the Salesforce

Motivating the salesforce is the crux of salesforce management. The mettle of sales management always gets tested on the touchstone of their motivation skill-how well they are able to motivate salesmen under them. Management can boost salesforce morale and performance through its organizational climate, sales quotas, and positive incentives. Organizational climate describes the feeling that salespeople have opportunities, value and rewards for a good performance within the company. Some companies treat salespeople as if they are not very important. Other companies treat their salespeople as their prime movers and allow virtually unlimited opportunity for income and promotion. Not surprisingly, in companies that hold their salespeople in low esteem there is high turnover and poor performance. Where salespeople are held in high esteem, there is less turnover and higher performance.

Many companies motivate their salespeople by setting sales quotas - standards stating the volume they should sell and how sales should be divided among the company's products. Compensation is often related to how well salespeople meet their quotas. Sales quotas are set at the time the annual marketing plan is developed. The company first decides on a sales forecast that is reasonably achievable. Based on the forcast, management plans production, workforce size, and financial needs. It then sets sales quotas for its regions and territories. Generally, sales quotas are set higher than the sales forecast to encourage sales managers and salespeople to give their best effort.

Companies also use various positive incentives to increase salesforce efforts. Sales meetings provide social occasions, breaks from routine, chances to meet and talk with "company brass," and opportunities to air feelings and to identify with a larger group. Companies also sponsor sales contests to spur the sales force to make a selling effort above what would normally be expected. Other incentives include honors, merchandise and cash awards, trips and profit-sharing plan.

2. Evaluation of Sales Force

A sales organization to be successful must work efficiently. The efficiency of any organization depends on its proper planning of its functions and their implementation and if proper implementation is to be ensured and enforced, strict supervision and control are necessary. Control over the activities of the salesmen is quite essential for the efficient management of the sales personal. Mere wise selection of salesman and their training would not be enough to achieve success in the sales promotion programmes. In this connection, their control and supervision is equally important. This is so because the salesmen are after all human beings and are therefore subject to common human weaknesses. There are two more factors for which control over the salesmen becomes more essential. These two factors are :

i) **Control over travelling salesman :** The travelling salesmen work independently in far away places. They are therefore not under the director control of the Sales Manager. Hence, coordination and cooperation of their activities and their sales efforts become quite essential.

ii) **Salesmen under the direct control of the Sales Manager :** When the salesmen are under the direct control and supervision of the Sales Manager, they feel responsible, maintain discipline and perform their job efficiently and effectively.

Effective and Efficient Control of the Salesmen

In order to maintain effective and efficient control and supervision of the salesmen, the following conditions are required to be satisfied.

(a) **Fixing Sales Quota :** The sales manager should know what exactly the salesmen are expected to do. This condition can be fulfilled by fixing the 'sales quota' to be effected by each salesmen.

(b) **Periodical Reports and Returns :** The sales manager should know that the salesmen are doing what they are required to do. This condition can be fulfilled by receiving periodical reports and returns from the salesman.

(c) **Clear understanding about expected work :** The salesmen should be given a clear understanding of what they are required to do. This can be done during the training period.

(d) **Salesmen are under watch :** The salesmen should be given to understand that the sales manager always watches all their sales activities.

(e) **Appreciation by Sales Manager :** Finally, the salesmen should come to know that their good work is always appreciated by the sales manager.

Activity - IV

What type of factors help you in evaluating your sales force ?

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18.7 SALES PROMOTION

Sales promotion is a very important part of the promotional mix. It is used by just about everyone in the channel of distribution. Manufacturers use sales promotion devices to get wholesales and retailers to buy their products for resale to customers. Manufacturers also use sales promotion to get the ultimate consumer to buy their products. Wholesalers utilize this form of promotion to encourage retailers to buy from them. Retailers use sales promotion to encourage consumers to buy from their stores.

Sales promotion refers to those activities that supplement both advertising and personal selling and help make them effective. Sales promotion activities include premiums, free gifts, sweepstakes, contests, special prices and visual merchandising.

