ਜਗਤ ਗੁਰੂ ਨਾਨਕ ਦੇਵ
ਪੰਜਾਬ ਸਟੇਟ ਓਪਨ ਯੂਨੀਵਰਸਿਟੀ
ਪਟਿਆਲਾ

The Motto of the University
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SKILL ENHANCEMENT
EMPLOYABILITY
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ACCESSIBILITY

JAGAT GURU NANAK DEV
PUNJAB STATE OPEN UNIVERSITY, PATIALA
(Established by Act No. 19 of 2019 of the Legislature of State of Punjab)

MASTER OF COMMERCE

SEMESTER-II

MCMM21202T

MARKETING MANAGEMENT

Head Quarter: C/28, The Lower Mall, Patiala-147001
Website: www.psou.ac.in

SELF-INSTRUCTIONAL STUDY MATERIAL FOR JGND PSOU

The Study Material has been prepared exclusively under the guidance of Jagat Guru Nanak Dev Punjab State Open University, Patiala, as per the syllabi prepared by Committee of Experts and approved by the Academic Council.

JAGAT GURU NANAK DEV PUNJAB STATE OPEN UNIVERSITY, PATIALA
(Established by Act No. 19 of 2019 of the Legislature of State of Punjab)

COURSE COORDINATOR AND EDITOR:

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JGND PSOU, Patiala.

ਜਗਤ ਗੁਰੂ ਨਾਨਕ ਦੇਵ
ਪੰਜਾਬ ਸਟੇਟ ਓਪਨ ਯੂਨੀਵਰਸਿਟੀ
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Jagat Guru Nanak Dev Punjab State Open University, Patiala was established in December 2019 by Act 19 of the Legislature of State of Punjab. It is the first and only Open University of the State, entrusted with the responsibility of making higher education accessible to all, especially to those sections of society who do not have the means, time or opportunity to pursue regular education.

In keeping with the nature of an Open University, this University provides a flexible education system to suit every need. The time given to complete a programme is double the duration of a regular mode programme. Well-designed study material has been prepared in consultation with experts in their respective fields.

The University offers programmes which have been designed to provide relevant, skill-based and employability-enhancing education. The study material provided in this booklet is self-instructional, with self-assessment exercises, and recommendations for further readings. The syllabus has been divided in sections, and provided as units for simplification.

The Learner Support Centres/Study Centres are located in the Government and Government aided colleges of Punjab, to enable students to make use of reading facilities, and for curriculum-based counselling and practicals. We, at the University, welcome you to be a part of this institution of knowledge.

Prof. G. S. Batra
Dean Academic Affairs

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M.COM

SEMESTER-II

(MCMM21202T): MARKETING MANAGEMENT

MAX. MARKS: 100
EXTERNAL: 70
INTERNAL: 30
PASS: 35%
Credits:6

Objective:

To familiarize the students with various marketing management concepts that can beused for effective decision making. Emphasis will be on the application of the concepts learnt.

INSTRUCTIONS FOR THE CANDIDATES:

Candidates are required to attempt any two questions each from the sections A and B of the question paper and any ten short questions from Section C. They have to attempt questions only at one place and only once. Second or subsequent attempts, unless the earlier ones have been crossed out, shall not be evaluated.

SECTION A

Nature and Scope of Marketing

Unit-1 Introduction to Marketing Environment

Unit-2 Marketing Information and Research

Understanding Consumers and Selecting Target Markets

Unit-3 Buyer Behavior

Unit-4 Markets and Market Segmentation

Market Targeting and Positioning

Product Decisions

Unit-5 Product Concepts and Classification

Unit-6 Product Development and Product Life CycleBranding, Packaging and Servicing

SECTION B

Pricing Decisions

Unit-7 Objectives and Methods of Pricing

Price Adjustment Strategies

Unit-8 Regulation of Prices

Distribution Decisions

Unit-9 Distribution Channels

Unit-10 Marketing IntermediariesMarketing Logistics

Promotion Decisions and Emerging Issues

Unit-11 Marketing Communication, Personal Selling and Sales Promotion

Unit-12 Advertising and Publicity, Emerging Issues in Marketing

Suggested Reading:

- Davies, M. (1998) Understanding Marketing, 1st edition. Prentice Hall
- Ellwood, I. (2002) The Essential Brand book, Kogan Page Limited
- Fill, C (2002) Marketing Communications, Contexts, strategies and applications, Prentice Hall
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- Keller, K (1998) Strategic Brand Management, Building, measuring and managing brand equity, Kogan Page, London
- Kotler, P, Armstrong, G, Saunders, J and Wong, V, (2010), Principles of Marketing: Third European Edition, Prentice Hall, Harlow
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- Lovelock, C (1994) Product plus: How product + service = competitive advantage, McGraww Hill
- Lury, G.(1998) Brand Watching; lifting the lid on the phenomena of branding, Blackhall.

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MASTER OF COMMERCE

SEMESTER-II

(MCMM21202T): MARKETING MANAGEMENT

COURSE COORDINATOR AND EDITOR: DR. PINKY SRA

SECTION-A

UNIT NO	UNIT NAME
UNIT-1	Introduction To Marketing Environment
UNIT-2	Marketing Information and Research
UNIT-3	Buyer Behavior
UNIT-4	Markets and Markets segmentation Market Targeting and Positioning
UNIT-5	Product Concepts and Classification
UNIT-6	Product Development and Product Life CycleBranding, Packaging and Servicing

SECTION B

UNIT NO	UNIT NAME
UNIT-7	Objectives and Methods of Pricing Price Adjustment Strategies
UNIT-8	Regulation of Prices
UNIT-9	Distribution Channels
UNIT-10	Marketing IntermediariesMarketing Logistics
UNIT-11	Marketing Communication Personal Selling and Sales Promotion
UNIT-12	Advertising and Publicity Emerging Issues in Marketing

SEMESTER II

COURSE: MARKETING MANAGEMENT

UNIT 1: INTRODUCTION TO MARKETING AND MARKETING ENVIRONMENT

STRUCTURE

1.0 OBJECTIVES

After studying the Unit, students will be able to

- Define what Marketing is.
- learn about the marketing process.
- Distinguish between Marketing and Selling

- learn various marketing approaches and concepts
- learn about marketing environment
- state types of micro and macro environment factors affecting marketing

1.1 INTRODUCTION TO MARKETING

The first chapter covers the fundamentals of marketing. Simply expressed, marketing is the process of engaging customers and managing successful customer relationships. The goal of marketing is to provide value to customers in exchange for value. Customers are the focus of marketing more than any other corporate activity. Customer happiness and value creation are at the centre of modern marketing theory and practices. Many people believe that marketing is solely used by major corporations in developed nations, however marketing is essential to the success of every organisation, large or small, domestic or worldwide. Marketing is all around you, so you already understand the importance of it. The abundance of items that line the retail shelves in your local shopping mall is proof of marketing's success. Advertising can be found on your television, in periodicals, and in your mailbox. You are exposed to marketing in practically everything you do, whether at home, school, job, or play.

1.2 MEANING OF MARKET

The term "market" refers to a physical location where goods and people can be found. It matters a lot more to marketing students. In a broader sense, it refers to any place in which sellers and buyers are brought into contact with one another and where the prices of items are easily and swiftly equalised. The market is not always a geographical location, but rather the meeting of buyers and sellers to transact business. A market is a group of present and potential goods purchasers. These customers have a specific need or desire that can be met through trade. As a result, the size of a market is determined by the number of people who have a need, have resources to trade, and are ready to trade these resources for what they desire.

"Market means anybody of persons who are in intimate business relations and carry-on extensive transactions in any commodity."

-Professor Jevons

" The market includes both place and region in which buyers and sellers are in free

competition with one another.”

-Pyle

1.3 MEANING OF MARKETING

Finally, the concept of markets brings us back to the concept of marketing. Marketing is the management of markets in order to facilitate trades in order to meet human needs and desires. Work is involved in exchange processes. Sellers must find buyers, determine their needs, provide good items and services, market them, store and transport them. Core marketing activities include product development, research, communication, distribution, pricing, and service. By the time goods and services reach consumers, they have gained value. Marketing is the production of utilities. As a result, marketing is defined as all activities involved in the establishment of place, time, position, and utility awareness in economic terms.

“ Marketing is a free economy is the skill of selecting and fulfilling consumer desires so as to maximize the profitability Per unit of capital employed in the enterprise.”

-Professor Glasser

“ Marketing is the human activity directed at satisfying needs and wants through an exchange process.”

“ Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging product and value with others.”

-Philip Kotler

“ marketing includes all those activities having to do with affecting changes in the ownership and position of goods and services. It is that part of economics which deals with the creation of time, place and position utilities and that phase of business activity through which human wants are satisfied by the exchange of goods and services for some valuable considerations.”

-American Marketing Association

The simplest definition of marketing is that marketing is engaging customers and managing profitable customer relationships. The twofold goal of marketing is to attract new customers by promising superior value and to keep and grow current customers by delivering value and satisfaction.

1.4 CHARACTERISTICS OF MARKETING

The basic characteristics of marketing are:

- **Operational -** To get results, managers must think and act. Marketing benefits will not come from a passive approach toward the trade process, emphasizing the axiom "no gains without pains."
- **Customer oriented-** A marketing business should be a sharp observer who focuses on the demands of clients. Its effectiveness is based on finding solutions to the problems that these demands pose.
- **Mutuality of benefits-** The exchange of goods and services works and continues because it is in both sides' best interests to do so. The delivery of high-quality goods and services, as well as the return on investment, benefit both the marketer and the customer.
- **Value driven-** The culture of a marketing organisation is founded on a desire to grow the business by addressing customer wants and responding to the market, and the firm's leaders' values are communicated to all employees.
- **Proactive to the environment-** The marketing firm is a subsystem of the environment, which is a super system. The firm's surroundings are something external to it. The environmental forces are ecology, technology, and competition, which the marketing unit must acknowledge in order to be proactive rather than reactive.
- **Covers both profit and non-profit making organisations-** Marketing is not limited to for-profit businesses; it also includes non-profit charitable organisations that provide services, such as educational institutions, churches, temples, mosques, and hospitals.

1.5 DIFFERENCE BETWEEN MARKETING AND SELLING

Many people mistakenly use the terms "marketing" and "selling" interchangeably. In fact, there is such a distinction between the two names that their true meaning and content distinguish them completely.

The fundamental distinction is as follows:

1. Scope: 'Marketing' entails the creation of customer-friendly products as well as the transfer of ownership between producers and consumers. However, "selling" just entails taking orders from clients and delivering the goods. It is more focused with the sale of already manufactured goods.

2 Emphasis: In marketing, the emphasis is on meeting customers' demands, whereas in selling, the emphasis is on the seller's need to convert things into cash. Marketing is customer-focused and aims to make money by satisfying customers. Selling, on the other hand, is product-oriented and aims to boost sales volume.

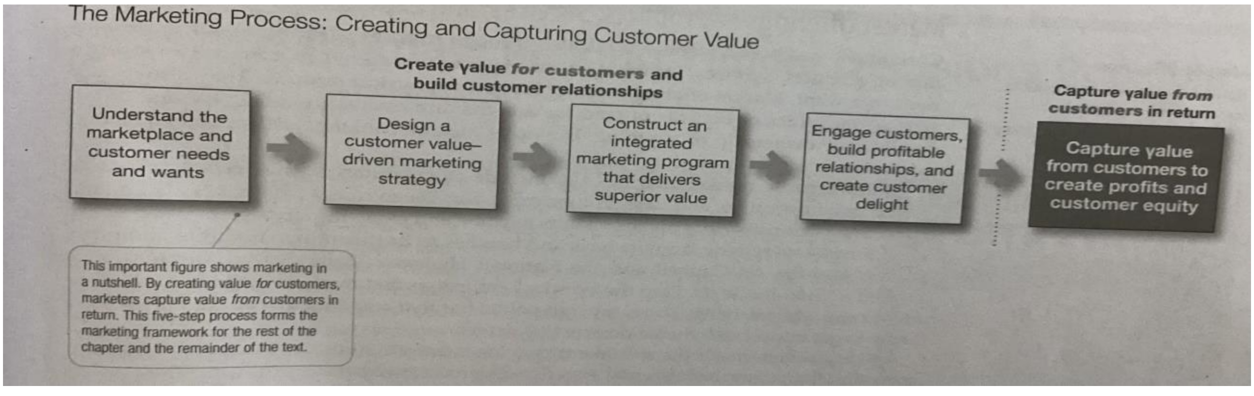
3. Occurrence: Marketing occurs long before products and services are produced. It continues well after the transaction because "after-sale services" may be required to meet customers' needs. However, selling occurs after the product has been finished and is associated with its delivery to the customer. To put it another way, marketing occurs before the production process, whereas selling occurs at the conclusion.

4. Philosophy: Marketing has philosophical as well as strategic aspects. It is aimed at achieving long-term growth and stability goals. Selling, on the other hand, is only a tactical routine action with a short-term perspective, in which clients are assumed to be one homogeneous unit.

5. Semantics: The term "marketing" has a broader meaning that includes "selling." Selling is a subset of marketing, which includes marketing research, product planning and development, price, promotion, and distribution, as well as the Like. Thus, marketing is synonymous with selling, but selling is not synonymous with marketing.

1.6 MARKETING PROCESS

Following figure presents a simple five step model of marketing process for capturing and creating value for customers. In the initial steps companies work to understand consumers, create customer values and build strong customer relationships. And in the final step the companies reap the rewards of creating superior customer value.



1. **Understanding the marketplace and customer needs**-in the first step, there is a need to

understand the needs of customers and wants by the marketers along with the marketplace in which they operate. There are five core customer and marketPlace concepts: needs, wants and demands; market offerings like product services and experiences; value and satisfaction; exchanges and relationships; markets.

2. **Designing a customer value-driven marketing strategy and plan-** after gaining the understanding of consumers in the marketplace marketing managers can now design a customer value-driven marketing strategy. The aim of the marketing manager must be to engage, keep and grow target customers by creating, delivering and communicating the most superior customer value. To make a marketing strategy which is fruitful, managers must answer to important questions: what are the customers to be served in the target market? And how to serve best to these customers, that is their value proposition?
3. **Preparing an integrated marketing plan and program-** an integrated marketing program has to be developed by the marketer which will actually help in delivering the intended value to the targeted customers. This integrated marketing program will build customer relationships by transforming the strategies into actions. It will comprise the firm‘s marketing mix which includes the four main P’s of marketing.
4. **Engaging customers and managing customer relationships-** customer relationship management is the overall process of enhancing and maintaining profitable relationships with customers by delivering superior values and satisfaction. When the product perceive performance matches expectations of the buyers he feels satisfied and the satisfied customers will further lead to customer loyalty which enhances the customer elationship with the firm.
5. **Capturing the value from customers-** value from the customers is being captured in the form of profits and long-term returns. When a customer value is Created, it’s to customer loyalty and retention of higher market share and customer equity.

1.7 TEST YOUR UNDERSTANDING (A)

1. Define the term of Marketing.

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2. Explain the Characteristics of Marketing.

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3. What is the process of Marketing?

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1.8 APPROACHES TO MARKETING

Various approaches to the study of marketing are:

1. **Commodity approach-** The commodity approach is a thorough examination of the issues that arise when marketing a specific type of product, whether consumer, industrial, or agricultural. In the transfer of items from points of production to locations of consumption, a number of issues arise. This method entails product classification and sub-classification, product and market uniqueness, marketing issues, and marketing considerations.
2. **Institutional approach-** This method investigates various marketing institutions, especially middlemen or facilitating agencies that execute marketing functions. These intermediaries are merchants and agents who link producers and consumers. Wholesale and retail organisations, such as showrooms, supermarkets, department stores, multiple-shops, cooperatives, regulated markets—both securities, bullion, and produce exchanges, banking, and other governmental entities that give institutional support are among the other institutions.
3. **Functional Approach-** The Functional Approach looks at the transit of commodities from producers to consumers from the perspective of the functions it fulfils. Functions of exchange—buying and selling; functions of physical supply—warehousing and transportation; and enabling functions —standardisation, finance, market knowledge, and risk bearing—have been recognised by marketing professionals as three primary categories of functions.
4. **Decision-making approach-** Because marketing is merely a component of general

management, and management is the process of making decisions, this approach is critical. Decisions are taken to increase the firm's profit through increasing customer pleasure and delight. The marketing manager bases his decisions on facts, views, and accurate information on "controllable" and "uncontrollable" issues.

5. **System approach-** Marketing organisation, according to this viewpoint, is a structure that operates in tandem with both external and internal forms. A system is a collection of objects kept together by a clear relationship between them and their characteristics. Marketing specialists consider marketing to be an organic and open system made up of interacting and independent pieces called sub-systems. This strategy is founded on the idea that everything is connected and interconnected.

6. **Social approach-** The study of social approach emphasises the idea that marketing is for society and, as such, acts according to social standards. Marketing has a social responsibility to fulfil since it uses societal input or resources. In other words, marketing must maximize societal well-being or welfare. That is, it is not merely to give a car, but a car that is less polluting, a cigarette that does not emit smoke, and medicines that have no negative effects.

7. **Holistic approach-** An interdisciplinary approach is a holistic approach. Marketing uses the contributions of each profession or specialised expertise to trace and comprehend the problems. An inter-disciplinary strategy is required to satisfy the greatest number of customers. As a result, marketing employees are supposed to be a unique breed, capable of knowing everything about everything.

1.9 OBJECTIVES OF MARKETING

The following are the most significant objectives of modern marketing:

1. **To Apply Effective and Intelligent Modern Marketing Policies :** Changing growth rates, relatively high inflation, high interest rates, rapid technical change, and new aggressive competitors all put pressure on marketing companies to adapt and respond to change in order to survive and prosper. Firms are required to scrutinise every aspect of their spending in order to reduce waste and maximise profits. This is made feasible by policies that are both viable and complementary.

2. **To develop the market field:** Marketing seems to be the most rapidly evolving field, with change reigning supreme. The markets are still preoccupied with change. Some changes are, of course, slow and progressive. The trends can be determined once a pattern has been established. As a result, personal computers have shrunk in size while increasing in power.

3. **To develop and implement guiding policies for better results:** Marketing directing policies that are innovative and well-implemented will almost certainly produce higher results. Customers provided many of the most inventive companies with their best ideas. That comes from consistently and actively listening. According to management professionals in the field of marketing, the essence of effective marketing is "creative" and "customer building."

4. **To suggest solutions by studying the problems relating to marketing:** Identifying challenges and providing appropriate answers in various sectors of marketing is a major challenge for marketing managers' mental faculties, such as wit, vision, and judgement. The reality of marketing is based on the enterprise's research, production, human resource, and financial policies. As a result, complex difficulties in the domains of marketing, such as buying, selling, transporting, warehousing, risk-bearing, standardisation, finance, and market intelligence, are in desperate need of answers.

5. **Define sources for further information concerning the market problems:** Countless decisions are made every day in the corporate sector. Information is used to make decisions. Other parts of business are easier to decide than marketing, which is very fluid, volatile, and dynamic, with only certainty being uncertain. As a result, an alert marketer is always vigilant and employs sixth and seventh senses to anticipate potential problems and challenges.

1.10 MARKETING CONCEPT AND EVOLUTION

A philosophy, an attitude, a way of thinking, an idea, or a notion connected to any part of divine and human creations is referred to as a concept. In the dynamic world of marketing, an organization's philosophy is referred to as a marketing philosophy or "concept of marketing." A concept is a philosophy or a way of thinking.

"An integration of marketing activities directed towards customer satisfaction"

-Prof. Robert, F. Hartley

"Marketing concept is a customer orientation backed by integrated marketing aimed at generating customer satisfaction, as the key to satisfying organisational goals."

-Prof. Philip Kotler

Thus, the marketing concept is a lifestyle in which an organization's resources are mobilised to develop, stimulate, and satisfy customers for a profit. It represents a distinct corporate perspective that views marketing as something more than a physical phenomenon.

<u>Evolution of marketing concept</u>

1. **Production orientation philosophy:** Until the 1930s, there was a strong belief that having a good product resulted in automatic consumer response, requiring no or very little promotional strategies.

   The assumptions of this concept are:

   - Anything that can be produced can be sold.
   - The most important task of management is to keep the cost of production down.
   - A Firm should produce only certain basic products.

2. **Sales orientation philosophy:** The failings of the production-oriented mentality of the 1930s cleared the way for a shift in perspective in the 1940s. The sales-oriented philosophy was introduced. It states that simply having the best product available is insufficient; the firm must also engage in aggressive selling. The value of effective sales promotion, advertising, and public relations cannot be overstated.

   The assumptions of this concept are:

   - Producing the best possible product.
   - Finding the buyer for the product.
   - The management's main task is to convince the buyers through high pressure tactics, if necessary.

3. **Customer orientation philosophy:** This ideology was introduced in the 1950s and states that the primary responsibility of a corporate enterprise is to research and understand the needs, wants, wishes, and values of potential customers, and then make items in accordance with these findings to ensure that all customer requirements are met. It emphasises the need of conducting market research before releasing a product on the market.

   The assumptions of this concept are:

   - The firm should produce only that product as desired by the consumer.
   - The management is to integrate all its activities in order to develop programmes to satisfy the consumer wants.

- The management is to be guided by long-range profit goals rather than quick sales.

4. **Social orientation philosophy:** The marketing concept has been refined further, particularly in the 1970s and 1980s. As a result, the new approach extends beyond identifying consumer needs and matching items to them. This concept is concerned not only with customer happiness, but also with consumer welfare or societal welfare. Such social welfare entails a clean environment and a high standard of living. In other terms, the company must fulfil its social obligations.

   The assumptions of this concept are:

- The form is to produce only those products as are wanted by the consumers
- The firms is to be guided by long-term goals rather than quick sales
- The firm should discharge its social responsibilities
- The management is to integrate the firm's resources and activities to develop program to meet these individual consumer and social needs

1.11 FACTORS INFLUENCING MARKETING CONCEPT

There are a number of factors that influence marketing concept. A firm which is operating under the marketing concept receives various kinds of signals from the marketplace which includes detailed information regarding the needs, wants and desires of customers.

Some of these factors which influence the marketing concept are:

- Growth of population leading to increased demand for goods and services
- Changing concept of family that is from the joint family to nuclear families
- more disposable income in the hands of consumers and desire to improve quality of life
- Technological advancements or never ending dealing to new inventions and discoveries
- Mass communication media is on rise
- Availability of credit facilities to the consumers

1.12 BENEFITS OF MARKETING CONCEPT

The marketing concept serves various purposes and the benefits extend to the new users and non-users also. These benefits can be viewed from the angles of individual firms and society.

1.12.1 Benefits to the individual firms

1. *It makes firms more adaptive*- The firm is compelled to stay current by the integrated marketing philosophy. It encourages the company to employ tools and procedures for sensing market changes. Marketing research, customer testing, marketing audit, and marketing performance review are examples of these tools. It indicates that the company is sensitive to changes in customer behaviour. It compensates for flaws in the product or products and service packs. It indicates that the company is making sound and timely decisions based on the information gathered, analysed, and interpreted.
2. *It guarantees financial success*- Studying and understanding consumer needs in terms of cost, time, quality, quantity, and location, as well as fostering innovation and adopting and implementing diversification, all lead to profit maximisation. These profits are reasonable, steady, and long-term enough to cover existing operations as well as future daring development and expansion plans. Operational profits ensure the much-needed financial success.

1.12.2 Benefits to the society

1. *It delivers the goods to its expectations*- All business houses are expected to provide goods and services at competitive rates, of better quality, in sufficient quantity, and at convenient locations. It also wants to have the ability to choose and bargain, to make credit purchases, to reject or return products if the customer is displeased. Modern marketing understands these demands and strives to deliver on its promises.
2. *It Uplift the living standards*- The level of efficiency of marketing organisations acting as subsystems of the overall economic system has a significant impact on the people's standard of living in a country. If we classify countries today as "advanced" or "behind," it is largely based on marketing efficiency. New ideas, new services, and new items in the shape of necessities, comforts, and luxuries are introduced, multiplied, and maintained through marketing. Marketing is responsible for bringing the advantages of increased productivity to people in the form of a higher standard of life.
3. *It builds dynamic manpower*- The chances and difficulties in this dynamic and realistic industry allow managers to strengthen their skills. Continuous exposure to these ever-changing challenges helps managers build the skills necessary to discover appropriate solutions to these issues. Manpower development occurs in a natural setting instead of in a controlled environment.

1.13 TEST YOUR UNDERSTANDING (B)

1. What are approaches of Marketing?

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2. Explain the objectives of Marketing?

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3. What are the benefits of an individual from Marketing?

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1.14 MARKETING MANAGEMENT- MEANING

Marketing management refers to the role of business management that is in charge of the movement of products and services from producers to customers. It is in charge of marketing activities planning, organising, directing, coordinating, inspiring, and controlling. It is, in essence, demand management in the context of the customer-oriented marketing philosophy. Marketing management is in charge of the critical and imaginative duty of offering customer happiness and thereby profiting from consumer demand. It is the coordination and control of managerial functions such as planning, execution, and coordination in relation to marketing functions such as marketing research, product development and planning, pricing, advertising, selling, and distribution in order to meet the needs of consumers, businesses, and society.

It is "planning, production and control of entire marketing activity of a firm or a division of a firm, including the formulation of marketing objectives, policies, programmes, strategies and reappraising product development organisation to carry out the plans, professional working operations and controlling performance"

-American Marketing Association

"It is the analysis, planning, implementation and control of programmes designed to bring about desired exchanges with larger audiences for the purpose of personal or

mutual gain. It relies heavily on the adaptation and coordination of product-price-promotion and place for achieving effective response."

-Prof. Philip Kotler

1.15 OBJECTIVES OF MARKETING MANAGEMENT

The marketing management objectives are derived from the broader corporate objectives. Profit, wealth, and societal service are only a few of the overarching goals of business. Marketing management may help achieve these goals by designing and delivering products and services that meet the needs of clients while also generating revenues for the company.

Following two are main objectives of marketing management:

1. **Creating Customers:** A company is formed to sell goods and services to customers. As a result, a company's foundation is the client. The customer is the one who pays the bills and decides what the company will sell. Customers are created through studying and determining their needs and requirements. A company must find new clients in order to stay in business. It should investigate and comprehend their desires.

2. **Satisfying Customer Needs**: Creating customers is insufficient. Customers should be satisfied when businesses manufacture and deliver products and services that fulfil their needs. If clients are dissatisfied. The business will be unable to generate sufficient money to cover her costs and achieve a fair return on their investment. Customer satisfaction entails more than merely matching items to customer requirements. It also necessitates the consistent delivery of reasonable-quality goods and services at reasonable rates.

1.16 FUNCTIONS OF MARKETING MANAGEMENT

Integration of market-related factors is required for successful marketing management. The job of marketing management is to bring these parts together into a functional operating system and to organize it in a dynamic context.

The functions are:

1. Assessing the marketing opportunities.
2. Planning marketing activities.
3. Providing effective marketing organisation.
4. Actuating by leadership.

5. Motivating the human-side and

6. Evaluating and adjusting marketing efforts.

1. Identifying Marketing Opportunities:

It entails determining the company's objectives and analysing existing and new profit prospects available to the company. The importance of this position is because market opportunities are constantly changing, and marketing management must design innovative tactics to capitalize on them. That is, for marketing efficacy, a planned strategy of innovations is required. That is, the company must react to the marketplace and have a broad, comprehensive picture of the marketing potential. New opportunities are fraught with difficulties. As a result, the company should be prepared to accept and bear the risks associated with the potential endeavour.

2. Marketing Activity Planning:

Marketing activity planning is an important feature of marketing management. This function depends on the marketing Opportunity, which is critical for effective marketing management practices and performance. Marketing planning is used to identify and define objectives, as well as build strategies and construct programmes to help the company reach its goals. The systems approach necessitates a clear statement of these objectives and encourages a systematic evaluation of the programmes developed. Planning is the foundation for an integrated marketing strategy that places planning at the centre of the marketing concept in the short and long term. As a result, planning comes before the other marketing management functions.

3. Providing an Effective Marketing Organization:

Marketing activity is innovative and dynamic, which puts a lot of pressure on the marketing organisation. Because marketing is a well-known system, the importance of organisation is more apparent. The process of interaction between both the organization and its environment is a major focus of the emerging marketing discipline. The use of innovative organisational theories could have an impact on marketing operations. Some marketing changes, such as innovative products and the increased importance of foreign marketing, have caused organisational issues for the unit. As a result, the organisation supplied must be flexible in light of shifting marketing concepts.

4. Actuating via Leadership:

A variety of developments are influencing the patterns and types of leadership required for efficient marketing function performance. The old notions of management procedures and policies are being put to the test as newer leadership patterns emerge. One organisational issue, for example, is the trend toward centralised accountability for the integration of complete marketing tasks. The requirement for more engagement in management and decision-making by employees at lower levels balances out this inclination toward centralization. The solution necessitates an examination of management's ideology, interaction pattern, scope of authority and responsibility, leadership activities, staffing policies and procedures, and an individual's location in the organisation in a particular job.

5. Motivating the Human-side:

Marketing entails functions that are ultimately linked to people. Only when the people participating in the process are encouraged will there be a free flow of commodities. In these days of fierce competition, employee motivation is essential. Today's management challenge is not to find a suitable individual for management, but to keep him longer as a committed and modest employee so that the unit can fully enjoy the benefits of staying. As a result, new forms of encouragement or stimulation will be introduced in which the individual develops his talents and takes initiative to contribute his best.

6. Evaluating and Adjusting Marketing Efforts:

The marketing manager must constantly review and change marketing efforts in order to capitalise on profitable marketing possibilities. The company must adapt to its constantly changing surroundings. To make an informed decision, the marketing manager must understand the entire marketing system, allowing the system's components to be reviewed, regulated, and altered to align the system with marketing activities on the one hand and opportunities on the other. Essentially, the major difficulty that marketing management faces is innovative change adaption. To overcome this problem, the company should conduct a thorough review of its marketing activities using marketing audits, research, and other monitoring tools.

1.17 NEW TRENDS IN MARKETING

The expression of creative intent on the part of thinkers is the manifestation of development and improvement in any field: marketing is no exception. The original conceptualization of thoughts and ideas has been enhanced and refined again, making marketing more responsive, realistic, and adaptable. This never-ending influx of new concepts that breathe energy into this ever-expanding field has no limit.

The following are some recent examples of conceptualisation, challenge, debate, and crystallisation:

1. **<u>Meta marketing -</u>**

This term 'meta marketing' was originally used by Prof. Kelly E.J. Here, meta means more comprehensive.

"Meta-marketing is to designate a new, although related discipline which deals critically with marketing as a discipline."

-Prof. Kelly E.J

"Meta-marketing is the set of processes involved in attempting to develop or maintain exchange relations involving products and services, organisations, persons, places or causes. It is an attempt to widen the horizons of marketing by covering non-business organisations. Like the marketing-mix of business organizations, non-business organisations do, have their marketing mix."

-Prof. Philip Kotler

Selling family planning concepts or the idea of moderation or prohibition are good instances of meta-marketing. They activate several of the marketing mix during this procedure. Houses of worship, like churches, temples, mosques, gurdwaras, universities and schools, hospitals and clubs, and other service facilities are examples of similar organisations. Despite the fact that meta-marketing focuses solely on the sales concept rather than the marketing concept, it has helped to mould and reshape the mindset of powerful men. It has taught us about the importance of marketing new areas.

2. **<u>Demarketing Concept</u>**

Another contemporary marketing concept that is relevant to the world of developing countries is demarketing.

"Demarketing" is a type of marketing that involves temporarily or permanently discouraging customers in general or a specific group of customers in particular.

By their very nature, impoverished countries have a demand for products and services that exceeds supply. The demarketing concept here supports the idea that managing surplus demand is just as much a marketing challenge as managing excess supply, and that it can be accomplished using the same marketing technique. Any organisation can use it to reduce total demand without alienating customer loyalty, to discourage demand from certain market segments that are either financially unviable or have the potential to harm loyal buyers, and to make it appear as if they want fewer demand for the sake of significantly increasing it.

"The marketing task is not blindly to engineer an increase in demand but to regulate the level and shape of demand so as to conform it to the organisation's current supply situation and to its long run objectives, because there is no danger in damaging customer relations in any demarketing strategy."

-Prof. Philip Kotler and Prof. S.J. Levy

3. **Over marketing**

As the caption implies, companies engaging in over marketing are focused on generating sales in any way imaginable. These concerns may overlook quality control and manufacturing efficiency, as well as the benefits that result. It's a situation of down trading, which means lowering quality standards and sacrificing efficiency and economy in favour of growing sales. The issue is how to increase sales. It is particularly effective in rural and new markets. In truth, the firm may benefit, but society will inevitably lose because they are not receiving true value for their money.

4. **Synchro-Marketing.**

Demand for a wide range of items, particularly seasonal goods, changes dramatically, resulting in an imbalance that causes the participants to suffer or benefit. Water-resistant materials are utilised during the rainy season, while woollen clothing and cloth are used during the winter season, among other things. Other products are in high demand just at specific seasons of the year. School bags, clothing, socks, and shoes in the case of schoolchildren. Prices decline during the off season, and no one wants to lock up their money. Price modifications and special offers can help to alleviate the challenges associated with demand and supply swings. Price incentives are offered during the off-season, and more money is being spent judiciously on promotion. Even during the pre-peak time, businesses advertise new arrivals, a wide range of items and brands, and so on. Synchro-marketing is a strategy in which marketers' interests are maintained by awarding or enticing customers and maintaining a large supply gap. The promotion-mix is so well-balanced that it helps to keep the on-season and off-season variations in check.

5. **Green Marketing -**

The trend of the day is "green" or "eco"* marketing. Imbalances in ecosystems or the environment will have a negative impact on flora and fauna. Consider the case of razing trees in forests to make more space for cultivation and accommodation, which has resulted in reduced rainfall; climate change has resulted, and if care is not taken of the environment in which we live, a day will come when more and natural calamities will be caused, eventually forcing us to dig our own graves. As a result, every effort is made to safeguard endangered flora and animals, as well as ecosystems. There'd be no rains if we did not care about conserving the forests, and no rains mean no water; even water tables are in short supply, to the point where a litre of water may cost more than just a litre of gasoline. These man-made environmental imbalances have an impact on every aspect of human life, including marketing. Any product we use, whether it's a car, watch, cup, medicine, pesticides, or fertilisers, must be environmentally friendly and biodegradable. As a result, paper bags are rapidly replacing plastic carry bags, and less polluting autos, three-wheelers, and two-wheelers are being manufactured and sold.

6. **Event marketing**

Event marketing is focused on making the most of an event's occurrence in all aspects of social life. Marketers that are astute have devised promotional strategies to introduce, popularise, and boost sales. The most common categories where event marketing is fully utilised are entertainment and sports. Sponsorship, patronage, public relations, and advertising vehicles, particularly outdoor, are employed. Cricket, football, tennis, and other sports with cups and prizes sponsored by wealthy and well-known corporations like Sahara, Pepsi, Coca-Cola, LG, Wills, Titan, Benson and Hedges, Reliance, and others. Musical Nights are a method of event promotion.

Nationwide and regional fairs are commonplace. The Pushkar Mela, conducted every year in Rajasthan, is the best example in India. It is well-attended, with an estimated 3 to 3.50 crore people attending. India is a paradise of festivals and melas, with about 5000 fairs and melas occurring annually to once every twelve years, such as the Kumbhamelas. Marketers profit from these large gatherings of fanatics and admirers because they provide marketing opportunities. Even the new year, decade, and millennium are significant events for which special plans are devised and implemented to increase the sale of goods and services, including ideas.

1.18 TEST YOUR UNDERSTANDING (C)

1. Define the term marketing management.

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2. What are the objectives of marketing management?

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3. Explain the functions of marketing management.

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1.19 MARKETING ENVIRONMENT AND MEANING

The players and forces that influence marketing management's capacity to create and maintain effective connections with target customers make up a company's marketing environment.

- ❖ The surrounding factors around the business are known as the environment.
- ❖ We can say that the environment consists of all those factors or forces, residing within and outside the business and affecting its functions or various decisions of the business.
- ❖ According to Keith Davis "Environment of the business means the aggregate of all conditions, events and influences that surround and affect it.

1.20 MICROENVIRONMENT AND MACROENVIRONMENT

A microenvironment and a macroenvironment make up the marketing environment. The **microenvironment** includes the firm, suppliers, marketing intermediaries, customer marketplaces, competitors, and publics, all of whom have an impact on the company's ability to interact and service its consumers. These actors are also known as controllable variables or internal factors because they can be regulated by the company through its own actions. The **macroenvironment** is made up of bigger social influences that affect the microenvironment, such as demographic, economic, technological, political, and cultural forces that the corporation cannot control, at least in the short term. As a result, these variables are sometimes known as uncontrollable variables.

1.21 MICRO-ENVIRONMENT

Otherwise called a task environment, these factors directly influence the company's operations, as it covers the immediate environment that surrounds the company. The factors are somewhat controllable in nature. It includes:

1.21.1 Competitors: Competitors are the business rivals, which operate in the same industry, offering the same product and services, and cater to the same audience.

1.21.2 Suppliers: To carry out the production process, the raw material is required which is provided by the suppliers. The behaviour of the supplier has a direct impact on a company's business operations.

1.21.3 Customers: Customers are the target audience, i.e. the one who purchases and consumes the product. The customers are given the most important place in every business, because the products are created and promoted for customers only.

1.21.4 Intermediaries: There are a number of individuals or firms that help the business enterprise in the promotion, selling, distribution and delivery of the product to the end buyer, which are called as marketing intermediaries. It includes agents, distributors, dealers, wholesalers, retailers, delivery boys, etc.

1.21.5 Shareholders: Shareholders are the actual owners of the company, as they invest their money in the company. They get their share in the profits also, in the form of a dividend. In fact, they have the right to vote at the company's general meeting.

1.21.6 Employees: Employees refers to the company's staff, who are hired to work for the company to help the company reach its mission. Therefore, it is very important for the firm to employ the right people, retain and keep them motivated so as to get the best out of them.

1.21.7 Media: Media plays an important role in the life of every company because it has the capability to make the company's product popular overnight or it can also defame them, in just one go. This is due to the fact that the reach of media is very large and so every content which is going to air on any form of media can affect the company positively or adversely depending on what kind of information it contains.

1.22 THE MACRO-ENVIRONMENT

Otherwise called as general environment, macro environment affects the entire industry and not the firm specifically. That is why these factors are completely uncontrollable in nature. The firm needs to adapt itself according to the changes in the macro-environment, so as to survive and grow. It includes:

1.22.1 Economic Environment: The economic conditions of the region and the country as a whole has a significant bearing on the company's profitability. This is because the purchasing power, saving habits, per capita income, credit facilities etc. depends greatly on the country's economic conditions, which regulates the demand for the company's products.

1.22.2 Political and Legal Environment: The political and legal environment consists of the laws, rules, regulations and policies which the company needs to adhere to. The changes in these laws and government may affect the company's decisions, open doors of new opportunities for the business or pose a threat to the business.

1.22.3 Technological Environment: Technology is ever-changing, as everyday a new and improved version of something is launched which is created with the state-of-the-art technology. This can be a plus point if the company is the first mover in the race, subject to the success of the product. However, if it turns out as a failure, it will prove to be a waste of time, money and effort. Further, every company has to keep itself updated with the changing technology.

1.22.4 Socio-Cultural Environment: Socio-cultural environment consists of those factors which are concerned with human relationships such as customs, traditions, beliefs, values, morals, tastes and preferences of the society at large. The company must consider these factors on various matters such as the hiring of employees, advertising the product and service, decision making etc.

1.22.5 Demographic Environment: As the name suggests, the demographic environment covers the size, type, structure, education level, and distribution of population in a geographical area. The knowledge of this environment will help the firm in deciding the optimal marketing mix for the target population.

1.22.6 Global Environment: Due to liberalization domestic companies can offer their products and services for sale to other countries. In fact, there are many companies which are operating in a number of nations worldwide.Hence, such companies have to follow the laws prevalent in these countries as well as they have to adhere to international laws and guidelines. Further, the responses and the company's norms must be in alignment with the global environment.

1.23 INTERNAL BUSINESS ENVIRONMENT

- **Value System**: Value system can be defined as a set of rules and the logical and consistent values adopted by the firm, as a standard guide, so as to regulate the conduct in any type of circumstances.

- **Vision, Mission and Objectives**: Vision refers to the overall picture of what the enterprise wants to attain, whereas mission talks about the organization and its business, and the reason for its existence. Lastly, objectives refer to the basic milestones, which are set to be achieved within the specific period of time, with the available resources.

- **Management structure and Internal Power Relationship**: Management structure implies the organizational hierarchy, the way in which tasks are delegated and how they relate, a span of management, relationship amidst various functional areas, the composition of the board of directors, shareholding pattern and so forth. On the other hand, the internal power relationship describes the relationship and cordiality between the CEO and board of directors. Further, the degree of support and contribution received from the employees and other members of the organization strengthens the organization's decision-making power and its organization-wide implementation.

- **Human Resource**: Human resources are the most important asset of the organization, as they play a critical role in making or breaking the organization. The skills, competencies, attitude, dedication, morale and commitment, amounts to the company's strengths or weaknesses.

- **Tangible and Intangible Assets**: The tangible assets refer to the physical assets which are owned by the company such as land, building, machinery, stock etc. Intangible assets amount to the research and development, technological capabilities, marketing and financial resources etc.

1.24 TEST YOUR UNDERSTANDING (C)

1. Explain the meaning of marketing environment.

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2. What are the different types of marketing environment?

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3. Define international business environment.

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1.25 KEY TERMS

1. Marketing: Marketing is a free economy is the skill of selecting and fulfilling consumer desires so as to maximize the profitability Per unit of capital employed in the enterprise.

2. Marketing management: It is "planning, production and control of entire marketing activity of a firm or a division of a firm, including the formulation of marketing objectives, policies, programs, strategies and reappraising product development organization to carry out the plans, professional working operations and controlling performance"

3. Meta marketing: Meta-marketing is the set of processes involved in attempting to develop or maintain exchange relations involving products and services, organizations, persons, places or causes. It is an attempt to widen the horizons of marketing by covering non-business organizations. Like the marketing-mix of business organizations, non-business organizations do, have their marketing mix.

4.International business environment: International Business Environment is multidimensional including the political risks, cultural differences, exchange risks, legal & taxation issues.

Therefore (IBE) International Business Environment comprises the political, economic, regulatory, tax, social & cultural, legal, & technological environments.

1.26 FURTHER READINGS

1. Kotlar, Philip, Marketing Management, Prentice Hall, New Delhi.
2. Stanton, Etzel, Walker, Fundamentals of Marketing, Tata-McGraw Hill, New Delhi.
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SEMESTER II

COURSE: MARKETING MANAGEMENT

UNIT 2 – MARKETING INFORMATION SYSTEM AND MARKETING RESEARCH

STRUCTURE

2.0 OBJECTIVES

After studying the Unit, students will be able to

- Define what a Marketing information system is.
- learn about the Components of marketing information system
- define marketing research
- identify scope of marketing research
- learn about marketing research procedure

- state methods and techniques for conducting marketing research

2.1 INTRODUCTION

Information is critical to effective management. Almost everyone agrees that the quality of the information provided, impacts the quality of the decisions someone makes. Managers who can make informed decisions based on appropriate information are much more likely to yield positive outcomes and progress toward the organization's objectives. Marketing data is precisely what is required for marketing excellence. Sound decisions are the result of relevant, clear, comprehensive, precise, timely, objective, and authentic information. This chapter will go through the growing need for marketing information, the information system, its components, and its necessities. Also covering Features of marketing research—role and limitations, its process, methods and techniques of marketing research.

2.2 MEANING OF MARKETING INFORMATION SYSTEM

Everyone is familiar with the concept of "information." Information is made up of analysed data, which are symbols, usually numbers, that are used to represent things. It refers to the cues or rules that have the ability to influence judgments. Any perceived or documented fact, opinion, or thought is referred to as information. We're talking about ‘marketing management information' here. Because of its dynamic and complexity, the sort of information required to operate an enterprise's marketing functions is unique. All facts, views, estimations, and other analysed data utilised in making decisions that have a broad impact on the marketing unit are included in marketing information.

"MIS is a set of procedures and methods for the regular and planned collection, analysis and presentation of information in making marketing decisions."

-Mr. K. Cox and K. Gonod

"MIS is an organised set of procedures, information handling, routines and reporting techniques designed to provide information required for making marketing decisions."

-Prof. Cundiff, Still and Govani

"A structure interchanging complex of persons, machines and procedures designed to generate an orderly flow of pertinent information collected from both intra and extra firm sources for use as the bases for decision making in specified responsibility areas of marketing management".

-Professor Brien and Professor Staffora

"An interacting, continuing, future oriented structure of people, equipment and procedure designed to generate and process an information flow which can aid business executives in the management of their marketing programmes".

-Professor Alder Lee

Thus, a marketing information system is an interacting, continuous, and future-oriented structure of people, machines, and procedures that is designed to generate an organised flow of evaluated data from various sources for use in managerial decision-making in the dynamic field of marketing.

2.3 NEED FOR MARKETING INFORMATION SYSTEM

The necessity for marketing information develops as a result of the changing nature of external forces, which can be summarised as follows:

1. ***Knowledge of consumer demand-*** In today's consumer-oriented marketing approach, no marketer cannot succeed unless he has a complete understanding of his customers' demands, tastes, likes and dislikes, actions and reactions, all of which are always changing.
2. ***Growing market complexity-*** The marketing system is becoming progressively more complicated and elaborate as marketing operations grow and expand. Census figures, syndicated market data, trade organization data, observations by salesmen, dealers, and distributors, newspapers, magazines, trade fairs, and exhibitions are all sources of information for businesses.
3. ***Changing economic parameters-*** Today's marketer must aim at moving targets rather than static ones; he must research and monitor economic metrics such as national income, population, price level, flow of money, growth rate variations, and so on to stay ahead of changing economic conditions. This is achievable if he has access to current and relevant economic data.
4. ***Changing competitive conditions-*** Rivals strive to capture existing business by implementing better policies and strategies in market-mix areas. A successful marketer correctly assesses the type, scope, and size of competition. This sizing-up is based on current, accurate, and relevant market knowledge on his competitors, whether overt and covert.
5. ***Development in science and technology-*** Because of the employment of cutting-edge

technologies, competition leads to higher product quality, lower costs, and lower prices. New procedures enable the development of new ideas, goods, and services. Keeping up with technological development is a challenge that all businesses must face since technology influences the availability, cost, and eventual consumption of goods across the marketing system.

6. ***Fast-growing consumerism-*** The gap between producers, marketers, and end customers has expanded as a result of mass marketing initiatives. Consumer dissatisfaction has resulted in increased consumer migration as a result of the gap. There has been a communication breakdown between producers and consumers. It suggests that there is no ideal two-way flow of information to assist producers, marketers, and consumers in solving their problems.

2.4 ELEMENTS OF GOOD MARKETING INFORMATION SYSTEM

A good marketing information system has the following features which can be called as the requisites or essentials:

- ***Are unified and centralised system-*** An organization's marketing information system should be created and managed as a single unit. The system consists of various components, including information and activity components. These components will be combined into a single unit that will be managed by a single central agency.
- ***Decision supporting system-*** Today's marketing information system is more than just a data bank for collecting, processing, and storing information. It is in charge of enhancing the efficiency of modern management in the face of shifting risks and uncertainties. The marketing information system aids in making the best decision among competing options, increasing organisational performance and efficacy. This is how it can be described as a decision-supporting system.
- ***Compatible with organisation-*** Because it is a part of the organization, the marketing information system must serve as a subordinate to the system. As a result, the marketing information system has been created to fit the organization's ideology, culture, and level of sophistication. Furthermore, the system must be sophisticated and advanced enough to fit well within the capabilities of employees.
- ***Economical-*** The marketing information system must be cost-effective in the sense that

it must meet the information's recognised cost-value ratio. The value or benefit obtained must be greater than the cost in terms of money, time, and effort. Alternative information designs can be used to collect, analyse, and present data. Before choosing an information design, a scientific study and comparison of costs and advantages, as well as their variants, should be conducted.

- ***Need based and use-oriented -*** the marketing information system should not be limited to the functions of finding, arranging, analysing, coding, archiving, and feeding information. It must not overburden the organisation with redundant information, despite the fact that there will be plenty of it. It must be selective in learning the specific needs of the organization and its executives. The information that is delivered must be user-friendly and tailored to the needs of the users.
- ***Fast in communication-*** Modern managers must not only make sound decisions, but also make them quickly. As a result, the marketing information system should be speed-oriented to provide rapid circulation of assimilated and processed data at various levels, allowing for quick judgments. Quick decisions lead to quick acts.
- ***Future oriented-*** Marketing Information system is a continuous process of data gathering, processing, and storage system. Keeping and retrieving data is more forward-looking. It is to foresee and prevent as well as to solve the issues. It is a remedial as well as a preventative procedure. It works diligently to ensure a consistent flow of information at the appropriate times to make future decisions, get the right information to the right person at the right time for the right price is worthy.

2.5 THE COMPONENTS OF MARKETING INFORMATION SYSTEM

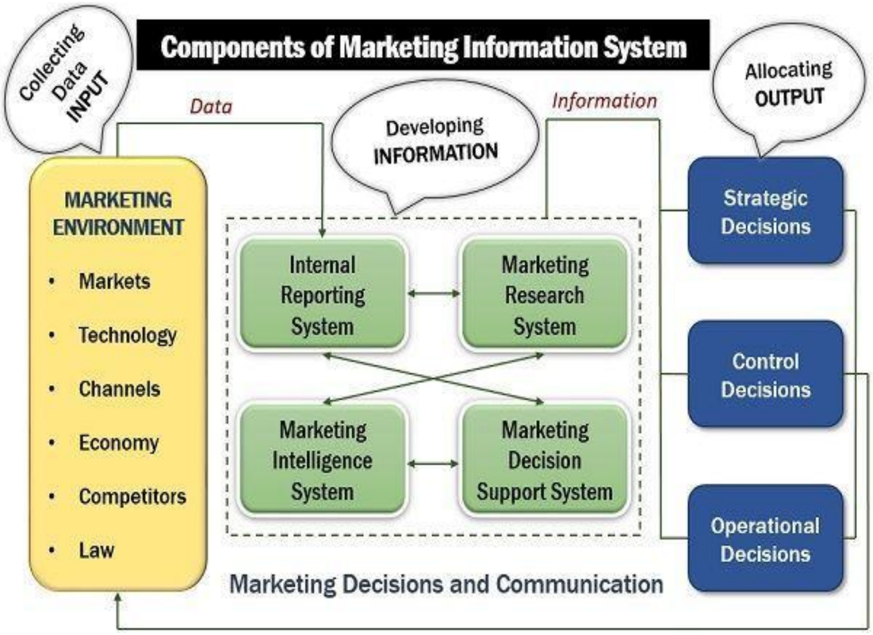
A highly developed marketing information system has four major components or divisions namely:

1. Internal marketing information.

2. Marketing intelligence

3. Marketing research

4. Management science.



2.5.1 internal marketing information

Information regarding your company's marketing and sales departments can be found in the internal records section of a MIS. This can include things like:

- Product inventory
- Marketing and sales performance
- Number of purchases made
- Debits and credits
- Lists of employees
- Past data and reports

You can examine your department's efficiency and its ability to sell effectively by putting this data into a MIS or allowing a software application to get it. Understanding your company's internal strengths and weaknesses might help you strengthen marketing functions and reach more customers. Because you have all the information within your firm, getting and storing internal records for a MIS is usually simple.

2.5.2 marketing intelligence

Marketing intelligence is a comprehensive term that refers to the process of investigating the complete external market in order to comprehend how your rivals and clients operate and react. Rather than relying on automated methods, this component frequently entails speaking with partners and suppliers, organising product feedback sessions, and analysing competitor performance reviews. Another typical source of market intelligence is newspaper articles and sections about various firms and product marketplaces in print and electronic media. It is critical to have a thorough awareness of the external aspects that affect your marketing in order to create effective commercials. Incorporating marketing intelligence data into your department's management information system (MIS) can assist your colleagues in developing plans and making decisions that take into account the dynamic market and competition.

2.5.3 marketing research

The marketing research element of a MIS is critical for handling issues or discovering new possibilities in your market. Marketing research is used to solve problems by defining a problem, investigating the intricacies of the problem in your market, and developing solutions based on your findings. You can use a similar strategy to uncover new chances by researching your market and defining the prospective prospects inside it. Marketing research is a key part of a MIS that emphasises specific aspects and objectives. Having a specific purpose in mind, such as a stated problem or situation, can help you focus your research on the most relevant sources and types of data. Both internal and external resources are available.