The function of sales promotion is to give the customer an external reason to buy the product. In other words, the customer receives or is made aware of something in addition to the product when making the purchase. This function is the principal distinguishing feature between sales promotion and other elements of the promotional mix. The other forms of promotion urge the customer to buy because of internal reasons or benefits to be derived from the product itself.

Sales promotion devices might be directed towards the consumers of the firm's products, towards the dealers who sell these products, or towards the firm's own salespeople. No matter to whom the sales promotion is directed, in order to be effective, it must provide some incentive for that person to take the desired action. This incentive might be a gift which the person receives for taking the desired action. It might be in the form of money, either a reduced price for buying the article or an increase in income as a result of selling the product.

It might also be in the form of a prize which might be won as a result of entering a contest or sweepstakes.

Sales Promotion and the Promotional Mix

Sales promotion does not normally work alone when a product or service is being promoted. The sales promotion usually involves advertising or personal selling in order to be effective. Advertising normally plays the role of informing customers about the sales promotion and telling them how they might participate in that sales promotion. Personal selling also plays a role in a sales promotion. It is normally the responsibility of the sales person to sell the customer on the idea of participating in a particular promotion.

18.8 FUNCTIONS OF SALES PROMOTION

The major objective of sales promotion is the same as the major objective for all promotion - selling more merchandise or service to the present or to potential customers. However, certain forms of sales promotion do have specific objectives that the marketer expects to achieve. The following are the usual **objectives** of sales promotion.

1. **Introduction of new products :** Often marketers use sales promotion to make the customer aware of new products. Have you ever received a free sample of a new toothpaste in the mail? Providing a free representative portion of a firm's product is a form of sales promotion known as sampling. When the marketer uses this device, a certain geographic area is selected and a small sample of the new product is mailed to people in that area. It is hoped that as a result of their using the sample, they will like the product and buy more of it.

2. **Attraction of new customers :** A marketer might also use sales promotion to sell products to people who are not currently using an established product. This procedure might be used in one of two ways. Either the customers will be offered a reason to buy the product in the retail outlet or the retailer will be offered an incentive to buy the product for resale to the consumer. The coupon on the package which offers the customers a 50 per cent discount on the next purchase of that particular product is an example of consumer promotion to attract new customers. Some manufactures will allow a wholeseller or retailer a special price on a new product in order to get them to purchase that product. This is an example of providing the retailer with a special incentive to purchase a new product.

3. **Making customers purchase more of a product :** Often sales promotion is used to increase the amount of a product that present customers are purchasing. The marketer attempts to increase the amount purchased by retailers as well as consumers.

4. **Increasing sales in slow seasons :** A marketer might use some form of sales promotion to increase sales during a normally slow selling period. The "White Good Sale" that many department stores hold in January is an example of sales promotion designed to increase sales in a slow season.

5. **Remaining competitive :** A sales promotion device might be used by a marketer because the competition uses that device and business will be lost to that competition if the marketer doesn't offer customers a similar incentive to buy. Have you ever noticed that when a grocery store in your home town begins a game or sweepstakes, in a short time most of the grocery stores in your community are providing games or sweepstakes

to their customers? This is an example of a business particparting in a sales promotion in order to remain competitive.

Activity - V

State the major objectives of sales promotion ?

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18.9 TYPES OF SALES PROMOTION

The following are various types of sales promotion tools which help the producers and sales people.

1. **Premiums :** A premium is a product that is usually offered free or at a reduced price to encourage a customer to buy the promoted product. A towel that is enclosed in a box of laundry detergent is an example of premium. The premium is becoming one of the major sales promotion techniques in use today. The power of the premium is based on the psychology of "something for nothing". Sales have been stimulated by premiums after other means have failed.

2. **Contests and Sweepstakes :** Contests and sweepstakes have become important sales promotion devices. Contests require skill on the part of the entrant and entries are judged on the basis of the skill of the individual entrant. Sweepstakes on the other hand, are based on chance and everyone has an equal opportunity to win a prize.