2.5.4 marketing decision support system (MDSS)

The marketing decision support system, or MDSS, is another part of a MIS. The data from all sources of information collected by the other components is processed by this system. It then evaluates and interprets the information to assist you in better understanding it. The MDSS component can receive data from the internal sources and generate it in quantifiable, accountable formats using a variety of approaches and tools, such as data management software. For instance, software might extract information on the typical monthly cost of internet advertising and the amount of cash you'll need to market online in the future month. You can utilise this data to make decisions about monthly budgets, online ad placement, and the marketing benefits.

2.6 TEST YOUR UNDERSTANDING (A)

1. Explain the meaning of marketing information system.

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2. What are the elements of good marketing information system?

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3. Explain in brief the components of marketing information system?

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2.7 MARKETING RESEARCH- MEANING

Marketing research is the systematic, impartial, and thorough investigation of facts pertinent to any situation in the field of marketing.

" Marketing research" refers to the methods of finding and analysing facts to assist managers in making rational marketing decisions.

"The systematic, objective and exhaustive search for and study of the facts relevant to any problem in the field of marketing'.

-Professor R.D. Crisp,

"The systematic and objective search for an analysis of information relevant to the identification and solution of any problem in the field of marketing"

-Professor P.E. Green and Professor D.S. Tull

"Systematic gathering, recording and analysis of data about the problems relating to the marketing of goods and services",

-American Marketing Association

"Systematic problem analysis, model building and fact-finding for the purposes of important decision-making and control in the marketing of goods and services"

-Professor Philip Koller

2.8 FEATURES OF MARKETING RESEARCH

The above-mentioned definitions clearly define marketing research as a process or a series of intellectual activities involving mankind's mental abilities.

1. **It is systematic**- Marketing research is a systematic process. There is a certain method or

procedure for conducting research. It refers to a logically organised succession of steps or a sequence of actions. There are up to eight of these sequential phases. There are no shortcuts or missed steps here. If this is the case, it will have a significant impact on the research findings. Because research requires time, money, and talent, mindless rambling should be avoided at all costs. Each step is interconnected and depends on the others. As a result, it is a well-organized and close-knit activity.

2. **It is scientific**- The primary goal of marketing research is to provide relevant data to the marketing executive so that he can make informed and timely decisions. As a result, the information provided must be precise, correct, and legitimate. Scientific data is data that has been analysed, is measurable, clear, reliable, verifiable, legal, communicative, and predictable. Furthermore, the researcher's methods should be scientific. That is, he must define what his educational goals are. What exactly is the investigation issue? What exactly is his theory? What statements and conclusions does he make? A true researcher is also one who has a scientific mindset. He must be unbiased, dispassionate, and impartial. He has an open mind, which allows logical reasoning to reveal the true or naked truth.
3. **It is a Managerial tool-** Marketing research is a useful decision-making tool for management teams. Today's managers are faced with a bunch of issues that must be resolved in the shortest possible time and at the lowest possible cost. Marketing judgments are harder to make since it is a social science, not a natural or exact science. That is the reason that the quality and style of decision-making both need to be improved. This predicament is prompting an increasing number of marketing executives to focus on marketing research.

2.9 OBJECTIVES OF MARKETING RESEARCH

There can be six clear-cut objectives of marketing research:

1. **To know the buyers** - Every company needs to know about all of the individuals who are prepared to pay for the company's goods or services. This knowledge relates to buyer characteristics such as the quantity of purchasers, the frequency with which they purchase, the regional location, the social category, and so on. If the above-mentioned fundamental data is made available, useful information may emerge. If such relevant data is made accessible for several years, the growth rate may be determined; variance could be traced and investigated, and market potential can be determined.

2. **To measure the impact of promotional efforts-** In today's shifting marketing environment, it's possible that a company will use a variety of tactics to advertise a product or service. Advertising, personal selling, and sales promotion are the three key aspects of today's promotion-mix or communication-mix. Some promotional methods may be really appealing while others may be a complete failure. Research in these areas of promotional efficacy will allow the researcher to assess the strengths and weaknesses of the mix components in order to make appropriate changes to improve the results.
3. **To know the consumer response-** Market-product testing is the study of consumer responses. An alert company keeps track of customer reactions to the product that has just been launched on the market. In other terms, the corporation is interested in hearing from customers about their level of pleasure or discontent with the product. These hints pave the way for product improvements in terms of performance, design, shape, colour, appearance, packaging, packaging materials, and distribution techniques, among other things. As a result, market product testing aids in effective product planning and development in order to satisfy the targeted consumer needs.
4. **To know market cost and profits -** Cost of marketing is an input that a company uses to carry out its marketing plan which is used as a benchmark for performance. Total marketing costs and their breakdown research aids in evaluating and identifying marketing plans and methods whose costs are not proportionate with their results. It encourages marketing managers to be cost-conscious. The goal of research is to regulate and reduce costs so that consumers may get lower pricing and marketers can make more money.
5. **To master the external forces -** Internal controllable elements and external uncontrolled forces drive changes in the firm's plans and practices. Each company requires accurate information on competitor moves, market share, foreign market developments, governmental regulations, technical changes, environmental variations, consumer incomes, customer expenditures, new product alternatives, and the like. These are the elements that are constantly changing and forcing businesses to adjust as well. To survive and thrive in these fields, research is required. As a result of research, businesses become more adaptable and innovative.
6. **To design and implement marketing control-** The final or ultimate task in marketing management is marketing control. It is the process of tracking and reporting marketing performance, as well as measuring and evaluating it against planned performance

standards, in order to spot discrepancies, fix them as they occur, and provide feedback for plan amendment. Plans are useless unless they are implemented. Control determines whether real efforts are on track with the plan. Corrective actions are conducted if there is a derailment.

2.10 SCOPE OF MARKETING RESEARCH

The scope of marketing research covers following areas:

1. **Research on Products:** the areas of product research are -

   i. Study of products' qualities and performance

   ii. Study of physical and psychological characteristics of product

   iii. Determining uses of the existing products

   iv. Comparative study of competitive products

   v. Detecting consumers' problems related to the products

   vi. Determining need for developing new products

   vii. Assessing success of a new product in market, including market testing

   viii. Product life cycle and consumer adoption study

   ix. Study of branding, packaging, labeling, after-sales services, and remarking

2. **Research on Market:** the areas of market research are -

   i. Defining and selecting target market

   ii. Studying needs and wants of target market

   iii. Study of size and location of current market

   iv. Assessing the current market trends and projecting the future trend

   v. Analysis of territorial sales opportunities and potential

   vi. Setting sales territories and sales quotas

   vii. Market share analysis

   viii. Studies on relative profitability of different markets

3. **Research on Sales Methods and Policies:** the area of sales research includes-

i. Study and analysis of sales records

ii. Analysis of sales territories in terms of products, size of orders, times, terms and conditions and methods

iii. Study on activities and effectiveness of salesmen

iv. Evaluating existing selling methods

v. Sales force management including size, compensation, training, control, etc.

vi. Study on effect of various promotional tools such as advertising, personal selling, sales promotion, and publicity tools on sales

vii. Study on organisation structure of sales department

4. **Research on Advertising:** the area of advertising research includes-

i. Comparative study of various elements of promotion

ii. Study on advertising objectives, media and media selection, advertising message, theme, copy, and advertising agency

iii. Social aspects of advertising – negative and positive effects of advertising on society at large

iv. Advertising role in different stages of product life cycle

v. Government restrictions on advertising

vi. Study on costs and contribution of advertising or evaluating advertising effectiveness

vii. Study of competitors' advertising practices and strategy

5. **Research on Pricing:** The area of price research includes-

i. Study on pricing objectives

ii. Study on effectiveness of pricing policies and strategies

iii. Study of various methods for setting price

iv. Quality v/s value analysis

v. New product and pricing policies

vi. Study on effect of discount, allowance, and seasonal variables

vii. Pricing strategies on different stages of product life cycle

6. **Research on Distribution:** the area of distribution research includes-

i. Assessing role of distribution decisions in achieving marketing goals

ii. Comparative study of between direct and indirect distribution

iii. Physical distribution and ancillary services

iv. Study on various types of channels of distribution

v. Study on relevant factors affecting channel decision/selection

vi. Comparing company's distribution strategies with competitors

vii. Relevance of online marketing

viii. Legal issues related to distributions

2.11 ROLE OF MARKETING RESEARCH

The market researcher offers the managers with up-to-date reports that help guide the executive in sound judgement. A market researcher, like a physician, can diagnose a health problem and provide treatments. Manufacturers, distributors, advertising agencies, and the government all benefit from marketing research. Because it has the power of solving problems and decision-making, everyone stands to benefit to the extent that they rely on this managerial tool.

Its role can be analyzed from the angles of above referred participants as under:

2.11.1 manufacturer and MR

Every dynamic producer is expected to create policies and marketing plans that are the most compatible. A policy is a guiding principle adopted by a company to guide its actions, which are regularly repeated. On the other hand, strategy is a type of plan developed primarily to handle the demands of unique conditions. It's a strategy for thwarting competitors' plans.

Manufacturers stand to benefit in two ways by marketing research:

1. *Defining and Putting in Place Product Policies:*

Marketing research is useful for resolving issues in the domains of product policy creation and implementation. These product policies cover product creation, product line determination, input purchases, inventories, plant location and layout, production planning and control, plant maintenance, waste management, quality and cost, finance, and people. It indicates that marketing research is involved in every phase of manufacturing in order for the manufacturer to build and implement effective product policies.

2. Developing and executing marketing strategies:

A marketing strategy is a dynamic, action-packed, all-encompassing plan for achieving commercial objectives. A successful manufacturer is one that achieves the best possible balance of controllable and uncontrollable variables. Because of the current market conditions, manufacturers must be market-oriented. External to the corporation are uncontrollable elements such as market technological changes, the economic and social environment, and government laws. It is the manufacturer's capacity to adjust internal factors while respecting exterior ones. As a result, marketing research is nearly vital in the development and execution of marketing strategies since it collects, analyses, and interprets key data, strengthening the decision-hands maker's in making smart and timely judgments to kick dangers and kiss opportunities.

2.11.2 distributors and MR

Though production has pride of position in any market structure, distribution is even more critical because creation is meaningless unless it has been made to be consumed by markets via marketing activities.

Distributors the vital link between producers and consumers stand to benefit by marketing research as under:

1. The Outlet's Location:

The strategic location of a distributor's selling outlet determines his success. Two factors are given high priority when choosing a site: region and specific location. Marketing research aids in identifying areas with a dense and diverse population, a favourable business environment, and enough transportation.

2. Shaping and Improving Store Image:

A store, like a person, has a unique personality that sets it apart from the competition. This personality must be recognised and emphasised in order to build public trust in the company's products and services. The sum of a consumer's attitudes regarding numerous components of a shop is his image of that store. His perception, motivation, interpersonal response, qualities, and self-concept are all influenced by his attitudes. According to market research studies, the store's image has influenced consumer perceptions regarding the store in terms of shopping habits and retail attributes.

3. Distribution cost control and reduction

The current industrial system has provided us with low-cost, high-quality goods in insufficient quantities. However, distribution costs have been higher than production costs. The fact that these distribution costs are rising over time is concerning. A thorough examination of all marketing costs, including transportation, warehousing, financial services, advertising, consumer services, financing and adjustments, and the like, should reveal some information that will aid in the elimination of waste and inefficiencies in this critical area of distribution.

4. *Product Line Analysis:*

The variety of goods that middlemen, both retailers and wholesalers, must stock is frequently an issue. The more product lines and variants there are, the higher the total sales will be since it allows customers to choose from a wider range of options. However, because all variations in all product lines would not move at the same or anticipated speed, the cost of managing these broader product lines and larger variety would rise disproportionately.

2.11.3 advertising agencies and MR

The work of an advertising firm includes copy-testing, media selection, and ad effectiveness evaluation, among other things. They provide vital services such as consultancy, research, incentive programme development for salespeople and dealers, merchandising, and so on. Because marketing research is among the most important services provided by advertising firms, each one has its own marketing department.

Business houses can put the findings of such research to good use in the following areas:

1. *Budget appropriations: :* Budget allocation is one of the most important considerations that each advertiser must make. To put it another way, how much will he spend? How? Where? And when? In order to communicate his message to potential customers and clients. Advertising companies help their clients on how to spend through market research studies? How much should you spend on advertising, personal selling, and sales promotion? How much should he spend on each channel so that his advertising and other marketing efforts yield the best results?
2. *Preparation and placement of advertisements:* Advertisement preparation necessitates planning in light of ongoing and innovative research that aids in the creation of original

commercials for its clients. Furthermore, because these professional units have long-standing relationships with media owners, placing adverts on diverse media is not an issue. Because this placement is based on study findings, it is both cost-effective and efficient.

3. *Measuring advertising effectiveness:* The work of advertising firms does not end with the planning and placement of advertisements for their clients. Measuring the effectiveness of advertising is a more responsible and significant duty. This evaluation determines how much the advertiser has benefited from the inserted advertisement in terms of influence and audience reach. This provides a clear link between the money spent on advertising and the number of sales generated. This is done by comparing the effectiveness of advertising message text before and after it is released. As part of marketing research, such an evaluation necessitates data gathering, analysis, and interpretation.

4. *The study of images:* Advertising agencies conduct helpful research on imagery, company brands, and retail locations. From the time it opens its doors, every firm has a corporate image that represents what it has accomplished to communicate with the public. It is the total of people's impressions about the company. Product packages, trade-marks, brand names, business names, employee graphics marketing programmes, and other elements contribute to a company's image. A brand image is the sum of all the emotional and aesthetic attributes that people connect with a brand, such as a name, a sign, a personality, a value, a prestige, and a consumer quality.

2.11.4 government and MR

Today's states are welfare states rather than police states. That is why, in order to demonstrate their usefulness in preserving the legitimate rights of all consumers, modern states have turned commercial.

These governments must rely heavily on marketing research to accomplish such a monumental endeavour, as the following points demonstrate:

1. *Internal management:* The management of an economic system entails the planning and control of its numerous components. It is essentially the task of allocating resources to national and societal goals in order to achieve the best results. Production, price distribution, and consumption are all under control. Governments will be required to gather, analyse, and interpret relevant data in order to fulfil these tasks. The Yojana Bhavan is the brains behind the Indian government, providing blueprints for action and feedback on those efforts. As a result, anything the government does is done through decisions, and all these sound

decisions are founded on the study data.

2. *External management:* Market development outside national borders is a constant pursuit. Governments are constantly looking for new markets for their products and services around the world. Individual shippers who cannot possibly spend organizational resources on such a time-consuming and less profitable activity can easily perform such a study. This also aids in the balance of local consumption and exports. Extensive market research is used to make critical judgments about imports and exports. Excesses and their negative economic impacts can be prevented since it offers reliable information. As a result, marketing research strengthens the adage "Export or Perish" by allowing businesses to export after thorough investigation.

2.12 LIMITATIONS OF MARKETING RESEARCH

Following are the most serious limitations -

1. **It is not a substitute for executive decisions-** Marketing research is only a tool that aids in decision-making, not a replacement for sound judgement. The marketing executives will ultimately make the decisions. Marketing research conducts an investigation, provides pertinent information, and assists managers in making more sensible decisions. The decision maker's competence and experience determine the success of marketing research.
2. **It cannot predict the future precisely-** Marketing research predictions or readings are not flawless, and they cannot be since they are approximations. Marketing research can forecast trends but not absolutes. Because the future is inherently unknown, no one has yet discovered an accurate response to the question of what will happen in the future. Marketing research, at its finest, can lower the amount of these ambiguities and allow for more trustworthy estimates.
3. **All marketing problems cannot be researched-** It is critical to emphasise at this point that not all marketing issues can be researched. A research problem is one which allows for observation or data collection in order to offer a solution. Because of the limitations of research instruments and procedures on the one hand, and the qualitative and subjective elements that defy measurement on the other, reliable study results are impossible to get. Some problems involving value judgement cannot be solved only on the basis of the data collected.

2.13 TEST YOUR UNDERSTANDING (B)

1. Define the term Marketing research.

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2. What are the features of marketing research?

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3. What are the objectives and the scope of marketing research?

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2.14 MARKETING RESEARCH PROCEDURE

Below is a five-step marketing research process:

1. Defining the problem- Before you begin your marketing study, you must first determine the problem you're trying to solve. Establishing your study objectives is the first step in the process. During this step, developing questions to help you properly identify your problem is really important.

2. Develop your Research Plan- It's time to build and design the research plan once you've determined what problem you're trying to solve. Incorporate a variety of methodologies into your research strategy. It is a prepared plan or blueprint for completing the research projects that have been begun. It is one that establishes a framework for the researcher to work within. The research design or plan maintains the study on track, allowing it to stay up with the problem needs while using the least amount of resources and methods possible.

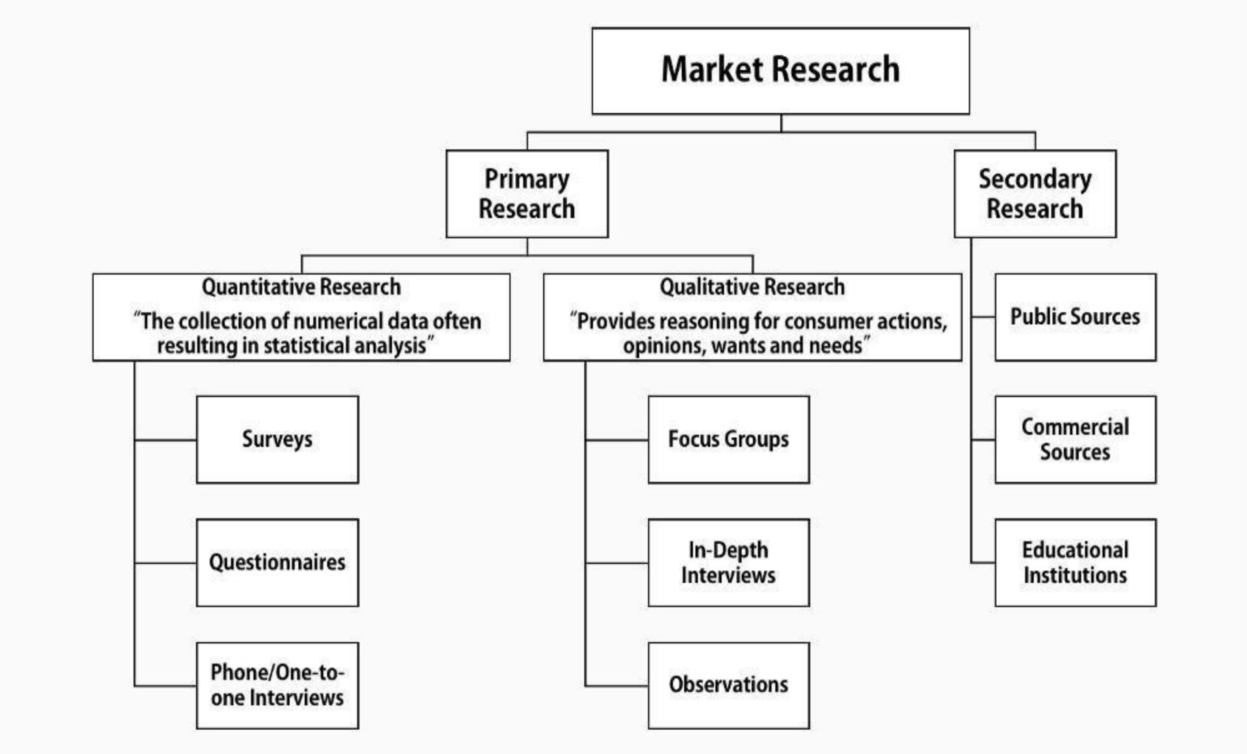
3. Collect Relevant data and Information- The majority of the data you collect in marketing research will be quantifiable (numbers or data) rather than qualitative (descriptive and observational). Ideally, you'll collect both forms of information. Make sure the data you collect is accurate and unbiased.

4.Analyse data and report findings- It's time to analyse the data after you've obtained it. It's vital to search for trends rather than individual bits of information when doing this. When you're reviewing your data, don't look for patterns based on previous assumptions you made before collecting the data. It's perfectly fine if your notion is incorrect. That is why you test rather than making assumptions. Just ensure you don't skew the data to make it appear as if you were correct all along. It will not result in any positive effects.

5. Take Action- Your investigation is over. It's time to discuss your results and put your plans into action. Begin planning marketing campaigns. Put your research to the tests and get started! The most key takeaway here is that this cycle of study is not yet over. You should never stop researching. You should review your statistics on a frequent basis to see how you can make improvements. Trends are subject to change over time. Just because you've discovered a pattern doesn't ensure it'll last. Always conduct thorough research. Your marketing tactics will be more successful if you know more about your buyer profiles, industry, and organisation.

2.15 METHODS FOR CONDUCTING MARKETING RESEARCH

Market research may be done in a variety of ways to assist you gather the knowledge you need to gain a competitive advantage.



2.15.1 survey method

Companies use surveys to contact participants and ask them questions. They can use a variety of methods to conduct surveys, including:

- Phone: Company personnel call people on the phone and ask them to answer a set of rehearsed questions.
- Mail: The corporation distributes the inquiries to people's email id in textual form.
- Online: Participants are contacted by email or a hyperlink to an online form that they can complete.
- In person: The company converses with people they come across in high-traffic places. Participants can try products or services during in-person surveys.

Surveys are a low-cost technique to collect big amounts of data for study. Written surveys may also have the advantage of eliciting truthful responses by making participants feel as if they are sharing their thoughts in secret.

2.15.2 observation method

The act of examining how consumers actually behave while they shop is known as observation in market research. It frequently entails filming customers in a market setting, such as a store, and assessing their purchasing behaviours or patterns. This strategy can reveal their natural self, rather than how they believe in themselves, if they are ignorant of the observation. For example, observation could show investigators which retail stimuli influence shoppers' purchases, which products appeal to the most buyers, and how packaging and displays influence judgments.

Humans do the majority of the observation because it is more extensive, though less precise, convenient, and cost-effective. Mechanical or electrical equipment are increasingly being employed for precision, cost, and convenience, notwithstanding their restricted applicability. Traffic counting machines, surveillance cameras, audio-meters, eye-cameras, pupitometers, tachistoscopes, psycho-galvanometers, and other mechanical devices are examples. Both quantitative and qualitative research benefit from the use of observation methods. This method is much more accurate and objective than surveys since it eliminates the uncontrollable human factor.

2.15.3 experimental method

The process of carrying out the best possible answer to a specific issue on a small scale is known as the experimental method of research. The goal is to see if the tentative findings gained can be proven in real-world situations. The researcher has no control over the actual conditions because they are always changing. Continuous experimenting under various conditions, on the other hand, may be able to isolate the impact of these many conditions.

"The deliberate manipulation of one or more variables by the experimenter in such a way that its effect upon one or other variables can be measured."

-Professor Tull D.S. and Hawkin D.I.

An experimenter in the marketing field might be interested in determining the impact of changes in the brand name, pricing, product development, colour, package, advertisement copy, and other factors on product sales. Test-marketing is the term for this type of activity. Test-marketing establishes cause-and-effect relationships, and its findings may be used to influence product mix changes.

2.16 TEST YOUR UNDERSTANDING (C)

1. What is the process of MR?

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2. What are the different methods to conduct MR?

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2.17 KEY TERMS

1. Marketing research: Market research is the process of determining the viability of a new service or product through research conducted directly with potential customers. Market research allows a company to discover the target market and get opinions and other feedback from consumers about their interest in the product or service.

2. Marketing decision support system: A marketing decision support system (sometimes abbreviated MKDSS) is a decision support system for marketing activity. The system is used to help businesses explore different scenarios by manipulating already collected data from the past events.

3. Marketing information system: A marketing information system is a management information system designed to support marketing decision making. Jobber defines it as a "system in which marketing data is formally gathered, stored, analysed and distributed to managers in accordance with their informational needs on a regular basis."

2.18 FURTHER READINGS

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4. McCarthy, E.J., Basic Marketing: A managerial approach, Irwin, New York.
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M.COM

SEMESTER II

COURSE: MARKETING MANAGEMENT

UNIT 3– CONSUMER BUYER BEHAVIOR AND SELECTING TARGET MARKET

STRUCTURE

3.0 OBJECTIVES

After studying the Unit, students will be able to

- define the consumer buyer behaviour
- learn about the characteristics affecting consumer buyer behaviour
- learn about various types of buying decision behaviour
- identify Buyer decision process
- define market segmentation, targeting and positioning

3.1 INTRODUCTION

Marketing's goal is to engage consumers and influence how they think and act. Marketers mustfirst comprehend the whys in order to influence the whats, whens, and hows of buyer behaviour. When establishing the marketing mix, a company that wishes to succeed must consider buyer behaviour. The behaviours consumers perform when buying and using things are known as buyer behaviour. Marketers need to understand buyer behaviour, such as how changing the pricing of a product affects the customer's impression of the product and, as a result, sales, or how a certain social media review might change the marketing mix totally based on the target market's remarks (buyer behavior/input).

Marketers need to understand how clients make purchasing decisions in order to comprehend buyer behaviour. Consumers and corporations both use systems to make purchasing decisions. Cultural, social, personal, and psychological aspects influence these decision-making processes.

3.2 CONSUMER BUYING BEHAVIOUR- MEANING

Although understanding buying behaviour is never easy, it is an important part of marketing management. The buying behaviour of end consumers, or individuals and families who purchase products and services for personal use, is referred to as consumer buyer behaviour. The consumer market is made up of all of these end consumers.

"Consumer behaviour refers to the actions and decision processes of people who purchase goods and services for personal consumption."

-James F. Engel, Roger D. Blackwell and Paul W. Miniard.

"The mental and emotional processes and the physical activities of people who purchase and use goods and services to satisfy particular needs and wants."

-Professor Bearden and Associates

«The behaviour that consumers display is searching for, purchasing, using, evaluating and disposing of, if products and services that they expect will satisfy their needs."

-Professor Leon G. Schiffman and Leslie Lazon Kanuk.

"The dynamic interaction of affect and cognition, behaviour, and environmental events by which human beings conduct the exchange aspects of their lives."

-AMA.

Consumer behaviour encompasses all of a potential customer's psychological, social, and physical actions as they become aware of, evaluate, purchase, consume, and tell others about items or services.

3.3 CHARACTERISTICS AFFECTING CONSUMER BEHAVIOUR

In a general sense, there are five major aspects that influence consumer behaviour, i.e., whether or not a targeted market purchases a product. Psychological, social, cultural, personal, and economic considerations are among them.

3.3.1 Psychological factors

Human psychology, surprisingly, is an important aspect that determines consumer behaviour, despite the fact that these factors are difficult to quantify. Consumer behaviour is influenced by a number of psychological factors, including:

1. *Motivation*: Motivation becomes a significant determining factor in a person's purchasing habit. Maslow's theory of hierarchy of needs is a popular motivation theory in which he

constructed a model that sets the foundation for five distinct levels of human requirements, starting with psychological needs and progressing through safety needs, social needs, esteem needs, and finally self-actualization needs. Our core requirements and security demands are often prioritised among these criteria.

2. *Perception*: When we receive information about a thing and analyse it to create a suitable image about that product, our perception is influenced. We build an image of a product when we see a commercial, review, comment, or promotion for it. As a result, our perspective influences our purchasing decisions significantly. Because we live in a time when we are constantly receiving information via browsing the Internet, watching Television, and exploring with our mobile phones, the impression we acquire from all of these resources plays a significant part in regulating our shopping behaviour.
3. *Learning* Every time, we buy something, we have a better understanding of it through experience. This learning is primarily based on our prior experience, knowledge, and abilities. This learning can be intellectual or conditional in nature. While we utilise our knowledge to find satisfaction and meet his requirements with the thing we acquire in cognitive learning, conditional learning occurs when we are repeatedly exposed to a scenario, allowing us to respond to it. For example, we all explore resources through non experiential learning, such as reading reviews for books and products on Amazon, learning about film reviews on Rotten Tomatoes, and exploring eateries on Yelp.
4. *Beliefs and Attitudes:* We all have certain mindsets that influence our shopping decisions, whether consciously or subconsciously. For example, whereas your friend may prefer tea because he believes caffeine is harmful to one's health, you may prefer coffee since you believe caffeine energises us. Our attitudes and beliefs influence our behaviour toward a product and help to shape the brand image of that product. As a result, marketers can leverage consumer attitudes and beliefs to better create their marketing initiatives.

3.3.2 Social factors

Because we are all social beings, our shopping decisions are affected by others around us. We are continuously attempting to imitate other people in order to blend in with our surroundings. As a result, social variables have an impact on our purchasing decisions. Some of these elements are:

1. *Family*: Our families do, in fact, have a significant influence on our spending habits. We develop a predilection or aversion to specific items as a result of watching our families use

them as children, and we continue to use them as adults. For example, if our members of the family prefer Papa Jones, we will subconsciously choose Papa Jones over Pizza Hut or Domino's.

2. *Reference Groups:* Individuals with whom we relate ourselves are referred to as reference groups. Clubs, schools, professions or play areas, churches, and even friends or a group of friends, for example, are examples. People in reference groups typically have a shared purchase pattern and an opinion leader who affects their purchasing decisions.

3. *Status and roles:* Of course, the position we occupy in society has an impact on us all. The greater our position, greater our status influences what we buy and how much we spend. For example, the CEO of a corporation and a regular employee would have different purchasing habits.

3.3.3 cultural factor

We all have values and beliefs that are influenced by the values and ideals of the society and community in which we live. The society in which we live influences our conduct, whether consciously or subconsciously.

Consider the case of McDonald's in India.

McDonald's has altered its menu to reflect the tastes and interests of the local area in which it lives because India has a large consumer base. For example, because cows are revered and highly adored in India, chicken has indeed been substituted for beef. McCurry Pan, a baked menu item consisting of curried veggies, was developed by the fast-food firm in India.

Among the most important cultural elements are:

1. *Culture*: Our cultural variables are essentially basic needs, beliefs, goals, habits, and preferences that we witness and absorb from close family members and other significant individuals in our lives.

2. *Subculture*: There are various subcultures within a cultural group. These organisations have similar principles and ideas. They may include people of many ethnicities, faiths, castes, and geographical locations. This client segment encompasses an entire customer segment.

Here, we'll use Burger King as an example. Burger King has conformed to Muslim culture by creating a Ramadan-themed advertisement featuring a mostly devoured burger in the form of a crescent moon.

3. *Social Status.* Every civilization on the planet is defined and identifiable by some type of social class. Our familial origins, occupations, education, and housing location all contribute to our social class. Another factor that influences consumer behaviour is our socioeconomic class.

3.3.4 Personal factors

We all have personal elements that influence our choices in addition to social, psychological, and cultural aspects. These variables differ from person to person, resulting in a wide range of perceptions and behaviours.

Personal considerations include the following:

1. *Age:* One of the most important elements that influences our preferences is our age. A teenager's vivid and showy purchasing decisions would definitely differ from those of an elderly person. Nevertheless, we have middle-aged individuals who are typically more interested in buying real estate, houses, or automobiles. For example, when Baby Boomers approach retirement, marketers target them with messages about prescription pharmaceuticals, as well as other health-related topics like home, financial security, and insurance, which are all age-related concerns.
2. *Income* Our purchase habits are influenced by our money. Our purchasing power increases as our income rises, and vice versa. Higher discretionary income encourages us to spend more on luxuries, but a lower or mediocre income encourages us to spend more on necessities such as schooling, groceries, and clothing.
3. *Occupation* Our occupation has a significant influence on our shopping decisions. We all have a tendency to buy products that are relevant or appropriate for our work. A businessman, for example, would have a different purchasing pattern than an artist.
4. *Lifestyle:* One of the most powerful influences on our decisions is our way of life. Our purchasing habits are heavily influenced by our way of living. If we're on a diet, the goods we buy will help us stick to it, from food to weighing scales to protein supplements.

3.3.5 Economic factors

Consumer purchasing habits and decisions are heavily influenced by market or national economic conditions. The higher a country's money supply and consumer purchasing power are, the more prosperous it is and the more stable its economy is. A strong, healthy economy instill confidence in consumers, but a weak economy exposes a pressured market characterised by diminished buying power and unemployment.

The following are some important economic factors:

1. *Personal income:* Our personal income is the criteria that dictate the level of money we will spend on buying goods or services. There are primarily two kinds of personal incomes that a consumer has namely disposable income and discretionary income. Our disposable income is mainly the income that remains in hand after removing all necessary payments such as taxes. The greater the disposable personal income the greater would be the expenditure on several products, and the same would be the case when it is the other way round.

   Meanwhile, our discretionary personal income would be the income that remains after managing all the basic life necessities. This income is also used when it comes to purchasing shopping goods, durables, luxury items, etc. An escalation in this income leads to an improvement in the standard of living which in turn leads to greater expenditure on shopping goods.

2. *Family income:* Our family's income is the total of all of our family members' earnings. This income also has a significant impact on consumer behaviour. The money left over after satisfying all of life's fundamental needs is spent on various things, branded stuff, luxuries, durables, and so on.

3. *Income expectations:* Our purchasing decisions are influenced not just by our individual and family income, but also by our expectations for future earnings. For example, if we anticipate an increase in our salary in the future, we will naturally spend more money on purchases. Naturally, if we anticipate our income to drop in the nearish future, this will have a negative impact on our spending

4. *Consumer credit:* Our purchase habits are influenced by the credit facilities available to us. Sellers typically provide credit either explicitly or implicitly through banks or financial organisations. Our consumption on items is likely to increase if we have favorable financing terms and accessible EMI programmes, but less flexible credit conditions would have the opposite effect.

5. *Liquid assets:* Even our liquid assets have an impact on our purchase decisions. If you're wondering, these are assets that can be converted into cash quickly, such as stocks, mutual funds, savings, and current accounts. We are more likely to spend more on luxury and shopping items when we have more liquid assets. In the meantime, lower liquid assets mean

lower spending on these products.

6. *Savings:* Our purchasing behaviour is also regulated by the savings earned from our personal income. For example, if we decide to save more from our income for a specific time period, our spending on goods and services will be lower during that time, whereas if we decide to save less, our spending on such items will grow.

3.4 TYPES OF BUYING DECISION BEHAVIOUR

A consumer's purchasing decision is influenced by the things they require. A consumer's behaviour when purchasing coffee differs significantly from that when purchasing a car. The quantity of participation a consumer has in a purchase choice determines their purchasing behaviour. The degree of risk associated in a purchase influence purchasing behaviour as well. High priced goods carry a higher risk, requiring more involvement in purchasing decisions.

Consumer purchasing behaviour can be divided into four categories:

1. Complex buying behavior
2. Dissonance-reducing buying behavior
3. Habitual buying behavior
4. Variety seeking behavior

	High Involvement	**Low Involvement**
Significant differences between brands	Complex Buying Behavior	Variety Seeking Behavior
Few differences between brands	Dissonance Reducing Buying Behavior	Habitual Buying Behavior

3.4.1 complex buying behaviour

When consumers are emotionally invested in a purchase and perceive notable change between brands, they engage in complex buying behaviour. When a product is expensive, dangerous, purchased infrequently, and very self-expressing, consumers may become very involved. The consumer usually has a lot to learn about the type of product. Someone shopping for a new car, for example, might not understand what models, features, and accessories to look for, or what costs to expect.

This buyer will go through a learning experience, first acquiring product beliefs, then attitudes, and finally making an informed buying decision. Marketers of high-involvement items must understand how high-involvement customers get information and evaluate products. They must assist customers in understanding product-class qualities and their relative value. They must distinguish their brand's features, perhaps through printed promotional materials or in-depth web information and videos that describe and illustrate the brand's benefits. They must influence the ultimate brand choice by motivating store workers and the buyer's acquaintances.

3.4.2 dissonance reducing buying behaviour

When customers are emotionally invested in an expensive, infrequent, or dangerous buy but see little difference between brands, they engage in dissonance-reducing buying behaviour. Because carpeting is expensive and self-expressive, buyers purchasing carpeting may face a high-involvement decision. However, most carpet brands in a certain price range may appear to be the same to purchasers. Because the perceived brand differences are small in this scenario, purchasers may shop around to see what's available before making a decision. They may be primarily motivated by a low price or ease of buying.

Consumers may suffer post purchase dissonance (after-sale discomfort) after making a purchase if they see specific downsides of the purchased carpet brand or hear positive things about brands they did not purchase.

3.4.3 habitual buying behaviour

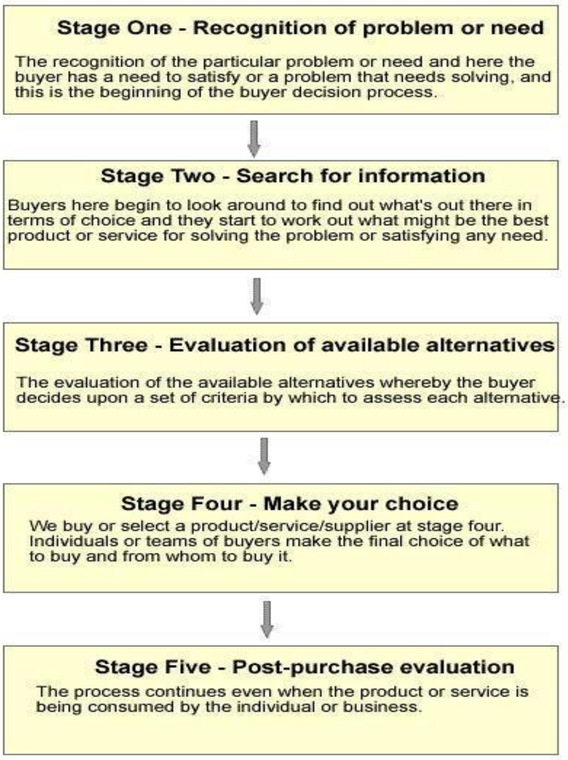
When there is little consumer interaction and little substantial brand distinction, habitual buying behaviour emerges. Take, for example, table salt. Consumers in this type of product have little engagement; they just go to the market and select a brand. It's more likely that they're grabbing for the same brand out of habit than strong brand loyalty. Most low-cost, commonly purchased products appear to have limited consumer involvement. Consumer behaviour does not follow the conventional belief-attitude-behavior pattern in such instances. Consumers do not conduct substantial research on brands, analyse brand qualities, or make critical decisions about which brands to purchase. Because they aren't as invested in the goods. As a result, brand beliefs are created through passive learning, backed by purchase behaviour

3.4.4 variety seeking buying behaviour

When there is little customer involvement but large perceived brand variations, consumers engage in variety-seeking purchase behaviour. In such situations, consumers frequently switch brands. When buying cookies, for example, a buyer may hold certain views, select a biscuit brand without much thought, and then evaluate that brand after eating. However, the buyer may choose a different brand the following time out of boredom or merely to try something new. Instead of being dissatisfied, they switch brands just for sake of variety.

By dominating store space, keeping shelves fully supplied, and rolling frequent reminder advertising, the market leader will strive to induce habitual purchase behaviour. Lower costs, special discounts, vouchers, freebies, and advertising will all be used by challenger companies to entice people to try new things.

3.5 THE BUYER DECISION PROCESS



The Buyer Decision Process

1. Problem or need recognition: The purchasing process begins with the buyer recognising a

problem or requirement. Internal stimuli can trigger the urge when one of the person's basic requirements, such as hunger or thirst, rises to the point that it becomes a drive. External stimuli can also cause a craving to arise. For example, an advertisement or a conversation with a friend may prompt you to consider purchasing a new vehicle. At this point, the marketer should conduct customer research to determine what kind of demands or difficulties exist, what causes them, and how they lead the consumer to this specific product.

2. Information search :A curious customer may or may not look for more information. When a consumer's need is strong and a fulfilling product is close by, he or she is more likely to purchase it. If not, the buyer can remember the necessity or conduct an information search connected to it. For example, if you've determined you need a new automobile, you'll undoubtedly pay greater attention to car advertisements, cars held by friends, and automotive discussions. You can also conduct active searches online, speak with friends, and obtain knowledge in different ways. Consumers can get information from a variety of places. Interpersonal influence (family, friends, neighbours, and acquaintances), commercial sources (advertising, salesmen, dealer and producer web and mobile sites, packaging, displays), publicly available information (mass media, consumer rating organisations, social media, online searches, and reviews), and experience - based sources (examining and using the product) are all examples of these. The relative importance of different sources of information changes depending on the product and the buyer.

3. Evaluation of alternatives: We’ve seen how customers use data to come up with a set of ultimate brand choices. Next, marketers must understand alternative evaluation, or how customers analyse information in order to pick between competing brands. Unfortunately, in all purchase scenarios, customers do not employ a straightforward and uniform evaluation method. Instead, many evaluation processes are in operation. Based on the particular consumer and the unique buying situation, customers evaluate purchase choices in different ways. Consumers utilise rigorous calculations and logical reasoning in various circumstances. The same buyers do almost no assessing at other times. Rather, they buy on the spur of the moment and trust their instincts. Consumers sometimes make purchasing decisions on their own; other times, they seek help from friends, online reviews, or salespeople.

4. Purchase decision: The buyer ranks brands and formulates purchasing intentions during the evaluation stage. The consumer's purchasing decision will often be to buy the most chosen

brand, but two things can intervene between purchase intention and purchase decision. The very first factor is other people's opinions. If someone close to you believes you must buy the cheapest car, your odds of purchasing a more costly car are slim. Unexpected situational factors are the second consideration. A consumer's purchasing intention may be influenced by factors such as predicted income, price, and product benefits. Unexpected circumstances, on the other hand, may alter the buying intention. For instance, the economy could deteriorate, a close competitor could lower its price, or a buddy could express disappointment in your desired vehicle. As a result, choices and even purchase intents do not necessarily lead to a purchase decision.

5. Post purchase behaviour: The job of the marketer does not cease when the customer purchases a product. The consumer will be satisfied or dissatisfied after acquiring the product, and will participate in post purchase behaviour that is of importance to the marketer. What factors influence a buyer's satisfaction or dissatisfaction with a purchase? The link between the consumer's expectations and the product's perceived performance holds the solution. The consumer feels disappointed if the product does not fulfil his or her expectations; satisfied if it meets expectations; delighted if it exceeds expectations.

3.6 TEST YOUR UNDERSTANDING (A)

1. Define Consumer behavior and explain its characteristics.

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2. What are the different types of Buying decision behavior?

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3. What are the different steps involved in buyer decision process?

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3.7 MARKET SEGMENTATION

A consumer-focused marketing strategy is segmentation. A market segment is a part of the market characterized by the common features of the people it covers. Market segmentation is the process of categorising purchasers into groups with similar demands or needs. It's the process of segmenting a market in order to outperform it. It entails identifying buyer groups based on differences in their needs or requirements. It is a marketing strategy that segregates the target market into sub-groups of consumers with distinguishable, distinct, and homogeneous characteristics in order to develop and implement distinct and differentiated marketing initiatives for each sub-group in order to increase consumer satisfaction and profit.

Is the sub-dividing of a market into homogeneous sub-sects of customers where any sub-sect may conceivably be selected as a market target to be reached with a distinct marketing mix"

Professor Philip Kotler

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 all significant aspects."

-Professor William Stanton

"The strategy of marketing segmentation involves the development of two or more different marketing programmes for a given product or a service with each marketing programme aimed at a different grouping of individuals whose expected reactions to the seller's marketing efforts will be similar during a specified time period."

-Mr. Dick Warren Twedt

As a result, it entails the creation of various marketing programmes adapted to the individual of one or more specific market niches.

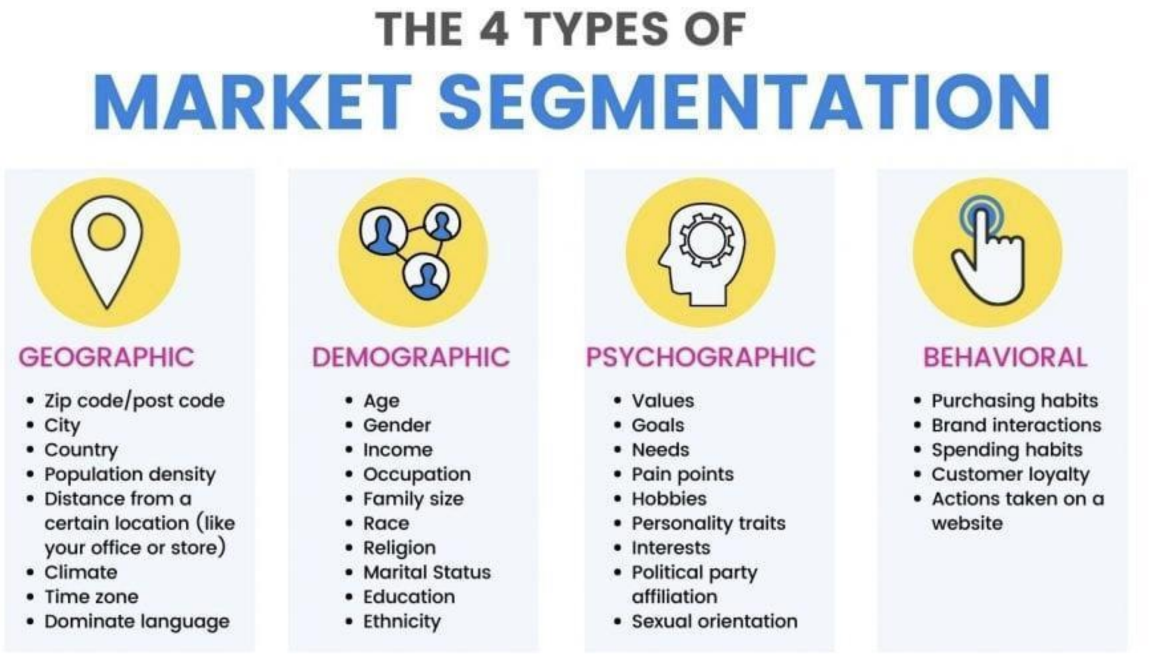
This segmentation procedure has two parts:

- Identifying viable market segments or pockets.
- Targeting viable market segments or pockets.

In general, there seem to be three reasons why firms partition their markets:

- Heterogeneous markets
- Various market segments respond differently to different promotional activities

- Market segmentation is consistent with the marketing concept



3.7.1 Geographic Segmentation

Geographic segmentation is the process of splitting a market into different geographical units such as countries, regions, states, counties, cities, or even neighbourhoods. A corporation may choose to function in one or a few geographic areas, or it may choose to operate in all areas while taking into account regional variances in needs and wants. Furthermore, many businesses are now adapting their products, operations, marketing, promotion, and sales activities to meet the demands of particular regions, towns, and other areas.

3.7.2 Demographic Segmentation

Demographic segmentation divides the market into segments based on variables such as age, life-cycle stage, gender, income, occupation, education, religion, ethnicity, and generation. Demographic factors are the most popular bases for segmenting customer groups. One reason is that consumer needs, wants, and usage rates often vary closely with demographic variables. Another is that demographic variables are easier to measure than most other types of variables. Even when marketers first define segments using other bases, such as benefits sought or behavior, they must know a segment's demographic characteristics to assess the size of the target market and reach it efficiently.

3.7.3 Psychographic Segmentation

Psychographic segmentation is identical to demographic segmentation, but somehow it focuses on mental and emotional traits. These characteristics may not be as visible as demographics, but they would provide vital insight into the motivations, preferences, and demands of your target audience. Character traits, hobbies, beliefs, values, attitudes, and lifestyles are examples of psychographic qualities. If you see that members of a demographic segment react to your material differently, you may wish to include psychographic data. While demographics provide basic information about your target audience, psychographics provide insight into why people choose to buy or not buy your product, click on or overlook your ad, and interact with you in other ways.

3.7.4 Behavioural Segmentation

You can also divide your audience based on customer behaviour, particularly when it comes to your product. You can design content that caters to such behaviours by segmenting your audience depending on their behaviours. Many of the behaviours you might examine have to do with how people connect with your item, website, app, or brand.

The following are some examples of behaviours to consider:

- Online purchasing habits: You should look at a user's internet shopping habits throughout all sites, since this may indicate how likely they are to purchase online on your site.
- Website actions: You may track user actions on your online assets to learn more about how they engage with them. You may track how long people spend on your website, whether they read the articles all the way through, what types of information they click on, and more.
- Benefits sought: This is the need that a buyer is attempting to satisfy by buying a product. You can categorise users depending on their usage rate. Based on someone being a heavy user, a medium user, a light user, or a non-user of your product, your communication will be different.
- Customer loyalty: You can categorise clients depending on their brand loyalty and adjust your messaging accordingly.

3.8 REQUIREMENTS FOR EFFECTIVE SEGMENTATION

There are numerous ways of segmenting a market, and not all of them are effective. Market segments has to be -

- *Measurable*: Market segments has to be measurable. The segments' size, buying power, and profiles can all be measured.
- *Accessible*. Market segments can be accessed and served efficiently.
- *Substantial*. The market segments should be sufficiently large or profitable to serve. A segment should be the most homogeneous group of people worthy of consideration with a targeted marketing campaign. It would not be profitable for an automobile company, for example, to design vehicles specifically for persons who are taller than seven feet.
- *Differentiable*. The divisions are conceptually different and respond to various elements of marketing mix and programmes in different ways. Men and women do not form discrete categories if they respond similarly to soft drink marketing efforts.
- *Actionable*. Effective programmes can be established for identifying and serving the segments. One tiny airline, for example, identified seven target niches but lacked the resources to establish different marketing plans for each.

3.9 TARGET MARKETING

Market segmentation is a prerequisite for market targeting or target marketing. It allows the marketing executive to target his customer base by choosing from various market segments based on specific criteria. The process of identifying and preparing a marketing programme for a certain market or markets is known as market targeting. Segment characterization is a significant and positive step forward in market targeting. However, determining the section size is more complicated. Small segments may not be of much importance to large companies, whereas small enterprises may favour small segments. The size and volume of predicted sales from a certain segment aids the organisation in completely analysing the segment for successful targeting.

Naturally, all businesses anticipate higher-than-average sales and profits. As a result, they favour segments with high growth potential. Increased sales and earnings tempt competitors just as much as they tempt customers.

(1) The segment's attractiveness, which focuses on profitability, is one of the most important aspects in the targeting process.

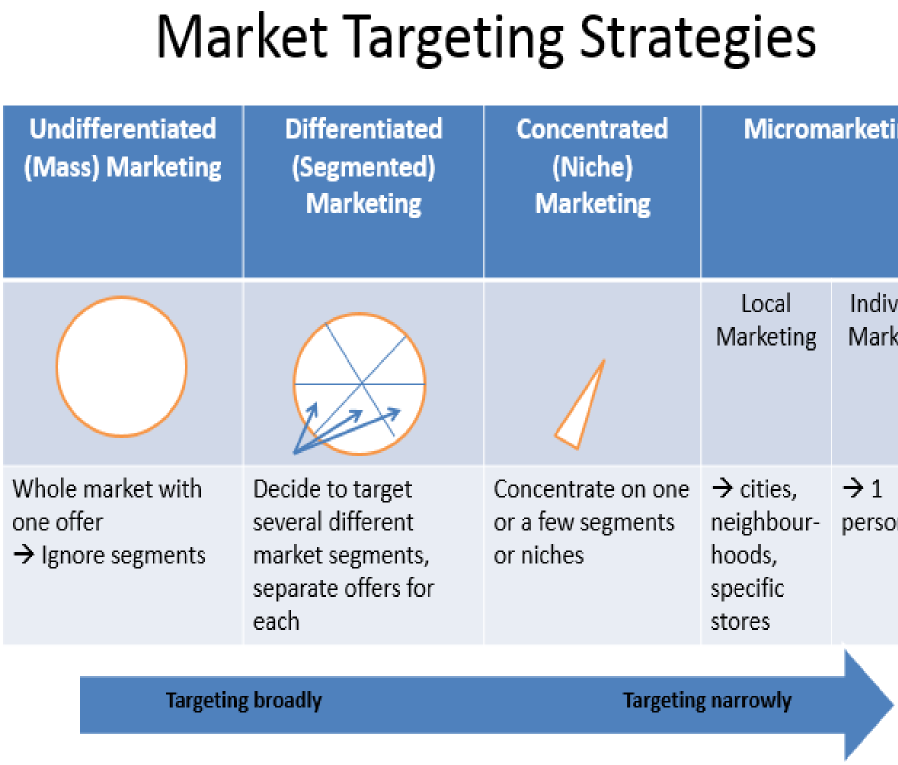
(2) At times, keeping competitors at away is more vital than profitability and profit, thus profitability and profit take a back seat.

(3) The business's goals and resources.

It's possible that a particular segment offers a large range of options, but the company lacks resources; in that case, the segmented market selection should be limited. The organization's goal also includes deciding on section selection. If indeed the segments do not enable the company to achieve its goals, it will be forced to narrow its targeting.