3. **Samples :** Samples normally involve providing a small amount of the firms product to the consumer for "try-out" purposes. Examples of sample include small cans of deodorant, small tubes of lipstick, and small tubes of toothpaste. Drug and cosmetic firms are the chief users of the sample process. The sample may be delivered through the mail, distributed door-to-door, or given away in retail stores.

4. **Coupons :** Coupons are used by manufacturers to induce the customers to buy the product. They normally entitle the purchaser to a reduction in the regular retail price. Coupons are sometimes placed on or in the package for the customer to use toward the purchase price of that item the next time they built. Coupons are also placed in newspaper and magazine advertising and are sent through the mail.

5. **Sales promotion letters :** Several large companies utilize the medium of letters for sales promotion. These letters serve different purposes. Sometimes, they are reminders to buy a particular brand. Some letters seek information from customers on various aspects of their purchases. Studies conducted on the efficacy of letters as medium of sales promotion indicate that a good letter must seek action from the receiver. Sales promotion letters are sent to salesmen, dealers and consumers.

6. **Catalogues :** Catalogues carry essential information on the products offered by the company; well designed catalogues give complete information relating to products, their

pictures, size specifications, colors, packing, uses and prices. The products are properly listed and indexed to facilitate order booking and processing.

7. **POP/Display :** Point of purchase promotion (POP) is one of the most widely used sales promotional tools. It is also sometimes referred to as point of sales promotion. With the proliferation of brands, innovative displays have become a prerequisite for success. Brands compete with each other for consumer's attention and for self space. The need to remain on top of the consumer's mind has become the prime concern of marketers. Hence the importance of POP display.

8. **Trade Fairs and Exhibitions :** Trade fairs and exhibitions are extensively used sales promotion tools. They also form one of the oldest practices in sales promotion. Trade fairs and exhibitions provide companies with the opportunity of introducing and displaying their products. This bring company's products and consumers in direct contact with each other. "Seeing is believing" is a concept behind large scale exhibitions. In the case of high cost industrial products, a trade fair is the most handy and effective sales promotion tool. In international marketing, international trade fairs are the methods commonly resorted. Orders and inquiries worth billions get generated at international trade fairs.

9. **Other Sales Promotion Tools :** The other sales promotion tools include price off, instalment offers, free samples of the product, gifts, contests etc.

While resorting to sales promotion, it is essential that these dimensions are kept in focus. Sales promotion should form part of a well planned and well integrated communication/promotion strategy. It must be remembered that sales promotion is just one element of the marketing communication mix of the firm. When it blends with the other elements, it is very productive. But, when it is handled as an independent tool available at the beck and call of the marketing man, it can harm the long-term interest of the product. So, sales promotion must be used judiciously ensuring that the money spent on sales promotion adds to the strength of the total communication efforts of the firm.

Activity - VI

What are the tools used in sales promotion ?

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18.10 PUBLICITY AND PUBLIC RELATIONS

Publicity and public relations are the last major methods of promotion. In most organizations these two promotional tools, typically are relegated to stepchild status behind personal selling and advertising.

Publicity as a Promotional Tool

Publicity is a promotional tool regarding an organization's products where the message is not paid for by the organization benefiting from it. Usually the publicity communication is either

(1) a non-personal news story appearing in a mass medium or (2) a promotional "plug" that is delivered by a person in a speech or an interview.

Publicity can be used for a wide variety of purposes in a company. Management may use publicity as one means of promoting the products or service marked by the organization. A company also may publicize its new policies (credit, price discounting), its people (employee achievements, executive promotions, employee civic activities), research and development successes, financial reports, or its progress on pollution control. A company may use publicity to counteract an unfavourable image, unfavourable reports in the media, or an unfavourable news release from other outside organizations . Publicity is part of the broader communication concept that we call public relations.

Public Relations

Another major mass-promotion tool is public relations - building good relations with the company's various publics by obtaining favorable publicity, building up a good "corporate image" and handling or heading off unfavorable rumors, stories, and events. Public relations departments may perform any or all of the following functions.

a) **Press relations or press agency :** Creating and placing newsworthy information in the news media to attract attention to a person, product or service.

b) **Product publicity :** Publicizing specific products

c) **Public affairs :** Building and maintaining national or local community relations

d) **Lobbying :** Building and maintaining relations with legislators and government officials to influence legislation and regulation.

e) **Investor relations :** Maintaining relationship with shareholders and others in the financial community

f) **Development :** Public relations with donor or members of nonprofit organizations to **gain financial or volunteer** support.