3.10 SELECTING TARGET MARKET SEGMENT

The organisation must select which and how many segments it will target after assessing various segments. A target market is a group of buyers who have similar wants or qualities that a business chooses to cater to. Market targeting can be accomplished on numerous levels.



3.10.1 Undifferentiated marketing

A company could use an undifferentiated marketing (or mass marketing) strategy to overlook a segment of the market and target the whole market with a single offer. This method focuses on what consumers have in common rather than what they have in common. The business creates a product and a marketing plan that will appeal to the broadest possible audience. Most modern marketers have serious reservations about this method. Creating a brand or product that will please all customers is difficult. Furthermore, mass marketers frequently struggle to compete with organisations that are more focused on meeting the demands of certain groups and niches.

3.10 .2 differentiated marketing

A corporation decides to target various market segments and creates separate offerings for each using a differentiated marketing (or segmented marketing) strategy. In the United States, P&G sells at least six different detergent brands (Tide, Gain, Cheer, Era, Dreft, and Bold), all of which compete on supermarket shelves. The detergent brands are then further segmented by P&G to satisfy even more specific niches. Companies can aspire for better product-market fitting and hence hope for more sales and a stronger position within each Tide market segment by delivering product and marketing varieties to segments. Undifferentiated marketing throughout all segments generates more total sales than developing a stronger position within several segments.

Differentiated marketing, on the other hand, raises the cost of doing business. Marketing research, forecasting, sales trends, promotion planning, and channel management are all required when developing unique marketing plans for different segments. Additionally, attempting to reach various market segments with various advertising efforts raises promotion expenditures. As a result, when choosing on a differentiated marketing strategy, the corporation must measure higher sales against increased costs.

3.10.3 concentrated marketing

Although several segments could be recognised, a firm may not be able to serve them all. Some may be unappealing or incompatible with the company's core competencies. With a single marketing strategy, a corporation can target only one segment. It determines the segment's customers' wants and motivations and creates a targeted marketing mix. Companies have realised that concentrating efforts and serving the needs of a certain market niche is more lucrative than spreading resources across multiple sectors. Starbucks was able to achieve success by focusing solely on clients who wanted premium coffee.

The technique is best for businesses with limited resources, as competing in multiple areas can strain those resources too thin. Focused marketing permits R&D to be focused on satisfying the demands of a single set of clients, while managerial efforts are devoted to identifying and meeting those needs.

3.10.4 Micromarketing

Marketers who are differentiated and focused target their offerings and marketing plans to specific market groups and niches. At the very same time, they do not tailor their offerings to each and every customer. Micromarketing is the technique of adapting products and marketing strategies to the preferences of specific individuals and client segments in a given area. Micro Marketers have seen the individuality in every customer rather than a customer in every individual. Micromarketing encompasses both local and personalised marketing.

Local marketing entails customising products and promotions to local customers' requirements and desires. Micromarketing can become individual marketing when products and marketing campaigns are tailored to the needs and interests of specific clients. One-to-one marketing, mass customization, and markets-of-one marketing are all terms used to describe individual marketing.

3.11 TEST YOUR UNDERSTANDING (B)

1. What is market segmentation?

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2. What are the basic requirements for effective segmentation?

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3. Explain the types of market segmentation.

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3.12 KEY TERMS

1. Market segmentation: 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 all significant aspects.

2. Consumer behavior: The mental and emotional processes and the physical activities of people who purchase and use goods and services to satisfy particular needs and wants

3.13 FURTHER READINGS

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

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SEMESTER II

COURSE: MARKETING MANAGEMENT

UNIT 4: MARKET SEGMENTATION TARGETTING AND POSITIONING

4.1 Segmentation

4.2 Advantages of Market Segmentation

4.3 Bases for Market Segmentation

4.3.1 Geographic Segmentation

4.3.2 Demographic Segmentation

4.3.3 Psychographic Segmentation

4.3.4 Behavioural Segmentation

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4.5 How to Segment the Market

4.5.1 Three Stages of Market Segmentation

4.6 Limitations of Market Segmentation

4.7 Targeting

4.7.1 Definitions of Targeting

4.7.2 Procedure of Market Targeting

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4.8 Positioning

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4.8.4 Issues in Product Positioning (Choosing the Product Category)

4.8.5 Issues in Brand Positioning

4.1 SEGMENTATION

It is obvious that the market for a product is essentially heterogeneous. After all, market for a product is nothing but the aggregate of the consumers of the product. And, consumers of a product vary in needs, motives, characteristics and buying behavior. For example, all consumers do not like the same soap, the same toothpaste or the same car. Marketers break the heterogeneous market for the product into several sub units of consumers, or, sub-markets, each relatively more homogeneous within itself compared to the market as a whole This breaking up helps tap the market better This act of disaggregating a market into a number of distinct sub-markets/sub-units of consumers, each with relatively more homogeneous characteristics, is known as market segmentation.(Namakumari)pg.308

Market consists of buyers, and buyers differ in many ways. Based on various characteristics of buyers, the total market is segmented into various groups or parts; some of these groups are selected as target markets. This act is known as market segmentation. Following are some of the standard definitions:

1. Market segmentation, in simple words, can be defined as: A process of dividing a total market into different sub-markets, segments, or parts by using some definite criteria or bases is called market segmentation.
2. Similarly, we can say: Market segmentation is an act of classifying consumers on the basis of their significant characteristics, such as income, preference, location, profession, etc., to select target market. Separate marketing mix is developed for each segment or group of segments in the target market.
3. Market segmentation seeks the answer of the question: Which products are sold to whom?

4. **William 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 all significant aspects."
5. **Philip Kotler**: "The process of classifying customers into groups exhibiting different needs, characteristics, or behaviour is called market segmentation. Every market is made up of market segments.
6. **Frederic Webster:** "Market segmentation is a method for achieving maximum market response from limited market resources by recognizing difference in the response characteristics of various parts of the market. It is a strategy of 'divide and conquer ‘that adjusts marketing strategy to inherent differences in buyer behaviour"(Rudani, 2008)pg.97

4.2 Advantages of Market Segmentation

What advantage does market segmentation have over the non-segmented, undifferentiated marketing models?

Market segmentation allows a marketer to take a heterogeneous market, a market consisting of customers with diverse characteristics, needs, wants and behavior, and carve it up into one or more homogeneous markets which are made up of individuals or organizations with similar needs, wants and behavioral tendencies. As in the case of differentiated marketing strategy, unless there is a substantial difference among the segments, it will be duplication of efforts and wastage of resources to launch differentiated marketing programs for each of the segments. When there exists a clear distinction between segments, the marketing manager can use the resources in an efficient manner by spending more on the segment with higher potential and then building other segments for the future. A mass marketer needs to create a differentiation among his customers and then make his product proposition fit each of the segments so that he can understand the homogeneous customer needs and their evolution better than an undifferentiated marketer. It also helps in better understanding of the competitive situation in each of the segments. As the degree of competition will vary across segments, the marketing manager needs to spend accordingly. The marketing manager can accurately identify, measure his marketing goals in terms of market share and mind share in each of the segments and regulate his company's performance in each of the segments. In a traditional micro economic model, there is no difference between customers and they serve as dare, points on a plotted demand curve. But our learning from previous chapters on consumer behavior suggest, that customers vary substantially in their characteristics and behavioral tendencies as well. Learning from segmentation is based on the fact that customers do vary and it is possible to group them or classify them on the major dimensions and develop differentiated product offers for each of the segments than trying to sell a product to anybody in the market. Segmentation not only helps in identification of customers with substantial similarity but also helps in profiling them and their need structure so that the marketer can develop an appropriate offer for each identified segment. (Tapan, 2007)pg.237

4.3 BASES FOR MARKET SEGMENTATION

Marketers use more than one base to segment the market and identify target market. The method of segmentation will vary in a business-to-business market than in individual consumer markets. We will discuss the segmentation methods for B2B markets in a separate section of this chapter. The common bases of marketing segmentation are mentioned in the following diagram.

4.3.1 Geographic Segmentation

This is the simplest form of segmenting the market. Here, the marketer divides the target make into different geographical units such as nations, states and regions. He may decide to operate in one or more than one geographical area. Identifying the geographical location of the customers i.e. their place of residence helps in defining the segments. For example, a particular brand may be popular only in North India then the North Indian market can be divided on the bases of zones, villages, cities, climate, etc. A classic example of geographic segmentation is Amul, which was initially marketed only in Gujarat and then by strengthening distribution network, the company went for a national launch. A retail brand like MT initially targeted eSouth Indian market for its products and then moved into the other territories. This method of segmentation is helpful in case the company plans for a regional roll out of the products and decides to enter into the market by establishing itself in different territories sequentially. Companies can match their available resources with market entry strategy if they can segment geographically and then plough back success from one market to other markets. In a country like India, when we move across from one part of the country to another part, we find a number of local yet powerful brands sold in each geographic market.

Geographic variables of segmentation	**Components**
Geographic Regions	Asia, Pacific, European, American, Central Asian, Pan Pacific

City Size	Population below 5000, 5000-20,000, 20,000-50,000, 50,000-100,000
Density	Rural, Semi Urban, Urban, Metro
Climate	Equatorial, Polar, Northern, Southern Climate

4.3.2 Demographic Segmentation

While it is easy to find and group people living in one geographic location, there may be a large variation in their demographic characteristics. Demographic variables include factors like age, gender, family size, family life cycle, income, occupation, education, marital status, religion, race, generation, nationality, language and

social class. Since consumer needs, wants and demand patters are directly linked with demographical variables, this method of segmentation is popular among marketers. These variables are easier to measure and one needs the help of demographic statistics to estimate the size of the market which serves as a key indicator for distinctive market segments. Marketers of personal care products like cosmetics, shampoos, and beauty products segment the market on the basis of age and gender. Food marketers segment the marketer on the basis of age and life cycle stage to market various food items.

Age is an important factor while segmenting the market as demand and brand choice of people changes with age. Life cycle is also another important variable in segmenting the market. People pass through different stages of life cycle like childhood, bachelorhood, young and married couple without children, couples with grown up kids, couples with children living away from parents and finally a loner where one of the partner is dead. Customers tend to develop different consumption patterns at different stages of the life cycle. Human beings need to complete the rites of passage through the lifetime, which helps the marketer to estimate the likely demand of products and services at different stages of life cycle.

Segmenting the market on the basis of gender helps the marketer to categorize products specifically targeted for males and females. Marketers use gender differences for marketing garments, personal care products, bikes, cosmetics and magazines. Lakme is a popular Indian brand, which sells beauty care productsto women only: Though VICC is a personal grooming brand targeted for women, it has now ventured into the male segment. Bikes like TVS Scooty, Kinetic Honda are targeted towards women only. In the famous book 'Men are from Mars and Women are from Venus' the author has identified a significant difference in the behavioral and attitudinal pattern of males and females. The women segment is more into socialization and community sharing and males, are more goal-driven and individualized. While women are found to be taking data from the environment while making decisions, men use the environment more for achieving their goals. Some television channels also synchronize their programming by looking at which segment is likely to watch the television programs. Brands like Bajaj Pulsar, Fair and Handsome are exclusively targeted at the male segment.

Income based segmentation has a direct bearing on the brand choice behavior and lifestyle pattern of consumers. People in similar income brackets are more prone to buy similar products and services. The customer's social status level is also linked to his source of income. Automobile majors, fashion garments manufacturers, hospitality and financial services industry players segment the market on the basis of incomeof consumers. In many instances, income is not a sufficient indicator for product and brand choice. In the latest round of study conducted by National Council of Applied Economics and Research (NCAER), it was observed that people Below the Poverty Line (BPL) who by strict definition of income classification should not have any purchasing power, are found to be heavy purchasers of consumer durables likepressure cookers, bicycles, wrist watches, table fans and radios. This segment is also defined as Bottom of Pyramid (BOP) market and research indicates a high propensity of consumption in this segment. Market and research are developing different kinds of product-marketing strategy for catering to these markets. Nirma is a successful brand in Indian market, which targeted to the lower income group of the society and delivered, a promised value at a lower cost.

Demographic Variables of Segmentation	**Components**
Age	15-20, 20-25,25-30, 30-35
Family Size	Single, Two member Family, Four Member Family
Family Life Cycle	Bachelorhood, Young Married Couple, Young Married Couple with Small Children, Youngest Child over Age of Six, Grown Up Children Dependant on Parents, Grown Up Children not Living with Parents, Older and Single People
Gender	Male,Female

Education	Below 10th class, Under Graduates, Graduates, Professionally Qualified, Technically Qualified
Religion	Hindu, Muslim, Christian, Sikhs
Nationality	Indian, American, Englishman, Pakistani
Race	Aryans, Dravidians, Nagas, Blacks, Tribal
Income(monthly)	Below 5000, 5000-12,000, 12,000-20,000, 20,000 and above
Occupation	Farmers, Non Farm Sector Workers, Salaried Class, Businessman, Retired, Students, Unemployed and Professionals
Generation	Imperial Oldies, Patriotic Indians, Indian Baby Boomers, Generation X and MTV Generation
Social class	Lower-Lower class, Upper-Lower Class, Lower Middle Class, Upper Middle Class, Working Class, Lower Upper Class and Upper-Upper Class

4.3.3 Psychographic Segmentation

Other than the demographic methods of market segmentation, segmentation on the basis of psychography is another popular method among marketers. Psychographics is the study of lifestyle of individuals. It involves developing sub-group identification on the basis of psychographical characteristics. Lifestyle is a person's entire way of living. It reflects the person's living as a combination of his actions, interests andopinions. Marketing researchers have tried to measure consumer psychography by undertaking various studies and developing dimensions for mapping the individual lifestyle patterns and using them subsequently for the purpose of segmentation. One of the popular methods of psychographic study is AIOFramework, which explains the individual's lifestyle pattern as a combination of his activities, interests and opinions with demographic explanations. The table below represents the AIO Framework variables.

Common Life Cycle Dimensions

Activities	**Interests**	**Opinions**	**Demographics**
Work	Family	Themselves	Age

Hobbies	Home	Social issues	Education
Social events	Job	Politics	Income
Vacation	Community	Business	Occupation
Entertainment	Recreation	Economics	Family size
Clubs	Fashion	Education	Dwelling
Community	Food	Products	Geography
Shopping	Media	Future	City size
Sports	Achievements	Culture	Life cycle stage

4.3.4 Behavioral Segmentation

In the case of behavioral segmentation, the market is divided on the basis of purchase decision and product or brand usage made by consumers. For example: CRITICARE (Medical Instrument Manufacturing Company) has divided its Delhi market in six buyer groups, which are as follows:

1. ***Most Modern Hospitals:*** Escorts Heart and Research Center, Batra Hospital and Research Center,Apollo Hospital, etc. These hospitals are constantly on the look out for new instruments to becomemore efficient. As the Purchase Manager of Escorts Heart and Research Center said, "We alwayswant to be the first ones to buy new technologies."
2. ***Autonomous Hospitals:*** For example the All India Institute of Medical Sciences. Here, the mostimportant influence on purchase decision is of the specialist doctors and the heads of the respectivedepartments. Even if they go in for tenders, technical specifications, rather than price alone, influence

the purchase decision.

3. ***Government Hospitals:*** Ram Manohar Lohia Hospital, GB Pant Hospital, LNJPN Hospital, etc.Here the Medical Superintendent and the Financial Controller influence the purchase decision. Theygenerally decide in favor of the lowest quote.
4. ***Medium-size Private Hospitals:*** Maharaja Agrasen Hospital, Shanti Mukund Hospital, etc. Theyuse a blend of quality and price considerations. Generally, the choice of Medical Director is final.
5. ***Nursing Homes***: Kukreja Nursing Home, Giriraj Hospital, etc. Generally, they have one operationroom in which they use pulse oximeter. To get their nursing homes recognized by

the Ministry ofHealth, it is essential for them to have pulse oximeters. They also go for quality, low price and after-sale service.

6. ***Freelancing Anesthetist;*** Doctor-Anesthetist who are attached with different nursing homes havetheir own pulse ox meter so that they can use where this facility is not available in the nursing homes.

4. 4 BENEFIT SEGMENTATION

All the above methods of segmentation are based on a post facto analysis of the kind of people who made up specific segment of a market. These methods help in describing the characteristics of different segment, rather than finding out what causes these segments to develop. People suggesting benefit segments ground their idea on assumption that benefits people expect out of the product consumption situation are the basic of purchase and customers can be grouped as per the basic reason of their purchase. Benefit segmentation involves classifying buyers according to the benefits they expect (get) from the product. Let us look at the following list of benefits derived from toothpaste.

TABLE - Benefit Segmentation of the Toothpaste Market

Benefits segments	Demographics	Behavioral	Psychographics	Favored Brands
Economy (Low price)	Men	Heavy users	High autonomy value oriented	Brands on sale
Medical (Decay prevention)	Large families	Heavy users	Hypochondriac conservative	Crest
Cosmetic (Bright teeth)	Teenagers, young adults	Smokers	High sociability active	Maclean's Ultra-Bright
Taste (good taste)	Children	Spearmint lovers	High self-involvement	Colgate

Marketers can do benefit segmentation by a three-stage process. The marketer needs to conduct exploratory research to develop a complete listing of benefits of possible value in segmenting the relevant market. Then the marketer develops a sensitive and reliable scale to measure major attitude dimensions. Finally, the marketer develops quantitative measurements of the market, usually involving a national sample, resulting in clustering of respondents by their attitudes. Individual clusters are developed and described in terms of their behavior, lifestyles, demographics and other relevant characteristics. So each of the segments are discriminated by their attitudes and differences in their behavior are analyzed through developing multiple cross-tables. (Tapan, 2007)pg.246

4.5 HOW TO SEGMENT THE MARKET

Before we discuss the segmentation procedure it is important to note that in reality the marketer appliessuccessive variables to sub-divide and arrive at the target market. Lately, marketing research agencieshave been devoting a substantial part of their time to identifying and studying the behaviour patterns ofdifferent market segments. The procedure adopted by them, and as mentioned by Kotler and Turner, is a three-stage process

4.5.1 Three Stages of Market Segmentation

Survey Stage This is divided into two parts-(1) focus group discussions and in depth interviews with view to getting an insight into consumer motivation, attitudes, and behaviour and (2) based on this insight, developing a questionnaire which is administered to a sample group of consumers. The objective of this questionnaire is to collect data on:

- attributes sought in a product and their priority ratings
- brand awareness and rating of different brands
- product usage patterns
- customer attitudes towards the generic product or product category itself
- demographics, psychographics, and media habits of sample respondents

Analysis Stage After collecting the data, it is analyzed using factor analysis. This is used to identify factors that differentiate customer groups. Cluster analysis is now used to cluster customers into maximally different groups.

Profiling Stage In this stage, each cluster is profiled in terms of demographics, psychographics, media habits, attitudes, behaviour and consumption habits. The marketer can give each segment a name based on a dominant distinguishing characteristic.

Requirements for Effective Segmentation In order to be effective, a segment should be attractive enough. Specifically, here the marketer looks for the following:

(a) **Accessibility** The segment should be accessible, otherwise no penetration can be made. A large part of the Northeast remains inaccessible either because of weather conditions, hostile geographical terrain or problems of insurgency.

(b) **Measurable** The segment should be measurable. It should be possible to quantify the segment as it would help in estimating its size.

(c) **Viable** It should be cost effective and profitable for the marketer.

(d) **Intensity in Competition** Another parameter determining the segment's attractiveness is the intensity in inter firm rivalry. The higher the intensity or more the competition, the more unattractive the segment will be for the marketer.(Saxena, 2009)

4.6 LIMITATIONS OF MARKET SEGMENTATION

No doubt, market segmentation is essential consideration in marketing programme, but is not free from limitations. Marketer must know possible practical problems (limitations) of market segmentation so as to minimize these limitations. Most common limitations of market segmentation include followings:

1. Limited Production

In each specific segment, customers are limited. So, it is not possible to produce products in mass scale for every segment. Therefore, company cannot take advantages of mass scale production; scale of economy is not possible. Product may be costly and affect adversely to the sales.

2. Expensive Production

Market segmentation is expensive in both production and marketing In order to salty, different groups/ segments of buyers, producers have to produce products of various models, colors, sizes, etc., that result into more production costs. In the same way. the producers de required to maintain large inventory for different styles, colors, and sizes of products.

3. Expensive Marketing

Market segmentation also results into expensive marketing. Due to different groups of buyen, the marketer has to consider all the segments in terms of needs, interests, habits, preference and attitudes. Marketer has to formulate and implement several marketing strategies for different segments.

4. Difficulty in Distribution.

Company needs to make the separate arrangement for each of the product's demander by different classes of customers. Salesman's recruitments, selection, training, payments, and incentives are more difficult and costly. Company has to maintain separate channels and services for satisfying varied customer groups.

5. Heavy Investment

Market segmentation leads to heavy investment. In order to satisfy different needs and wants of various groups, a company has to produce variety of product lines and product items. For the purpose, the company requires to invest more on technology and other inputs that may demand heavy investment.

6. Promotion Problems

Market segmentation also creates promotional problems and multiplies promotional difficulties. It is obvious that different segments are made on the basis of distinguished characteristics of buyers. Each group differs in terms of advertising media, appeal or message. In order to influence various segments of buyers, the company is required to prepare a separate advertising programmer strategy. Similarly, personal selling and sales promotional activities become more complex Company needs to spend more to take benefits of specialization.

7. Stock and Storage Problems

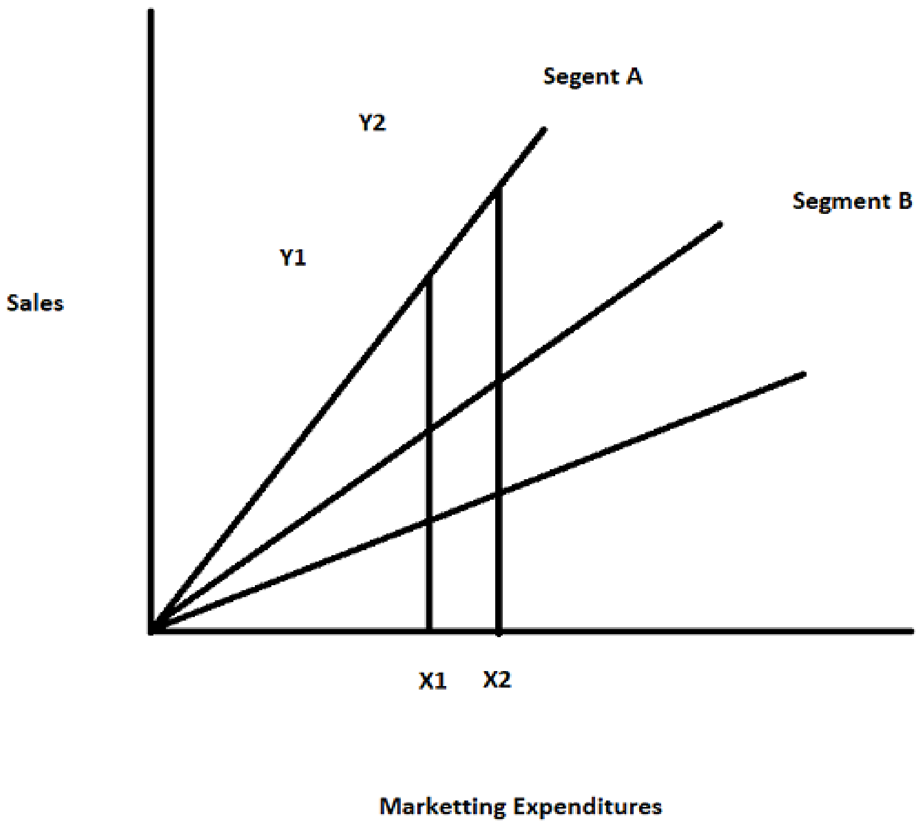
To meet needs and wants of different consumer groups, the company must maintain adequate stock of various products on a continuous basis. This creates problem of stocks, storage, and working capital.(Rudani, 2008)

Most limitations reflect the impact of situation and inability of manager to segment the market Purposively and meaningfully. But limitations cannot restrict segmentation philosophy and practice. These limitations can be overcome by segmenting market carefully and objectively.

4.7 TARGETING

A company cannot concentrate on all the segments of the market. The company can satisfy only limited segments. The segments the company wants to serve are called the target market, and the process of selecting the target market is referred as market targeting. Market segmentation results into dividing total market into various segments or parts. Such segments may be on the basis of consumer characteristics or product characteristics or both. Once the market is divided into various segments, the company has to evaluate various segments and decide how many and which ones to target. (Rudani, 2008)

In modern marketing customer needs and demands are identified and looking at the feasibility of an entry in the relevant market, the marketer develops a product and allied marketing program. The subsequent marketing program of the firm depends on how the marketer identifies the potential customers, profiles them, targets them and positions his offering in the minds of the customers. These concepts are studied under segmentation, targeting and positioning popularly known as STP (Segmentation, Targeting and Positioning) The marketer has a choice of developing a product or service and selling it to everybody available in the market. In such an instance, the marketer has to spend a higher amount of resource to reach the prospective customers. So, the return on marketing investments per customer is lower. Some of the marketers tend to classify the market on certain significant variables or group customers on certain characteristics and then find out their demand potential and position the product in the minds of customers to create a differentiation in relation to competitors and thus enjoy competitive advantage. This process is called market targeting and consists of segmentation, targeting and positioning (Tapan, 2007)pg232 the firm needs to identify the target markets and then evaluate potential of each of these markets in order to prioritize their resource investment intent. The marketing manager should look at five factors for evaluating each segment. They are segment size and worthiness, segment measurability, segment attractiveness, and accessibility of the segment. These should match the available company resources and long-term goals of the organization. The company should first collect and analyze data on the size of the current segment, growth rates in the past and estimate the likely rate of growth by analyzing various market indicators for both short term and long-term future. This will help in estimating the expected profitability of each alternative segments. One of the best ways to calculate the profitability is by estimating the response elasticity. Response elasticity is calculated by taking into consideration, past marketing expenditures as an independent variable and the returns from the said marketing program in different periods of time as dependent variable. We can develop a graph to explain response elasticity, where responses (sales) are on the Y-axis and the corresponding marketing expenditures are presented in the X-axis. This graph is a sufficient indicator of the profit growth potential in each of the segments.



From the above diagram, it is evident that in Segment A, the company achieves sales of Y1 and Y2 at different points of time by spending X1 and X2 amount in the form of marketing expenditure. Now the response elasticity can be calculated as:

[(Y2-Y1)/Y11/((X2-X1)/X1|= Ra

similarly, we can calculate response elasticity for segment B and segment C with same marketing expenditure (X1 and X2) and can take a decision on which market to enter in. From the above graph, it is evident that Segment A is highly profitable compared to segment B and B is comparatively profitable compared to segment C. This is purely based on evaluation of incremental return from each of the market segments by estimating the response elasticity. (Tapan, 2007)

4.7.1 DEFINATIONS OF TARGETING

1. We can define the term as: Market targeting is a process of selecting the target market from the entire market. Target market consists of group/groups of buyers to whom the company wants to satisfy or for whom product is manufactured, price is set, promotion efforts are made, and distribution network is prepared.

2. It involves basically two actions - evaluation of segments and selection of the appropriate market segments. In this relation, market targeting can be defined as: Market targeting is an act of evaluating and selecting market segments. (Rudani, 2008) Pg.111

The study of target marketing helps students to learn how to take a decision on from out of the available markets. Depending on the available resources, experience and competency of the marketer and time available, the marketer will decide which market to target. (Tapan, 2007)Pg.232

4.7.2 PROCEDURE OF MARKET TARGETTING

Market targeting procedure consists of two steps:

1. Evaluating Market Segments

Evaluation of market segments calls for measuring suitability of segments. The segments are evaluated with certain relevant criteria to determine their feasibility. To determine overall attractiveness/suitability of the segment, two factors are used: (Rudani, 2008)Pg.111

(A) **Attractiveness of Segment**: In order to determine attractiveness of the segment, the company must think on characteristics /conditions which reflect its attractiveness, such as size, profitability, measurability, accessibility, actionable, potential for growth, scale of economy, differentiability, etc. These characteristics help decide whether the segment is attractive.

(B) **Objectives and Resources of Company**: The firm must consider whether the segment suit the marketing objectives. Similarly, the firm must consider its resource capacity. The material, technological, and human resources are taken into account. The segment must be within resource capacity of the firm.

2. Selecting Market Segments

When the evaluation of segments is over, the company has to decide in which market segments to enter. That is, the company decides on which and how many segments to enter. This task is related with selecting the target market. Target market consists of various groups of buyers to whom company wants to sell the product; each tends to be similar in needs or characteristics. (Rudani, 2008)Pg. 112

4.7.3 ALTERNATIVE STRATEGIES (METHODS) FOR MARKET TARGETING

Basically, five alternative patterns/strategies are available. Company may opt for any one of the following strategies for market targeting based on the situations:

1. Single Segment Concentration

It is the simplest case. The company selects only a single segment as target market and offers a single product. Here, product is one: segment is one. For example, a company may select only higher income segment to serve from various segments based on income, such as poor, middleclass, elite class, etc. All the product ilems produced by the company are meant for only a single segment. Single segment offers some merits like, (1). Company can gain strong knowledge of segment's needs and can achieve a strong market position in the segment. (2). Company can specialize its production, distribution, and promotion. (3). Company, by capturing leadership in the segment, can earn higher return on its investment. It suffers from following demerits like, (1). Competitor may invade the segment and can shake company's position. (2). Company has to pay high costs for change in fashion, habit, and attitude. Company may not survive as risk cannot be diversified. Mostly, company prefers to operate in more segments. Serving more segments minimizes the degree of risk.

2. Selective Specialization

In this option, the company selects a number of segments. A company selects several segments and sells different products to each of the segments. Here, company selects many segments to serve them with many products. All such segments are attractive and appropriate with firm's objectives and resources. There may be little or no synergy among the segments. Every segment is capable to promise the profits. This multi-segment coverage strategy has the advantage of diversifying the firm's risk. Firm can am money from other segments if one or two segments seem unattractive. For example, a company may concentrate on all the income groups to serve.

3. Product Specialization

In this alternative, a company makes a specific product, which can be sold to several segments. Here. product is one, but segments are many. Company offers different models and varieties to meet needs of different segments. The major benefit is that the company can build a strong reputation in the specific product area. But, the risk is that product may be replaced by an entirely new technology. Many ready-made garment companies prefer this strategy.

4. Market Specialization

This strategy consists of serving many needs of a particular segment. Here, products are many but the segment is one. The firm can gain a strong reputation by specializing in serving the specific segment. Company provides all new products that the group can feasibly use. But, reduced size of market, reduced purchase capacity of the segment, or the entry of competitors with superior products range may affect the company's position.

5. Full Market Coverage

In this strategy, a company attempts to serve all the customer groups with all the products they need. Here, all the needs of all the segments are served. Only very large firm with overall capacity can undertake a full market coverage strategy.

4.7.4 TYPES OF TARGET MARKETING STRATEGIES

The targeting strategy large depends on the kind of product market coverage that the firm plans for the future. The resources, capabilities and intent of the respective firm also influence product market coverage decisions. A firm may decide to enter into all the available market segments, if it has adequate resources and marketing muscle power. In the case of a small market the firm may decide instead to concentrate in fewer markets to suit its capabilities. The product market coverage strategies are broadly classified as Undifferentiated Marketing, Concentrated Marketing and Differentiated Marketing Strategies.

1. **Undifferentiated Marketing Strategy or Mass Marketing Strategy**

In the absence of a proper mechanism to classify the market into number of market segments and analyze their potential, many firms decide on the mass marketing strategy. In this case the marketer goes against the idea of a differentiated market and instead decides to sell the product to the whole market. Here the marketing manager ignores the idea of segment characteristics and differences, and develops a unified marketing program for the entire market. This strategy keeps the overall marketing costs low and makes it easier to manage and track the market forces uniformly. The marketer tries to find out commonalities across various segments rather than focusing on the differences among segments. The marketing planner designs the marketing program in such a way that it will appeal to the largest number of buyers with a mass distribution and mass advertising program.

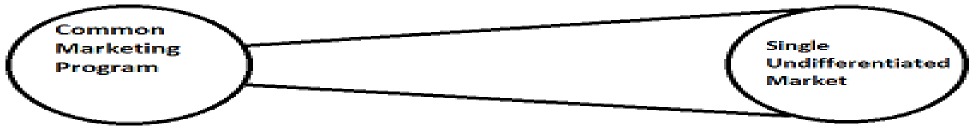
(Tapan, 2007)

2. **Concentrated Marketing Strategy**

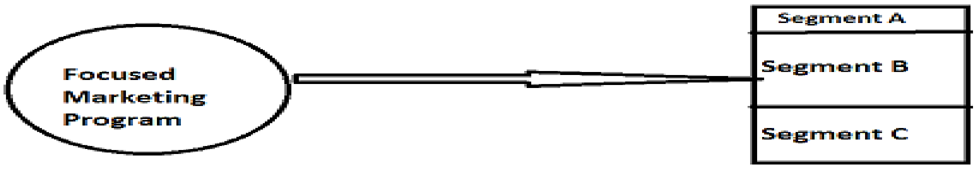
In the second alternative strategy the marketing manager decides to enter into a select market segment, instead of all of the available market segments When resources as well as market access is limited and the company has to face intense competition, the marketing manager has to stretch the budget for market coverage n this case the company is likely to follow the concentrated marketing strategy: The marketing manager decides to cover a large niche rather than fighting for a small share in a large market. It is an excellent strategy for small manufactures that can serve the segments closely and cater to the emerging needs of closed loop customers. This strategy helps them gather market share in small markets against strong and large competitors. Through concentrated marketing firms can achieve strong market position in the segments of niches they serve because of the greater knowledge of the target customers and the special reputation they acquire. AV Thomas is a regional tea brand with a very strong South Indian presence that helped them to go for a national launch in subsequent periods The same happened with the Jyothi laboratories brand of Ujala, which was sold in South India before it had a successful national launch. The firms can enjoy operating economies because of the specialization in production, distribution and promotion, which aid in giving a higher return on marketing investments. Concentrated marketing strategy has its own share of problems too. Looking at the profit potential, large competitors may decide to enter into this market, which may ultimately lead to take over bids, mergers and acquisitions by large players in the same business. (Tapan, 2007)

3.
4. **Differentiated Marketing Strategy**

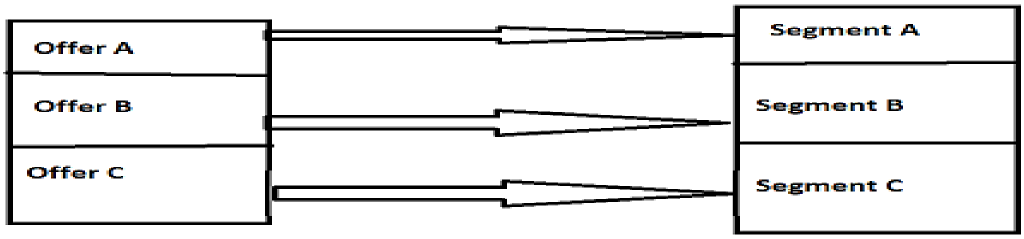
Many marketers chose to target several segments or niches with a differentiated marketing offer to suit each market segment. Maruti is the leading automobile company, which has the distinction of having products for different market segments. Maruti 800 is sold to upcoming middle class. Baleno and Swift are targeted for the upper rich class people and Maruti Omni is targeted for large families and taxi operators. The main objective of offering differentiated marketing offer is to cater to different segments and get higher sales with a dominant position in each of the segments. Developing a stronger position within each segment leads to higher sales than sales from a mass marketing strategy aiming at all the market segments with the same product. locus of the product offer in the minds of the target consumer. The risk involved in this kind of a marketing strategy is in the form of extra cost in marketing research, product development, different forecasting models, varied sales analysis, promotion planning and channel management. Trying to reach different market segments with different promotion plans involve higher promotion budget. The marketing manager needs to decide between the higher marketing costs versus greater sales due to differentiated marketing strategy. The market coverage strategy depends on the company's available resources and firm's ability to cater to the target market. The best strategy depends on the product variability. Undifferentiated marketing best suits uniform products and commodities like petrol, steel and sugar. The product's life cycle is another important factor taken into consideration while selecting a market coverage strategy. At the introductory stage of a product, the company will prefer a single product in an undifferentiated market or concentrated market. In the maturity stage of the product life cycle, the same company may follow differentiated marketing strategy. If all the customers have uniform taste, buy the same amount and respond to a marketing program in the same way then market variability is at a minimum and an undifferentiated marketing strategy becomes most suitable. The marketing manager should look at the competitor's marketing strategy. If the competitor is following a differentiated target marketing strategy with specific offer for distinct segments, then an undifferentiated marketing strategy will be fatal to follow in the market but vice versa is a suitable strategy



Undifferentiated Marketing Strategy



Concentrated Marketing Strategy



Differentiated Marketing Strategy

4.8 POSITIONING

4.8.1 THE CONCEPT OF POSITIONING

Segmentation, Targeting and Positioning & (SIP) constitute the fundamental pilar of any marketing function. Till now we have completed our discussion on segmentation and targeting the marketing manager needs to decide which segment to enter and how to target that segment with a product offer through selection of market segment and target marketing strategy: The next step is to decide the company's product offer and Which image the company would like its customers to develop. The challenge is to decide what position the company wants its products to occupy in the selected segment. A product's position is the definition that * consumer gives to the product on important attributes. It is the position in the perceptual space of the consumer's mind that the product takes in relation to competitor's products, which is often verbalized be customers on certain attributes. *Positioning* is an act of developing the company's offerings and image to occupy a distinct place in the minds of the target market. Positioning is a consumer driven strategy in which the objective is to occupy a unique place in the customer's mind and maximize its potential benefit for the firm. Positioning helps the brand managers to identify the core meaning of the brand and communicate these core meanings as unique to the brand. The end result of a positioning strategy is a distinct value proposition - a reason for which the customer would buy the product. According to Jack Trout and Al

Riesbrand positioning is related not to what the marketing manager does with the product, it is what the marketing manager does to the mind of the prospects. The marketing manager should determine what similarity and difference the brand has with other brands and then communicates these differences to the customers. Brand positioning involves implanting the brand's unique benefits and differences in the customer's mind. Maggi noodles is positioned in Indian market as a convenience food, which can solve the frequent food demand of the growing kids. Dove soap is positioned as a premium brand in the market with high moisturizer content, which can also be used as a face wash. Vicks VapoRub is positioned as a rub exclusively for the purpose of cold and cough relief.(Tapan, 2007)pg257

4.8.2 Differentiation and Positioning are Related

Differentiation and positioning are interrelated and are employed in close alignment with each other Differentiation is, in a way, the prelude to positioning. In differentiation, the attempt is to endow the product offer with certain distinctive attributes, which in turn offer some special value to the consume. In product positioning, the attempt is to lodge/place the differentiated offer in a particular locus in the minds of the target consumers. Whereas in differentiation, the work mainly revolves around endowing the product with certain differential advantage, in product positioning, the attempt is to reach this offer to a particular place in the prospect's mind, through an appropriate positioning logic/value-proposition

Some Definitions of Positioning

Al Ries and Jack Trout in their book Positioning--The Battle for Your Mind say "Positioning is what you do to the mind of the prospect, you position the product in the prospect's mind. According to them, positioning is more concerned with the consumer's perception of the product offer, than the offer as such?

Subrato Sengupta, in his book Brand Positioning says "The aim of product positioning is to create a perception for our brand in the prospect's mind so that it stands apart from competing brands. We must cover that space in the consumer's mind as if we had won a long-term lease over it. We must find a strong position in that mind and sit on it...

Michael Rothschild, in his book Marketing Communications-_From Fundamentals to Strategies says "Positioning refers to the place a brand occupies in the mind in relation to a given product class. This place was originally a product-related concept... concerning market structure... The concept now-refers to the place that the brand holds in the consumer's mind related to perceptions and preferences"(Namakumari)pg.378

4.8.3 PRODUCT POSITION VS. BRAND POSITION

There is a difference between product positioning and brand positioning. Of course, in a commodity market, product positioning and brand positioning carry the same meaning as there are either no brands or even if brands are there, none of them deliver any substantial differential value to the customers. There is no such difference between brand A and brand B because both of them serve the same function. In a match box segment, though there are multiple brands in India like Camel, Horse etc. but there is no substantial brand difference as both of them are used for the same purpose and that is to just ignite fire. There are many product categories in India like incense sticks, candles, notebooks for children where brand names only serve the purpose of identification, nothing beyond that So if a consumer is asked to pay more because there is a brand name it will not be a valid proposition because the consumer will say, "But all of them do the same function!"

Product positioning brings us to the idea of functional value whereas brand positioning talks about something above and beyond functional value for which the customer is willing to pay more and when asked to recall, he may recall the brand more and given a chance to replay; he will associate the brand with so many elements which are beyond the functionality of the product. Therefore, a produce position refers to a brand's objective or functional attributes in relation to other brands in the category. It is a characteristic of the physical product and is functional attributes. Simply speaking, it stands for what it can do in the market:(Tapan, 2007)

4.8.4 Issues in Product Positioning (Choosing the Product Category)

In deciding the product category where the new entrant should compete, i.e. the products it has to compete against, it is the broad function that the product serves that matters. The choice of the category will decide the nature of the competition the product is going to face.

The questions to be raised in deciding the product category are:

- Where is the new offer going to compete?
- As what?
- Which product function/customer need is it trying to meet?
- What other product categories serve this need? In other words, what are the substitute products that serve the same need?
- Where is the real gap? Where can such a new offer be most welcome and wanted by the consumers?

- What are the company's competencies to fight here?

4.8.5 Issues in Brand Positioning

Once product category positioning is decided, the position for the new entrant against competing brands in the chosen product category has to be fixed.

In deciding the brand positioning, the questions to be raised are:

- Which are the brands competing in the chosen product category?
- What are the unique claims/strengths of the various brands?
- What positions do they enjoy in consumer's perception?
- According to consumer rating of the competing brands, is there a wide gap between expectations. availability? If so, what kind of a product/new attributes/new functions can fill this gap and attract the consumer?
- Can our proposed brand claim the needed distinction and take the position and satisfy that need?

The issues in product (category) positioning and brand positioning are obviously different. Thiswill be clear from the Omni case. In fact, had Maruti sorted out the positioning anddifferentiation issues of the vehicle early in the product planning stage, it could have better handled its positioning and marketing

4.8.6 WAYS TO POSITION A BRAND

Use situation: The marketer can identify use situations for his brand or product and analyze customer perception of existing competitor brands in different use situation. Based on this analysis firm can position its brand.

Consider, the example of Rasna, the soft drink concentrates. None of the soft drink brands offer the convenience, economy, and range of flavors that Rasna does. Hence, its positioning as a soft drink when one is fatigued after shopping or a day's work, when there is a party, when guests arriving suddenly or when one feels thirsty. The brand's claim is that it is so simple to make, that even a child can do it. Rasna was the first brand of soft drink concentrate to position itself in this manner. Many other brands subsequently tried to penetrate Rasna's market share, but could not succeed.

Emphasizing Tangible Benefits: The brand may even be positioned on the basis of (Saxena, 2009)and sometimes through its price and distribution. Consider, the example of Ariel that offers the specific benefit of cleaning even the dirtiest of clothes, because of the micro cleaning system in the product. Colgate offers benefits of preventing cavities and ensuring fresh breath. Promise, Balsara's toothpaste, could break Colgate's stronghold by being the first to claim that it contained clove oil, a feature that differentiated it from the leader. Nirma offered the benefit of low price over Hindustan Lever's Surf to become a success. Maruti Suzuki offers benefits of maximum fuel efficiency and safety over its competitors. This strategy helped it to capture 60 percent of the Indian automobile market. Several automobile brands use this positioning platform. However, it may be emphasized that positioning on tangible benefits alone, cannot provide a long-term sustainable advantage in today's high competitive market, place. Hence, firms use several dimensions of the product and target market profile to position their brands.

Linking to Uses: A third approach to position a brand, is to identify the possible uses which firm's brand can be put to. In a way it may appear to be the same as use situations, but it is different here, as we are talking about all the possible uses of a product or brand. For example, video cassette recorders (VCR) could be used for playing, recording, and regulating the pace at which different scenes can be watched (like pause, fast forward). Most customers saw it as a distinct development over the video cassette player and the demand for the VCR boomed.

Head on Competitive Positioning: This is the strategy of placing a firm's brand next to the leader in the market and trying to uproot it on a specific tangible variable. Ries and Trout give the example of A VIS, the auto rental agency, which knew it was number two in the business, but made a strong point about it. "We are number two. We try harder'. (Saxena, 2009)

Onida was positioned against the giants in the television industry through this strategy, Onida color TV was launched with the message, that all others were clones and only Onida was the leader. Today, Onida has been able to uproot all of yesteryear’s leaders in the TV market. Likewise, the Wheel Brand of detergent powder took a head on position with Nirma and claimed that it was better, as it washed whiter (because of the lemon component in it) and was gentle on the hands, a claim which Nirma counters by showing the user using a spoon to take out washing powder from the bag Kinetic Him adopted this strategy to uproot the Bajaj scooter, when it claimed that it offered more mileage to a litre of petrol than the leader and supported it with road test results.

Life Style Positioning: A firm may even position the brand as a lifestyle concept contemporary or futuristic. Many of today's new kitchen appliances (like the microwave oven), readymade garments textiles and, watches are positioned accordingly.

One of the dimensions of lifestyle is aspirations. Given the upward mobility of the Indian market it is not uncommon for the marketer to use aspirations for positioning his brand. In order to do so, the brand has to communicate an exclusive image, which the consumer is willing to pay for. Also, it should reflect the aspirations of the target market. Longines range of watches or Nakshatra brand of diamonds or range of diamond jewellery, is today endorsed by beauty icons. Likewise, luxury homes and villas by DLF and Unitech are positioned as aspirational products. Aspirational and other lifestyle-based positioning is today more sustainable than tangible benefit positioning.

Benefits Offered: Another way to position a brand is to highlight the benefits that customers get by using the product. Emotional relationship is one of the strong reasons to buy a brand. Master Card has successfully used this positioning platform when its campaign emphasizes that the only thing that the consumer cannot buy using Master Card is emotions. Likewise, Chevrolet Optra used this to position its luxury car in the young, successful, and upwardly mobile Indian professionals' market. Taking the situation of a wife waiting for the moon to appear on Karva Chauth night (the day when North Indian married women, fast above daylong for their husband's long life), it shows the young Indian male professional taking her out for a drive in his Chevrolet Optra, until she is able to sight the moon from the cars. The marketer was able to successfully communicate a feature of the car by using love and care' as emotions. For this feature, promises the customer the benefit of spotting the favorite star constellation or seeing the celebrations, while being driven around.

These are some of the possible options in positioning. A creative marketer can use a combination of these alternatives and arrive at an interesting and meaningful positioning strategy. (Saxena, 2009)Pg.280

It is the act of fixing the locus of the product offer in the minds of the target consumers. The marketer decides how and around what parameters, the product offer will be placed before the target consumers. He is seeking a platform for his offer; but the platform is in the mind of the target consume.

Every marketer has to select the target market to position the product in that market. Product positioning is simply an act to create an image of product in the mind of consumer. Product positioning implies occupying permanent position of the products in the target consumer’s mind. Product positioning consists of describing the customers how the company differs in current and potential competitors. It is one of the vital tasks of marketing manager in competitive market situation.

4.8.7 CHARACTERISTICS OF PRODUCT POSITIONING

We can find out following characteristics from the definitions stated above:

- Product positioning implies positioning/placing of the company's product in the m* of consumers.
- It is a way to differentiate the company's product as superior than competition. Differentiation may be in forms of quality, service, distribution, etc.
- Product positioning includes three aspects - positioning of product (i.e., features, sent and qualities), positioning of brand (i.e., brand image or popularity), and positioning" company (i.e., name, lame, activities, achievements, and reputation).
- It makes the consumers appreciate and understand the company's product.
- Company generally uses product design and promotional media to position the production consumers' mind. (Rudani, 2008)

4.8.8 Why is Positioning Important?

The need for positioning arises out of the fact that a product cannot be 'everything to everyone" it can serve the needs of only some segments. Locating such segments and communicating the product promise to them is the purpose of positioning. Products are positioned in different ways, depending on What they have to offer and to whom they are offered. Normally, some unique feature of the product, come special needs of the market, or some noticeable gap in competing offers, is picked up and the product offer is positioned around them in a manner appropriate for the target audience. Identifying such features and using them imaginatively as the plank on which to project the product, is the essence of positioning. (Namakumari)

Repositioning

Products do undergo repositioning as they go along their lifecycle. Sometimes, right in the product's early growth stage, its positioning is found to be faulty. Then it may need an immediate course correction/repositioning. In the Omni case, we saw one such repositioning. In some other cases, even products that are faring well are repositioned. This is done mainly to enlarge the reach of the product offer and to increase the sale of the product by appealing to a wider target market. The product is provided with some new features or is associated with some new uses and is repositioned for existing as well as new target segments. (Namakumari)

4.8.9 Communicating the Brand's Positioning Strategy

Considering the case of Raymond's. When the firm decided to position itself not merely as a firm producing quality woollen textiles, but as a fashion firm for the upper middle and high come, professionally successful male, it diversified into other products which this customer would look for. Hence the firm created the new brand, Park Avenue, and started marketing premium quality readymade shirts, trousers, suits, and accessories under this label. To support its new position, the firm renovated its retail outlets to give them an elite look. The company trained its sales personnel in marketing fashion goods which were all premium priced. Thus, to communicate a positioning strategy, a Tum has to not only advertise but also make appropriate changes in other elements of its marketing.

4.8.10 QUALITIES OF A SUCCESSFUL POSITION

Creation of a successful position comes from two sources i.e., physical product differences and boa communication, which helps in finding a memorable and meaningful way to describe the produce the objective of positioning a brand is to cause people to feel that there is absolutely no substitute for the brand. There are seven qualities that help to make a successful position.

Relevance: Positions that do not focus on important consumer benefits that have higher value for the target customers or reflect the character of the product fail in the market. Often in search of a point of differentiation, brand managers identify and position the brand on an attribute, which is different but is of little concern for the customers. The image of Ujala built on a value promise of consumer benefits in the form of whiteness is an example of a powerful position.

Distinctiveness: Customers have few needs that are unfulfilled and the consumers have many choices to fill the needs they have. If a brand's position lacks distinctiveness, it will be forced to compete on the basis of price or promotion that are expensive propositions and may not build brand equity in the long run.

Coherence: There is a need to integrate all forms of communication to bring coherence to the brands position. For example, a brand being positioned as premium but being available in a discount store or with a price off very often dilutes the premium position of the brand. All the brand elements, starting from packaging to stickers to media in which the brand is positioned should have coherence in communication for building a strong position.

Commitment: Brand managers have a tendency to get nervous when a strong position is threatens due to alienation or ignorance foreseeing. Once a position is adopted, it takes commitment to stay committed to the position in the face of competitors threat to ensure the long-term position of the brand in the market. A generic positioning has no meaning because a position appealing to everyone does not appeal toa specific segment.

Durability: The brand's position is built over a period of time in a customer's mind. Brands have taken long period of time to get a dominant market share. When brands are launched, they do not get overnight success but take time to reach a dominant market position. Maggi noodles in Indian market took time to establish itself as a brand leader in the category.

Clarity: A brand's position should have clarity so that it will be easy to communicate and quick to comprehend. Any level of difficulty in the process of communication and comprehension suggests that the brand’s position is fuzzy in nature and of lesser value to the brand. Clarity in elements of brand communication facilitates the consumers information processing and comprehension and helps in building a strong positioning the market.

Courage: Adopting a strong position requires clarity of vision and courage for the brand manager. It is much easier to have a generic positioning and appeal to everyone in the market but as discussed it does not build a strong position. So a brand manager needs to have courage to believe that a strong position is a strategic intent for the brand.

4.8.11 The Tasks in Positioning

1. Deciding the Locus: In Consumers' Mind, Where to Lodge your Brand?

This point has been taken up in the previous section. The basic issue is: As what should our brand be seen and considered by the consumer? The marketer has to take into account the different positioning opportunities available to him. He has to start with industry and competition analysis. Only through an in-depth analysis of the structure of the industry--the nature of competition there in, the position of different players, the distinctiveness of their offers and the market responses to them- can he locate possible positioning opportunities. When the findings from such a study are tallied with an in-depth consumer analysis, the positioning opportunities gain clearer focus.