Activity - VII

Assume you are a public Relations officer in a MNC. What type of functions you would like to perform ? Discuss.

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18.11 SUMMARY

The sales management function, as noted earlier comprises the management of the sales person and activities that make up the corporate sales effort. Sales managers are entrusted with the task of organizing, planning and implementing the sales effort so as to achieve corporate goals related to market share, sales volume and return on investment. The task involves the sales manager in a set of activities both within the organization and outside with other organizations. Within the organization he has the responsibility of structuring relationship both with his own department and with interacting organizational entities so that the sales task can be coordinated with other marketing tasks and performed effectively. It also includes allocating and operationalising the sales effort among the sales personnel.

Sales promotion is a very important promotional tool and generally used to coordinate and supplement the advertising and personal selling programmes. Many companies in India in the recent past have been increasingly using this tool of promotion and setting separate budgets also for this activity. Finally, publicity and public relations are also given important role in the marketing of products and services by many companies in India. In fact, marketers are trying to add public relations as sixth 'P' in the marketing mix.

18.12 SELF ASSESSMENT QUESTIONS

I. Short Answer Questions

1. What is personal selling ?
2. What is salesmanship ?
3. What is prospecting ?
4. What is pre-approach ?
5. What is approach ?
6. How do you overcome objections from customers in selling process ?
7. How does publicity differ from advertising ?

II. Long Answer Questions

1. Explain the importance of personal selling in the marketing of products or services.
2. What are the objectives of personal selling ? To what extent the nature of the product, target market and company resources influence the sales job. Explain.
3. What are the product and market situations conducive to the use of personal selling ?
4. What is selling process ? Explain the steps involved in selling process.
5. Explain the procedure in the selection and training of sales force.
6. Describe the qualities of a good salesman. Prepare a comprehensive compensation plan for sales force of a large company dealing with consumer products.
7. How do you motivate and evaluate sales force of a company ?
8. In the changing market situation, it is often referred to that the present day sales persons are in better position than in the past. Do you agree with this statement ? Justify your answer.
9. What is sales promotion ? What is its role ? Comment on its role in India.
10. What are the objectives of sales promotion ? Why is it needed ?

11. Is sales promotion effective for selling expensive consumer products such as houses, automobiles or backyard swimming pools ? Is your answer the same for expensive industrial products ?

12. Explain how sales promotion can be used to offset weaknesses in personal selling in retail stores.

13. Which type of sales promotion vehicles will you use to promote the sale of a premium brand of women's toiletries? Why ?

14. What roles do publicity and public relations play in creating awareness and educating both the internal and external publics of the firm.

15. Give some recent examples of what you consider to be effective publicity campaigns. Explain why you rate these campaigns highly.

18.13 FURTHER READINGS

1.	Philip Kotler	:	**Marketing Management**, Prentice Hall of India, New Delhi, 11th Edition.
2.	Boyd Walker and others	:	**Marketing,** Mc Graw Hill, Irwin, International Edition.
3.	William J. Stanton	:	**Fundamentals of Marketing,** Tata Mc. graw Hill, New York.
4.	J.C. Gaddhi	:	**Marketing** Managerial Introduction, Tata McGraw Hills International, USA, 1997.
5.	Sontakki C.N.	:	**Marketing Management,** Kalyani Publishers, Ludhiana, 1999.

18.14 KEY WORDS

Personal selling	:	Is a highly distinctive method of promotion
Sales promotion	:	Is a Marketing activity other than personal selling, advertising and publicity
Premium	:	Is a benefit offered to the customer by reducing the price of the product.
Contest	:	A competition based on skills in which prizes are offered.
Trade promotion	:	Sales promotion activities directed at wholesaler and retailer levels