2. Analyzing Competitors' Positioning: Is there a Gap Somewhere?

To get at an apt positioning, the marketer has to explore competitors' positioning in detail. He has to size up his proposed offer against the competitors' positions, and identify the best possible slot for his product. In particular, he has to reckon the leader's position. It is difficult to dislodge the leading brand's position from the consumer's mind; Coca Cola is synonymous with Cola and Cadbury's with chocolates. So, any newcomer to these businesses has to study the positioning of these leading brands and then decide how he should position his offer. (Namakumari)

3. Fixing the Positioning Plank

The positioning plank/theme basically takes its cue from the differentiation attributes of the offer; it is in extension of the product claim/promise. Some of the planks on which positioning can be based are:

- Positioning viz-a-viz competition, the gaps in their products and performance
- Positioning on the consumer's expectations and desires
- Positioning on the plank of quality/service
- Positioning on the plank of price
- Positioning on the product's conformity with societal requirements

4. Ensuring the Infrastructure/Competitive Advantages for Delivering the Promise

Success of differentiation and positioning hinges on the capabilities/infrastructure/competitive advantages the firm has built up. Years back, Air Deccan, the no frills, low cost, short distance, airline came up with a product promise and a positioning: "Simply Fly". But, it could not deliver on the promise on a sustained basis. The needed competitive advantages in terms of financial resources, fleet capacity and staying power were not available to the firm.

5. Developing the Value Proposition

A value proposition is the assertion/statement of the benefits and satisfaction the product offer is promising. The first rule in positioning is that it should state the value proposition through which the product will approach and appeal the target consumers.

The following three distinct elements need to be attended to while creating a value proposition:

- For whom the product brand is meant
- A distinctive claim on the value it is offering
- An explanation on how the firm is capable of delivering on the claim

We can understand the idea of value proposition better by examining how marketers actually make value propositions in positioning their products. (Namakumari)

6. Communicating the Value Proposition to Target Consumers

In a well-orchestrated product strategy, marketing communication is just the extended stage of the positioning exercise. It has to ensure that the product offer and the value proposition are properties carried to the consumer. Many product failures can be traced to inept communication of the positioning -positioning and value propositions not being communicated properly to the target audience.

7. Monitoring How the Positioning is Faring in the Market

One has to monitor the performance of the offer and see whether the positioning is working well in the market. The test takes place in the market and only the performance of the brand can prove whether is positioned rightly or not. The firm may intend a particular positioning, but the market may percent it differently. Sometimes, the underlying assumptions of the firm in the positioning might have gone wrong. Such drawbacks could be brought to the fore only by constant monitoring. (Namakumari)Pg.382

8. Repositioning the Offer, if Required.

Even if the positioning is right at the launch and early growth stage, it needs monitoring and correction through the growth stages. Brands- even successful ones--may need repositioning. In fact, as the brand grows and absorbs newer benefits and value additions in tune with evolving buyer needs and expectations, brands do get repositioned. (Namakumari)

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SEMESTER II

COURSE: MARKETING MANAGEMENT

UNIT 5: PRODUCT KEY CONCEPTS AND CLASSIFICATIONS

STRUCTURE

5.1 Introduction

5.2 Product Levels: The Consumer-Value Hierarchy

5.3 Classification of Products

5.1 INTRODUCTION

Product is one of the important elements of the marketing mix. A marketer can satisfy consumer needs and wants through a product. A product consists of both goods and services. Decisions on all other elements of the marketing mix depend on the product. For example, price is set for a product, promotional efforts are directed to sell the products; and distribution network is prepared for the product. Product is the centre of marketing programme. Therefore, product has a major role in determining overall success of marketing efforts. A marketer tries to produce and sell such products that satisfy needs and wants of the target market. Other words for a product are good, commodity, service, article, or object. In marketing literature, product has comprehensive meaning.

Many people think that product is tangible, but a product is anything that can be offered to a market to satisfy a want or need including physical goods, services, experiences, events, places, and ideas.

A classical definition of a product is that it is a tangible offering from a marketer to the consumer; but in modern marketing it goes beyond being a tangible offering to deliver value or utility to the consumers. A Product is something that an organization offers to prospective consumers to satisfy their needs and wants. It is a bundle of benefits consisting of key product features and accompanying services.

DEFINITIONS

Term product has been variously defined by the experts in the field. Let us examine some standard definitions:

1. Philip Kotler: "Product is anything that can be offered to someone to satisfy a need and want."
2. William Stanton: "Product is complex of tangible and intangible attributes, including packaging, color, price, prestige, and services that satisfy needs and wants of people."
3. W. Alderson: "Product is a bundle of utilities, consisting of various product features and accompanying features."
4. Further it can be said: Product is a bundle of benefits- physical and Psychological- that marketer wants to offer, or a bundle of expectations that consumers want to fulfill.

5.2 PRODUCT LEVELS: THE CONSUMER-VALUE HIERARCHY

In planning its marketing offerings, the marketer needs to address five product levels. Each level adds more customer value, and the five constitute a Consumer-value hierarchy.

- The fundamental level is the ***Core Benefit***: the service or benefit the consumer is really buying. A hotel guest is buying rest and sleep. The purchase of a drill is buying holes. Marketers must see themselves as benefit provider.
- At the second level, the marketer must turn the core benefit into a ***Basic Product***. Thus, a hotel room includes a bed, bathroom, towels, desk, dresser and a closet.
- At the third level, the marketer prepares an ***Expected Product***. A set of attributes and conditions buyers normally expect when they purchase a product. Hotel guests minimally expect a clean bed, fresh towels, working lamps and a relative degree of quiet.
- At the fourth level, the marketer prepares an ***Augmented Product*** that exceeds customer expectations. In developed countries brand positioning and competition take place at the same level. In developing countries emerging markets such as India and Brazil, however, competition takes place mostly at expected product level.
- At the fifth level stands the ***Potential Product***, which encompasses all the possible augmentations and transformations the product or offering might undergo in the future. Here is where companies search for new ways to satisfy consumers and distinguish their offering.

5.3 CLASSIFICATION OF PRODUCTS

A company sells different products (goods and services) to its target market. They can be classified into two groups, such as

1. ***Consumer Product, and***
2. ***Industrial Product***

5.3.1 Consumer Products

Consumer products are those items which are used by ultimate consumers or households, and they can be used without further commercial and engineering processes. Consumer products can be divided into four types as under:

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

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

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

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

v. **Services:** Services are different than tangible objects. Intangibility, variability, inseparability, perishability, etc., are main features of services. Services make our life safe and comfortable. Trust, reliability, costs, regularity, and timing are important issues. The police, the post office, the hospital, the banks and insurance companies, the cinema, the utility services by local body, the transportation facilities, and other helpers like (barber, cobbler, doctor, mechanic, etc.,) can be included in services. All marketing fundamental are equally applicable to services. 'Marketing of services' is the emerging facet of modern marketing.

5.3.2 Industrial Products

Industrial products are used as the inputs by manufacturing firms for further processes onthe products, or manufacturing other products. Some products are both industrial as well as consumer products. Machinery, certain chemicals, supplies and services, etc, are some industrial products. Again, strict classification in term of industrial consumer and consumer products is also not possible, for example, electricity, petroleum products, sugar, cloth, wheat,computer, vehicles, etc, are used by industry as the inputs while the same products are used by consumers for their daily use as well. Some companies, for example, electricity, cements, petroland chemicals, etc., sell their products to industrial units as well as to consumers. As against consumer products, the marketing of industrial products differs in many ways. Industrial products include:

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

5.4 CONCEPTS OF PRODUCT MIX, PRODUCT LINE

PRODUCT MIX

One of the realities of business is that most firms deal with multiple products. This helps the firm diffuse its risks across different product groups. Also, it enables the firms to appeal to a much larger group of customers or to different needs of the same customer group. The number of products carried by a firm at a given point of time is called its Product Mix. The product mix contains product lines and product items. In other words, it is a basket of products offered for sale by a firm.

DEFINITIONS OF PRODUCT MIX

Product mix of a company is made of all product lines and items. It includes the total number of varieties or models offered by the company. Let us define the term:

Philip Kotler, "A product mix is a set of all product lines and items that a particular seller offers for the sale to buyers."

William Stanton, "The product mix is the full list of all the products offered for sale by the company."

PRODUCT MIX DIMENSIONS

Product mix of a particular company includes major product lines. Product mix has various dimensions such as:

- ***Product Mix Length:*** It refers to the total number of items (in all product lines) in product mix. For example, mix of Bajaj Company has more than 100 items in the various product lines, such as fans, bulbs and tubes, heaters, motorbikes, and many other ranges.
- ***Product Mix Width:*** It indicates the total number of product lines a company carries. For example, two wheelers (including various models) constitute one of the product lines of Bajaj Company.
- ***Product Mix Depth:*** It refers to a number of varieties in forms of sizes, colors, and models offered within each product line. It can be said as the average number of product items offered by the firm in each product line.
- ***Product Mix Consistency:*** It refers to the degree to which different product lines are related in one or other ways. It indicates how closely various product lines are related. The consistency can be judged on the basis of production requirements, uses of products, distribution channels, or some other ways.

5.4.1 FACTORS AFFECTING PRODUCT MIX

Product mix refers to the total number of product lines and product items that a company wants to offer to its target market. Company's product mix must undergo necessary changes to meet its objectives or market trend. In relation to product mix, a company is required to decide in terms of product lines and product items. Product mix is expanded, contracted, or modified depending on following factors:

1. **Profitability**

Every business unit tries to maximize its profits. It makes certain changes in its product mix in a way to realize positive impact on profitability. Company prefers to introduce more product lines or product items in existing product lines to improve its profitability. Product mix is constantly adjusted to realize more profits.

2. Objectives and Policy of Company

Company frames its product mix to achieve its objective. Product mix is prepared, modified, or changed in light of objectives. Therefore, addition, subtraction, or replacement of product linesor product items is based on what a company wants to achieve. Product mix is prepared and modified according to a company's policy.

3. Production Capacity

Marketing mix decisions, to a greater extent, depend on plant or production capacity of a company. Company will design its product mix in a way that optimum production capacity can be utilized.

4. Demand

Product mix decisions are taken with reference to demand. Marketer should study consumer behavior to find the popularity of products. Changes in consumers' preference, fashion, interest, habits, etc., must be reflected in product mix of company. Company, naturally, priories those products which have more demand. In case of falling demand, company must drop poor products gradually. Thus, product mix is constantly adjusted to meet consumer needs and wants.

5. Production Costs

Product mix is widened or narrowed depending upon the production costs. Company will prefer those products, which can be produced within budgeted limit. Sometimes, for any reason, the manufacturing costs for the existing products rise, the company decides to drop such products to reduce their production costs. It tries to balance selling price, profit margin, and production costs.

6. Government Rules and Restrictions

Every company produces such products, which are not restricted or banned by the government. Even, sometimes, company has to stop certain products or varieties when it is declared illegal. In same way, social and religious protests also play a vital role in this regard. Contemporary legal framework has direct impact on the size and composition of the product mix.

Product Mix Strategies

Company formulates and changes its products mix strategies to get the desired response from the market. In light of overall market environment and internal situations, the firm should manage its product mix strategies. The major alternative product mix strategies have been discussed as follows:

A. Expansion of Product Mix

Expansion of product mix implies increasing the number of product lines. New lines may be related or unrelated to the present products. For example, Bajaj Company adds car (unrelated expansion) in its product mix or may add new varieties in two wheelers and three wheelers. When company finds it difficult to stand in the market with existing product lines, it may decide to expand the product mix.

B. Contraction of Product Mix

Sometimes, a company contracts its product mix. Contraction consists of dropping or eliminating one or more. product lines or items. Here, fat product lines are made thin. Some models, or varieties which are not profitable, are eliminated. This strategy also results into more profits from fewer products.

C. **Deepening Product Mix**

Here the company will not add a new product line, but expand one or more existing product lines. Here, some product lines become fat from thin.

D. Alteration or Changes in Existing Products

Instead of developing a new product, marketer may improve one or more established products. Improvements or alterations can be more profitable and less risky as compared to completely introducing a new product.

E. Trading Up

Trading up consists of adding the high-price products in the existing product lines. The new product is intended to strengthen the prestige and goodwill of the company. New prestigious product increased popularity of the company and improves image in the mind of the consumers. By trading up product mix strategy, demand of its cheap and ordinary products may be encouraged.

F. Trading Down

The trading down product mix strategy is the quite opposite to trading up strategy. A company producing and selling costly, prestigious, and premium quality products decides to add lower-priced items in its costly and prestigious product lines. Those who cannot afford the original high-priced products can buy the less expensive products of the same company.

5.4.2 PRODUCT LINE

This consists of different products that are closely related to each other, by the virtue of satisfying a particular class of needs, being used together, being distributed through same channels, or possessing common physical or technical characteristics. In other words, Product Line refers to a group of products clubbed together because they have one of the above-described characteristics, in common. The number of product lines carried by a firm at a given point of time is function of its resources and competitive position.

DEFINITIONS

Product line is a group of product items that can satisfy the same needs and wants, they have more or less similar features. For example, Baja Auto Ltd., in its two-wheeler product line, makes Discover, Boxer, Boss, Pulsar, Cub scooter, Bajaj Sunny, etc.
Philip Kotler: "Product line is a group of products that are closely related because they function in a similar way, are sold to same customer groups, are marketed through the same type of outlets, or fall within given price range."
Thus, product line is the group of similar products. The similarity may be seen in one or more ways. Product line consists of product items belonging to same class. The definition suggests following five ways the items are closely related:

- They function in similar manner.
- They offer similar benefits, or meet similar expectations.
- They are sold to similar customer groups.
- They are marketed by similar outlets.
- They fall within same price range.

5.4.2.1 Product Line Decisions

Produce line decisions are crucial decisions as they involve major investments/disinvestments for the firm, they not only have to allocate advertising and communication expenses, they need to invest in manufacturing and other facilities to cater to that market. Taking decisions about change in product line depends upon a number factors, such as the preferences of consumers, the tactics of competitors, the firm's cost structures and the spill over of demand from one product to another.

A. **Changes in Market Demand:**

Changes in market demand may be due to changes in the composition of population served. If there is an increase in the number of births, the business is likely to increase new lines of baby products, such as baby food, baby shoes, perambulators and toys lines. Increase in the purchasing power of the consumers also leads to the improvement in the quality of the product as also the dropping out of the line of certain low. Price, low-quality goods. Changes in consumer behavior, through changes in motivation, attitudes, preferences and buying habits may also encourage the marketing executive to expand or contract his product mix. To satisfy the more varying needs, he may add many new lines; such as the departmental stores do by adding to the general merchandise, light reading material, health and beauty aids, ready-to-wear apparels, household requisites, indoor games, sports materials, etc. Sometimes changes in product mix are also made to suit the requirements of the middlemen who would like to have varied line of products for reasons of competition, cost and promotion.

B. **Competitive Action and Reaction**

The firm may differentiate its product line to meet price competitions, and save it from unduly low profits. Decisions about product lines are taken in relation to the nature of competition and the level of power that the competitor holds in the market. Many firms keep a longer product line so that some of the brands play the role of a flanker. Flankers are developed to preempt future competition and when a competitor emerges in the picture, company can invest in making the brand a major brand for the firm.

C. **Marketing Influences**

A new product line may be added for two reasons. First, to increase sales by exploiting new market of expanding the present ones; and second, to use the firm's capacity more efficiently by a better use of its resources of salesmen, warehouses or branch offices. So, changing demand patterns also influence marketing decisions. Marketing demand influences product decisions.

D. **Product Influences**

A firm may change its product mix to use its manufacturing capacity more effectively, thereby reducing inset production cost. A new line may be added when another firm discontinues its production. To make better use of the products or waste products new liners are also added. Availability of alternative products and innovations in products also influence the product line decisions.

E. **Financial Influences**

The firm may add or drop a product out of the product line as per its financial resources. The product mix may be expanded to increase a firm's profitable sales volume; or a product line may be dropped to meet depression in the market. Financial status of the firm and availability of capital coupled with market penetration strategy will decide the product line.

5.5 PRODUCT DIFFERENTIATION AND MARKET SEGMENTATION

Product differentiation and market segmentation are the most popular strategies for a product manager. Firms engaged in non-price competition in markets often employ these strategies when the market is characterized by imperfect or monopolistic competition. Since these strategies require large financial

involvement in promotional efforts, they are popularly known as both promotional and product planning strategies.

- **Product Differentiation:** Product differentiation involves "developing and promoting an awareness of difference between the advertiser's product and competitor's product." When product differentiation strategy is used, it enables a company to come out of price competition so that it may compete on a non-price basis viz., that its product is different from or even better than the competitor's products. It is possible to differentiate on quality, design, brand or packaging. This strategy works in markets, which are reasonably homogeneous in its wants, and the products are standardized. Products like soaps, cigarettes, and gasoline are examples of products for which this strategy works.
- **Market Segmentation:** Under market segmentation strategy, the seller knows that the total market is made of many smaller homogeneous units, each of which has different wants and motivations. To meet these different demands, different products can be developed. The product managers can tailor-make products to suit the segments. This strategy attempts to penetrate a limited market in-depth, Whereas the product differentiation seeks breadth in a more generalized market. The product differentiation seeks to secure a layer of the market cake, whereas market segmentation strives to secure one or more wedge shaped pieces.

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SEMESTER II

COURSE: MARKETING MANAGEMENT

UNIT 6: PRODUCT DEVELOPMENT, PRODUCT LIFE CYCLE, BRANDING, PACKAGING AND SERVICING

STRUCTURE

6.1 PRODUCT DEVELOPMENT

6.1.1 INTRODUCTION

The product is a bundle of satisfaction that a consumer buys. It represents solution to consumers' problems. It is in this context that the marketing definition of a product is more than just what a manufacturer understands it to be. As Peter Drucker puts it, so long as a product is not bought and consumed, it remains a raw material or at best an intermediate. The product is almost always a combination of tangible and intangible benefits.

Consumers will buy only what suits them. As consumers, we buy different kinds of products and services to satisfy our various needs. We buy toothpaste, butter, shaving cream, pen, scooter, and tickets for a foreign trip and many other such items in our daily life. As we understand, our decision to buy an item is based not only on tangible attributes but also on psychological attributes such as services, brand, package, warranty, image etc.

As a marketing manager, one has to plan for a unique product offer to meet needs and wants of the target customers. A product is the central idea behind any marketing planning and decides the business success and failure of the organization. A consumer evaluates the product on some basic evaluation characteristics like product features and quality, accompanying services and quality of that service and the price that they have to pay to own the product.

A classical definition of a product is that it is a tangible offering from a marketer to the consumer; but in modern marketing it goes beyond being a tangible offering to deliver value or utility to the consumers. A Product is something that an organization offers to prospective consumers to satisfy their needs and wants. It is a bundle of benefits consisting of key product features and accompanying services.

6.1.2 DEFINITIONS OF PRODUCT

Term product has been variously defined by the experts in the field. Let us examine some standard definitions:

5. Philip Kotler: "Product is anything that can be offered to someone to satisfy a need and want."
6. William Stanton: "Product is complex of tangible and intangible attributes, including packaging, color, price, prestige, and services that satisfy needs and wants of people."
7. W. Alderson: "Product is a bundle of utilities, consisting of various product features and accompanying features."
8. Further it can be said: Product is a bundle of benefits- physical and Psychological- that marketer wants to offer, or a bundle of expectations that consumers want to fulfill.

Product includes both good and service. Normally, product is taken as a tangible object, such as a pen, television set, bread, book, vehicle, table etc. But tangible product is a package of services or benefits. Marketer should consider product benefits and services, instead of product itself. People are not interested in just possessing the products, but the services rendered by the products. For example, we do not buy a pen, but writing service. It must serve our need and want. Thus< physical product is just a vehicle or medium that offer services, benefits, satisfaction to us.

6.1.3 Factors contributing to Development of a Product

A new product, may be called an innovation, seems to be necessary due to an enormous number of factors. The dynamic nature of business environment offers only two options- be innovative or die. Marketer has to search for superior ways to meet the increasing expectations. Product development or innovation directly concerns with firm's survival, growth, and development. Following are some dominant factors forcing a marketer to develop a product to meet the changing needs and wants of the consumers.

1. **Changes in market:** Today's market is much dynamic as compared to the past. Due to increased education, borderless marketing, severe competition, and availability of a number of substitutes have posed tremendous challenges for today's marketers. Market fashion, preference, and habits are constantly changing and marketer finds no option except to respect such market changes, by positive response in terms of innovation. Thus, consumer behaviour is one of the dominant reasons for innovation.
2. **Changes in Technology:** Due to continuous technological development, new production methods are invented. Old technology and production methods are replaced by newer ones. A company spends a large amount of money for technological research. To match the technological changes, new products are developed.
3. **Increasing Competition:** Increasing competition is one of significant reasons leading to go for innovation. Every company struggles to attract and maintain consumers by offering superior products. To offer more competitive advantages and to satisfy consumer more effectively and efficiently, the product innovation seems to be necessary.
4. **Diversification of Risk:** In many cases, a company develops new products just to diversify risk. Existing products may not be capable to match with market needs and wants. By offering more varieties, a company can minimize the degree of obsolescence. Thus, the need for continuous innovation arises because older products are thrown out of market.
5. **Reputation and Goodwill:** To create image and reputation as an innovative and dynamic firm, the innovation is adopted. Company wishes to convince the market that it tries seriously to meet consumer's expectations. Obviously, a company developing new products periodically has more reputation, and can attract consumers easily.
6. **Utilization of Excess Capacity:** Excess capacity may be in form of production capacity or human skills. To utilize maximum plant and material capacity, a company may go for developing a new product. Sometimes, excess managerial or human capacity may also tempt the company to opt for innovation.
7. **Seasonal Fluctuations:** Sometimes, new products are developed just to minimize seasonal fluctuations in demand. By producing new product, a company can meet seasonal

requirements of market. Market is satisfied due to matching products in each of the seasons, and company can get attractive business.

8. **Growth and Development:** Innovation is an effective way to win more market share or sales. Marketer can exploit emerging opportunities by innovative products. When it is not possible to accelerate growth rate by the existing products, a company prefers to develop new products to expand its market, maximize sales, and earn more profits.

6.2 NEW PRODUCT DEVELOPMENT PROCESS

The process of a product development may vary from one firm to another but, generally, one can see the stages as outlined in the following figure:

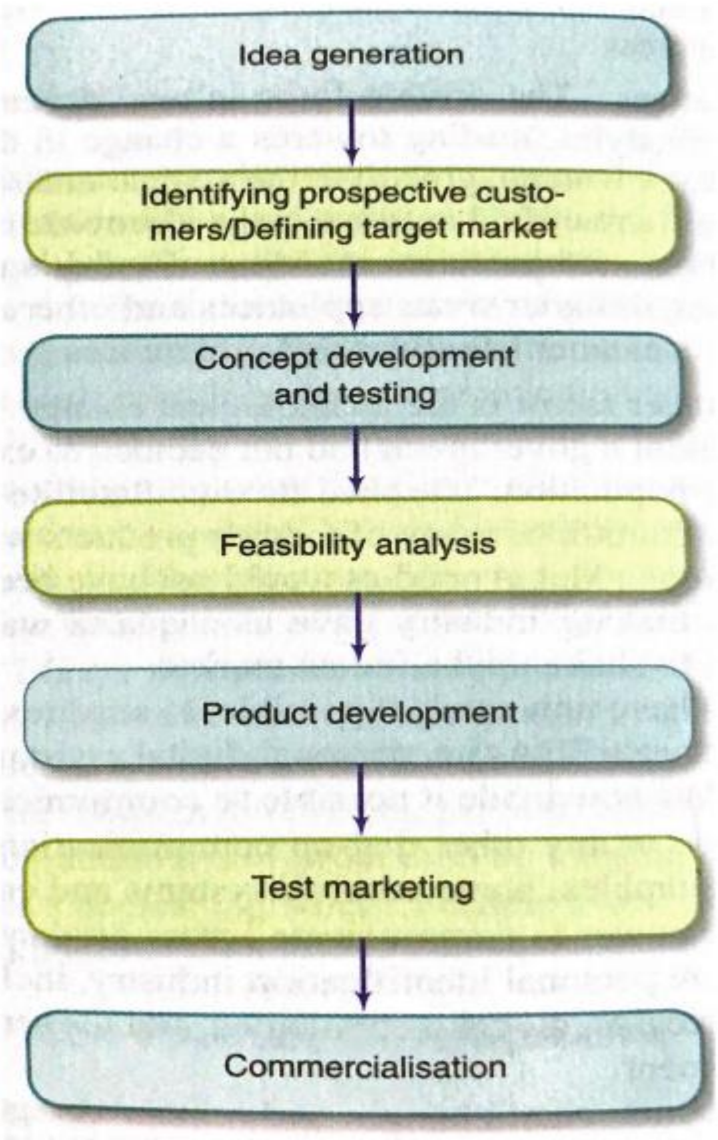

Fig 1.: ***Product Development Process***

STAGE 1: IDEA GENERATION: The process of product development starts with the search for product ideas. To be successful, it is important that this search should not be casual. Top management should spell out the corporate mission and objectives for new products. Also, it should spell out the role of new product development in firm's growth strategy. There are different sources for new product idea.

Common Sources of New Product Ideas

- Changing consumer needs and trends in consumer markets
- Competitors
- R&D scientists
- Laboratories
- Foreign markets and media
- Employees
- Trade channels
- Top management

The most important and relevant of all sources are developments in the market, specifically, changes in geographic, demographic, and psychographic characteristics of the market. These developments affect customer needs and wants. Also consumers' exposure to media effects their needs and expectations.

New product ideas can be generated both directly and indirectly. Both approaches can be undertaken simultaneously and can vary from highly structured and loosely structured to unstructured procedures. Direct methods rely heavily upon creativity of individuals as well as groups and consumer survey data for techniques e.g., forced relationship, brainstorming, motivational research etc. Consumer ideas are obtained from focus group interview sessions, which determine the consumer's perceptions of brands, advertising and the way products are used.

Indirect methods refer to "synthetic" methods; methods that are used for purposes but with little ingenuity, they can be employed just as well in exploration. The result of idea generation step is the consumer's view of the market in qualitative terms; an understanding of the technical development potential and the possible list of new product ideas in untested and raw idea form.

STAGE 2: Identifying Prospects and Defining Target Markets: The second stage is that of identifying prospects or target customer groups. It is important that the firm defines its target consumer group in specific terms. It should also examine the cost of serving this group. These factors are important, as they will help the firmm narrow down its decision field. At this stage, the firm should identify success factors in different product ideas.

STAGE 3: Concept Development and Testing: Having identified the target group, the next stage is that of developing product concepts and testing them. Many firms skip this stage in the belief, that if they have great ideas, consumers will pick them up by themselves. Nothing can be farther from the truth. As Theodore Levitt puts it, customers buy concepts and not just the tangible products.

After the product and brand concepts have been developed, the stage is now set for testing them. These concepts are tested on a sample of targets consumer groups. Most often, at this stage, visuals of proposed product concepts are shown to the sample respondents. However, the validity of tests increases, if the product shown to the consumer group in the physical form, that is a prototype or sample. The responses are tabulated and analyzed against industry norms and the final decision is taken by the management, keeping in mind the strengths in the industry and growth objectives.

STAGE 4: Feasibility Analysis: In this stage, the manager tries to measure the business attractiveness of the proposal. Attempts are made to know what extent a proposed product is economically viable. The proposed product is checked with reference to overall business environment. It simply means measuring the ability of the product to meet the company's objectives. This step calls for following aspects:

- **Estimating Sales**: It is also known as sales forecasting. On the basis of sales history and current performance of similar types of products, or on the basis of expert opinion and preliminary consumer survey, the rough estimate of sales can be made.
- **Estimating Costs**: Manager estimates total costs to find out the cost per unit and profit margin. Following components of the cost are estimated:
    1. *Development costs*
    2. *Manufacturing Costs*
    3. *Marketing Costs*
- **Determining Selling Price and Profit Margin**: On the basis of estimated sales and total costs, per unit cost can be calculated. Adding the desired per cent of profit on total costs, total revenue can be estimated for each of the proposals.

- **Evaluation of Product(s):** On the basis of above statistics, now it is easy to find the feasibility of the proposed products. When we want to select one product from one of the two or more products, profitability of different proposals can be compared to the find out the most attractive one.

STAGE 5: Product Development: This is the stage where the product ideas now move from the concept and design boards to R&D and manufacturing and physical development. Both these departments should keep the consumer feedback in mind, while developing the physical version of the product. Also, they must ensure that the product is easy and safe to use by the consumer.

After the product has been developed, it must be put through rigorous functional and consumer tests.

- *Functional tests:* It tests whether the prototype functions safely and effectively under normal uses and conditions.
- *Consumer Tests:* Consumers are invited to laboratory to use or try the products. They are given samples to use at home. This test measures whether the consumers perceive the prototype as useful and beneficial.

STAGE 6: Test Marketing: The product is now tested on four parameters: trial, first purchase, adoption (repeat purchase) frequency, and the volume bought each time. On account of risks involved in test marketing, most companies avoid it. But those who do it, know that it can yield valuable information about consumers, dealers, marketing mix, and strategy.

STAGE 7: Commercialization and Final Launch: In this stage the product is submitted to the market, and thus commences its lifecycle. Commercialization is also the phase where marketing is most active in connection with the product developed. Despite the care with which the previous development stages have been planned, unforeseen events can impair commercialization seriously. The following activities are usually undertaken during this stage

- Completing final plans for production and marketing,
- Initiating coordinated production and selling programs, and
- Checking results at regular intervals.

  The launch plan must consider the following:

  1. *Timing*
  2. *Place*
  3. *Strategy*

6.3 PRODUCT LIFE CYCLE

6.3.1 INTRODUCTION

During its life span a product pass through certain distinct stages in terms of demand, growth rate and profitability. This is called Product Life Cycle (PLC). A typical PLC is presented as a sales curve spanning the product's course from introduction to exit as shown in figure 2. The utility of the PLC concept lies in the fact that each stage in the cycle is characterized by a typical market behavior and consequently lends to the application of a specific marketing strategy. Understanding the PLC concept and managing it effectively can help in prolonging the profitable phases of the lifespan of a product/brand.

DEFINITIONS

The term product life cycle can be defined as under,

1. Philip Kotler, "The product life cycle is an attempt to recognize distinct stages in the history of a product."
2. We can define PLC as: PLC concerns with the study of the degree of product acceptance by the market over time, It includes major rises and falls of sales during its life.
3. Product Life Cycle states a relationship between sales volume and profits. So, we can define the term as: Product Life Cycle concerns with the study of relationship between sales volume and profits in relation to the time through entire span of the product's life.
4. More clearly and comprehensively, we can define it as: Product life Cycle is the historical study of (sales of) the product. It includes when it was introduced; when it was getting rapid acceptance; when it was on the peak of its position: when it started falling from the peak: and when it disappeared.

6.3.2 The Four Distinct Stages in PLC

A typical product passes through the following four distinct stages during the course of its life:

- ***Market Pioneering Stage***
- ***Market Growth Stage***
- ***Market Maturity Stage***
- ***Market Decline Stage***

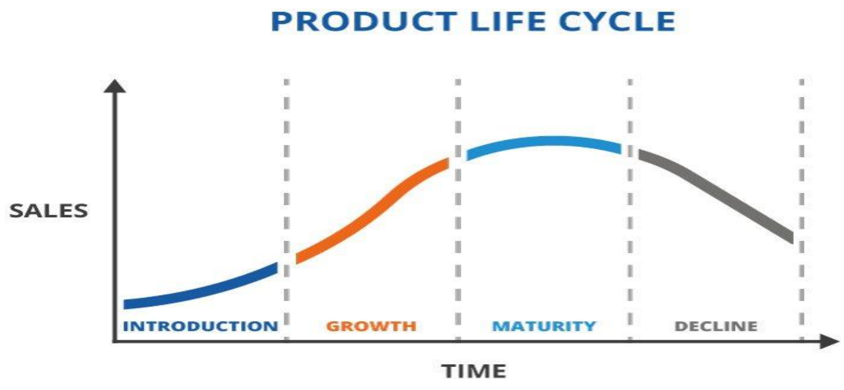

Fig 2. Product Life Cycle

i. Market Pioneering Stage

Here, the product is in its introductory stage; At this stage, product awareness and acceptance among prospective customers is minimal. As the sales are low, there are high promotional costs. This is due to the fact that the company has to spend money for advertising, sales promotion and other forms of promotion. The major obstacle to rapid market penetration at this stage is poor distribution stratergy. Many retailers will not support the new product launch and will wait till they hear well about the brand. Many companies prefer regional roll outs in which new product is introduced market by market, region by region. This system of new product introduction often brings physical distribution and logistics problem to the forefront.

One of the crucial decisions to be taken at this stage is the pricing strategy to be adopted. Since, the product is new, no past data or comparisons are available; the firm normally opts for one of the following pricing strategies:

i. ***Market skimming or***
ii. ***Market penetration***

While the skimming strategy, firm goes for higher prices, taking advantage of early entry and the relative novelty of the product in the pioneering stage. With penetration pricing on the other hand, the firm aims for low prices aimed at securing faster market coverage and eventually a mass market for the product.

Length of the introductory stage will depend on the complexity involved in the product, its degree of newness, its fit into the existing customer need structure, the presence of competitive products, either as perfect or imperfect substitutes and the nature, magnitude and effectiveness of the introductory marketing expenditure.

ii. **Market Growth Stage**

The product begins to make rapid sales gains because of cumulative effects of the introductory promotion, distribution and word-of-mouth influence. High and sharply rising profits are witnessed at this stage. However, for sustained growth, consumer satisfaction must be ensured at this stage. This stage begins when the demand for the product grows rapidly. In case of repeat buying situation, the innovators move from trial purchase to adoption and referral communication. Deeper penetration in the market by intensive distribution strategy and increase in the store visibility and usage tend to bring new buyers in the market. The competitors also start their advertising and sales promotion making the total category demand to increase in the market. Growth stage also contributes in increasing profit levels.

iii. Market Maturity Stage

The features of maturity stage include demand for the product tending to saturation, supply from competing firms going up, trade dictating the terms and price competition stiffening. The pioneer tries more differentiation; communicates directly with consumers by-passing the multi-brand dealers. The sole objective is to retain his customers. Long-term and Short-term marketing plans are implemented to profitably prolong the maturity stage, lest it could easily lead into the next stage of decline. In short, relatively low prices, increased marketing costs, keener competition and lesser profits, characterizes this stage.

iv. **Market Decline Stage**

This is the last stage of the Product life Cycle. Here, sales start declining rapidly. Profits start erasing. There is minimum profit or even a little loss. Advertising and selling expenses are reduced to realize some profits. This stage is faced by only those who survived in the maturity stage. The product decline happens due to the entry of new competitors with advanced technology, and reduction in consumer interest. The marketer is left with an option of price reduction, which puts pressure on the profit margins leading to deletion of products.

Some firms try to link up the sale of these products with some of their premium products and try to stretch the life. The wise route is to prepare for for the gradual phasing out of the product; firms quite often keep new products ready to fill the vacuum created by the decline of an existing product.

6.3.3 Strategic Considerations In The Product Life Cycle Concept

Product life Cycle at a concept level has become one of the popular propositions with its empirical evidence proved for different product categories. However, this concept has strategic implications as it has guided marketing managers to take key marketing strategy decisions.

A. Competition

In the introductory stage, competition is given no importance. At the growth stage, it is given a little importance while at the maturity stage, there are many rivals in the market; Slowly however, the number of competitors or rivals get reduced with the declining stage. As the product is new to in the market and comes with innovation, the number of competitors are very few or in some cases do not exist In the subsequent Stages competitors could find the market to be attractive and enter the market. When the product enters into the decline stage, the number of competitors move out of the market as the market does not seem attractive any more.

B. Overall Strategic Focus

At the introductory stage, emphasis is laid on market development. At the growth stage, the marketer needs to increase its volume of business and follow market penetration strategy: He starts using mass media for entering into deeper pockets. The marketing manager focuses on creating brand loyalty and brand preferences at the maturity stage. In the decline stage, the marketer may decide to go in favor of market selection and concentrate on fewer profitable markets or else the marketer gets ready for overall preparation for renewal or product development.

C. Profit

At the introductory stage, profits are negligible but at the growth stage, they reach peak levels as a result of growing demand. At the maturity stage, they decline due to the increasing competition. At the last stage, the declining volume pushes costs up and eliminates profits. The profit curve falls faster than the sales curve as the cost to serve the customer increases and the commoditization of the product reduces the level of profit at the maturity stage.

D. Distribution Strategies

Since the company has to cover fewer markets and the distribution network is not well developed, distribution is selective at the introductory stage. Companies at growth and maturity stages have volume objective, hence follow an intensive distribution strategy: At the decline stage, the distribution strategy is again selective, as the firm has to cover fewer and profitable markets. When companies go for product modification, they change their distribution to intensive distribution.

E. Advertising Strategies

At the introduction stage, advertising strategies aim at the needs of early adopters; at the growth stage; an attempt is made to make the mass market aware of brand benefits. At maturity stage, advertising is used as a vehicle for differentiating among otherwise similar brands. At the last stage, however, it emphasizes on the

low price of the product and follows a lower advertising expenditure. The nature of advertising at the introductory stage is to make people aware of the product, hence, awareness is the objective; in growth and maturity stage, the company would like to make consumers prefer the brand over others and try to convince/ persuade them into buying the advertised brand. In the late maturity and decline stage, advertising is more or less towards building preference and loyalty among the existing customers.

6.4 BRANDING

6.4.1 INTRODUCTION

Brands are all pervasive. Branding is an important strategy for differentiating a product from its competitors; it is a name, logo, trademark, patent number, or package design that is used to distinguish the firm's products or services from others. It represents, to the customer, the source of the product which leads him to associate with a brand.

Brands are valuable assets to the organizations and also are important to the consumer's life. Brands can create wealth for the company depending upon how much value they add to the consumer's life.

Products need names as we do, as it will help the consumer to identify and differentiate the product at the time and point of purchase. This serves as akey differentiator in the business that helps in generating immediate attention and building perception of being a high value product among consumers. Brands are a combination of functional and emotional benefits. The traditional branding strategy proposes the process of branding to start by naming a product and then developing a brand communication strategy around it. It also suggests building brand benefits around the product for consumer to remember, recall, retrieve and choose at the point of purchase.

DEFINITIONS

Brand has been defined as:

1. Philip Kotler defines; " A brand is a name, term, symbol, logo, design, or combination of them which is intended to identify the goods or services of one seller or group of sellers, and to differentiate them from those competitors."
2. More comprehensively we can say: the term brand indicates all identifying marks such as trade names, trade marks, trade symbols, pictures, design of the package, distinctive coloring, or lettering with or without some attractive slogan.

A brand is essentially a seller's promise to consistently deliver a specific set of features, benefits, and services to the buyers. The best brand conveys warranty of quality. The brand conveys at least six meanings, as stated by Philip Kotler:

i. **Attributes**: brand reflects the product attributes- key features and qualities- such as expensiveness, durability, colour and shape, prestige, resale value, speed, safety, comfort, and so forth.
ii. **Main benefits**: Brand also indicates benefits offered by the product. People assign special benefits to specific brands.
iii. **Value**: It says something about value or status of its producers. It shows the level of brand maker, and he/she is placed at high or low position.
iv. **Culture**: A brand reflects the culture of producing company or country. It is like a symbol of one's culture.
v. **Personality**: Brand projects personality, actual or imaginary. It can have considerable impact on the personality of its users.
vi. **Users Type**: Brand suggests type of its users.

6.4.2 ELEMENTS OF BRANDING

a. BRAND IDENTITY

The concept of brand Identity helps in building brand equity. Aaker defines brand identity as a set of five categories of brand assets and liabilities linked to a brand that add or subtract from the value provided by a product or service to a firm and also to the firm's customers. These categories of brand assets include brand loyalty, brand awareness, perceived quality, brand associations and other propriety assets such as patents, trademarks and channel relationships. These are a unique set of brand associations that represents what the brand stands for and what it promises to customers. According to David Aaker, brand identity consists of twelve dimensions organized around four perspectives, Viz. brand as products (product scope, product attribute, quality / value, uses, users, country of origin); brand as Organization (organizational attributes, local versus global); brand as person (brand personality, brand-customer relationship) and brand as symbol (visual imagery/ metaphors and brand heritage). David Aaker, holds that brands have core and extended identities. The core identity is the central, timeless essence of the brand, which is most likely to remain constant as the brand travels to new markets at different periods of time. The core identity involves cohesive organization of various brand identity elements into meaningful groups. The extended identity comes out of the secondary associations of the product.

Kepferer summarized brand identity as though all things are possible when a brand is first created, after time it acquires autonomy and its own meaning. Brand identity is the configuration of words, ideas and associations that form a consumer's aggregate of a brand. The identity is a brand's unique fingerprint that makes it one of a kind.

b. BRAND IMAGE

Like brand identity, every brand has got a distinct brand image in the customer's mind. In simple words, what the customer perceives about the brand is called the brand image. A brand may aspire to communicate a lot through its brand communication strategy but what the customers receive and perceive as the brand is termed as the brand image. It is a combination of brand associations and brand personality: It includes a set of brand associations usually structured in a logical fashion. Consumers express them in the form of descriptive thoughts by using similes and metaphors. In understanding brand image, it is important to see if consumers see themselves as "fit' for the brand and vice versa. Brand consumer fits are well planned by the brand manager, which helps in developing a strong brand image in the consumer's mind. Brand personality determines whether the brand and the audience are made for each other or not. Psychologically, the audience tries to build up some comparison and conclusion between its own personality and that of the brand. If there is a greater fit, there is likely to be a greater belief in the claim of the brand. A successful brand has a perfect fit between brand identity and brand image.

c. BRAND POSITION

After brand identity and value proposition decision is taken, which corroborates with the expected brand image, the brand manager's task of implementing the branding strategy begins.

Brand position is that part of brand identity and value proposition that is to be actively communicated to the target audience which depicts advantages of the brand over competitors. Once the brand position decision is made, brand identity and value proposition can be translated into a suitable execution strategy in the form of an integrated advertising campaign. There are three places to look at within the brand identity system, which help in identifying the brand positioning statement. These statements are the core identity of the brand, which explain the central, timeless essence of the brand. The most unique and valuable aspects of the brand are often represented in the core identity. So brand position should include the core identity so that the brand communications do not stray away from the brand's essence.

d. BRAND EQUITY

A clear brand identity when reinforced over a period of time in the consumer's mind to develop a high level of customer franchisee, leads to creation of brand equity. If the brand's name or symbol will change, some or all of the assets or liabilities will be affected; Brand equity is the added value that the consumer assigns to products and services. It is based over what the consumer thinks, feels and acts with respect to the brand and is often reflected in company's sales performance, market share and profitability. Kevin Keller proposed a consumer-based brand equity model, which is defined as the differential effects that brand knowledge has on consumer response to the marketing of that brand. A brand is believed to have positive consumer-based brand equity when consumers react favorably to the marketing strategy of the brand and vice versa for negative brand equity.

Importance of Branding

i. Product identification is eased.
ii. A customer can order a product by name instead of description.
iii. Customers are assured that a good or service has a certain level of quality and that they will obtain comparable quality if the same brand is reordered.
iv. The firm responsible for the product is known. Unbranded items cannot be as directly identified.
v. Price comparisons are reduced when customers perceive distinct brands. This is most likely if special attributes are linked to different brands.
vi. A firm can advertise (position) its products and associate each brand and its characteristics in the buyer's mind. This aids the consumer in forming a brand image, which is the perception a person has of a particular brand.

vii. Branding helps segment markets by creating tailored images. By using two or more brands, multiple market segments can be attracted.

viii. For socially-visible goods and services, a product's prestige is enhanced via a strong brand name.

ix. People feel less risk when buying a brand with which they are familiar and for which they have a favorable attitude. This is why brand loyalty occurs.

x. Cooperation from resellers is greater for well-known brands. A strong brand also may let its producer exert more control in the distribution channel.

6.5 PACKAGING

6.5.1 INTRODUCTION

Packaging is the part of product planning where a firm researches, designs, and produces package(s). 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. The physical container may be a cardboard, metal, plastic, or wooden box; a cellophane, waxpaper, or cloth wrapper; a glass, aluminium, or plastic jar or can; a paper bag; styrofoam; some other material; or a combination of these. Products may have more than one container: Cereal is individually packaged in small boxes, with inner waxpaper wrapping, and shipped in large corrugated boxes; watches are usually covered with cloth linings and shipped in plastic boxes. The label indicates a product's brand name, the company logo, ingredients, promotional messages, inventory codes, and/or instructions for use. Inserts are (1) instructions and safety information placed in drug, toy, and other packages or (2) coupons, prizes, or recipe booklets. They are used as appropriate. About 10 percent of a typical product's final selling price goes for its packaging. The amount is higher for such products as cosmetics (as much as 40 percent or more). The complete package redesign of a major product might cost millions of dollars for machinery and production. Packaging decisions must serve both resellers and consumers. Plans are often made in conjunction with production, logistics, and legal personnel. Errors in packaging can be costly.

Package redesign may occur when a firm's current packaging receives a poor response from channel members and customers or becomes too expensive; the firm seeks a new market segment, reformulates a product, or changes or updates its product positioning, or new technology is available.

DEFINITION

Packaging has been defined as follows:

1. Philip Kotler: "Packaging includes the activities of designing and producing the container or wrapper for a product."
2. William J. Stanton: "Packaging is a general group of activities, which concentrate in formulating the design of a package, and producing an appropriate and attractive container or wrapper for the product."

Packaging includes the activities of designing and producing the container for a product. The container is called the package, and it might include up to three levels of material. Old Spice aftershave lotion is in a bottle (primary package) that is in a cardboard box (secondary package) that is in a corrugated box (shipping package) containing six dozen boxes of Old Spice.

Developing an effective package for a new product requires several decisions. The first task is to establish the packaging concept : *defining what the package should basically be or do for the particular product.* Decisions must now be made on additional elements—*size, shape, materials, colour, text, and brand mark.* Decisions must be made on the amount of text, on cellophane or other transparent films, on a plastic or a laminate tray, and so on. Decisions must be made on "tamperproof" devices. The various packaging elements must be harmonized. The packaging elements must also be harmonized with decisions on *pricing, advertising, and other marketing elements*. After the packaging is designed, it must be tested. Engineering tests are conducted to ensure that the package stands up under normal conditions; visual tests, to ensure that the script is legible and the colours harmonious; dealer tests, to ensure that dealers find the packages attractive and easy to handle; and consumer tests, to ensure favourable consumer response. Developing effective packaging may cost several hundred thousand dollars and take several months to complete.

6.5.2 Basic Packaging functions

The basic packaging functions are *containment and protection, usage, communication, segmentation, channel cooperation, and new-product planning:* Packaging functions range from containment and protection to product planning.

- ***Containment and protection***—Packaging enables liquid, granular and other divisible products to be contained in a given quantity and form. It protects a product while it is shipped, stored, and handled.
- ***Usage***—Packaging lets a product be easily used and re-stored. It may even be reusable after a product is depleted. Packaging must also be safe for all, from a young child to a senior.
- ***Communication***—Packaging communicates a brand image, provides ingredients and directions, and displays the product. It is a major promotion tool.
- ***Segmentation***—Packaging can be tailor-made for a specific market group. If a firm offers two or more package shapes, sizes, colors, or designs, it may employ differentiated marketing.
- ***Channel cooperation*—**Packaging can address wholesaler and retailer needs with regard to shipping, storing, promotion and so on.
- ***New-product planning***—New packaging can be a key innovation for a firm and stimulate sales.

6.5.3 Benefits of Effective Packaging

- **Protection of Product:** To protect the product is the main benefit of packaging for the producers. It protects the product and its contents on the on the route from the producers to the consumers. It minimizes the effect of water, cold, heat light and passage of time, etc. Thus, it prevents product from spilling spoilage, or evaporation.
- **Essence for Liquid Product:** liquid products, like milk, ghee, syrup, mineral water, acid, petroleum products and so forth, cannot be stored or distribute without package. So, packaging is almost indispensable for liquid products.
- **Easy Handling:** All the people involved in marketing the products, such as producers, warehouse-keepers, and middlemen, can handle or transport products with ease. It creates a lot of convenience in handing the products. Suitable size creates convenience in carrying and selling the product.
- **Low Cost of Transportation:** Naturally, packing reduces costs of transportation. A suitable package can avoid wastage/ damage during transportation. Also, quality or ingredients can be protected. Suitable packaging facilitates a large number of units and/or more weight to transport. These all facilities offered by the packaging can result into low costs of transportation, and ultimately, low selling price.
- **Effective Storage:** Most of the products cannot be stored without packaging. Producers and distributors can store the products to take benefits of the time utility by effective

packaging system. Minerals vitamins, smell, taste, colour, etc., can be preserved during storage.

- **Standard Weight:** Packing assures quality and standard weight of product Weight printed on the packing reduces task of seller to weigh the product. He can sell the product easily.
- **Aid in Selling:** Packaging can positively contribute in selling the product. It creates a good image of the product. An appropriate package performs a lot of tasks of sellers. It is a powerful aid to sell the product. It induces immediate buying decision.
- **Convenient for Sales Promotion:** Packing is a powerful sales promotion technique. A seller can put gifts inside the packing; He can highlight special offers on the packing. Samples, coins, extra product, additional parts, and many other such incentives can be conveniently placed inside the packing,

6.6 SERVICE MARKETING

6.6.1 The Nature of Services

Service industries are quite varied. The government sector, with its courts, employment services, hospitals, loan agencies, military services, police and fire departments, post office, regulatory agencies, and schools, is in the service business. The private nonprofit sector, with its museums, charities, temples, mosques, colleges, foundations, and hospitals, is in the service business. A good part of the business sector, with its airlines, banks, hotels, insurance companies, law firms, management consulting firms, medical practices, motion-picture companies, plumbing repair companies, and real estate firms, is in the service business. Many workers in the manufacturing sector, such as computer operators, accountants, and legal staff, are really service providers. In fact, they make up a "service factory" providing services to the "goods factory." A service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. Services are also popping up on the Internet. A little surfing on the Web will turn up virtual service providers. "Virtual assistants" will word process, plan events, and handle office chores online consultants will dispense advice by e-mail.

6.6.2 Categories of Service Mix

A company's offering to the marketplace often includes some services. The service component can be a minor or a major part of the total offering. Five categories of offerings can be distinguished:

- **Pure tangible good**: The offering consists primarily of a tangible good such as soap, toothpaste, or salt. No services accompany the product.
- **Tangible good with accompanying services**: The offering consists of a tangible good accompanied by one or more services. Levitt observes that "the more technologically sophisticated the generic product (e.g., cars and computers), the more dependent are its sales on the quality and availability of its accompanying customer services (e.g., display rooms, delivery, repairs and maintenance, application aids, operator training, installation advice, warranty fulfillment).
- **Hybrid**: The offering consists of equal parts of goods and services. For example, people patronize restaurants for both food and service.
- **Major Service with accompanying minor goods and services**: The offering consists of a major service along with additional services or supporting goods. For example, airline passengers buy transportation service. The trip includes some tangibles, such as food and drinks, a ticket stub, and an airline magazine. The service requires a capital-intensive good—an airplane—for its realization, but the primary item is a service.
- **Pure service:** The offering consists primarily of a service. Examples include baby-sitting, psychotherapy, and massage.

DEFINITIONS

We can define term "service" as under:

1. Philip Kotler: "A service is any activity or benefit that one can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product."
2. The American Marketing Association (AMA): "Services are activities, benefits, or satisfactions which are offered for sale or provided in connection with sale of goods."
3. William Stanton: "Services are separately identifiable, intangible activities which provide want satisfaction when marketed to consumers and/or industrial users and which are not necessarily tied to the sale of a product or another service."

6.6.3 CHARACTERISCTICS OF SERVICES

A pure service has a set of distinctive characteristics that differentiate them from pure goods or product manufacturing companies in ways having implications for marketing. These characteristics include intangibility, inseparability, perishability and inability to own a service.

- **Intangibility:** a pure service is difficult to assess through any of the physical senses. It is a bundle of abstractions, which cannot be assessed before it is owned. The intangible characteristics that define services include reliability, care and empathy. Attentive behavior of servicing staff can be verified only after the service is purchased and during consumption. Measurement of service quality is comparatively difficult in pure service cases. Products in the store have tangible, standardized, physical evidence through which they can be evaluated. In contrast to this, benchmarks for the services are embedded in the consumer's mind and have to do with the service provider's image. Intangibility implies lack of physical evidence, which brings uncertainty in the minds of the consumers while making a decision. So, an important task of any service marketer is to create physical evidence to reduce uncertainty levels in the minds of the consumers.
- **Inseparability:** Services cannot be separated from the source. The production and consumption of goods are two separate activities. Services are rendered by their producer only for e.g. doctor's services to patients. Thus, service provider is part of the service. Both client and provider affect the outcome of the service.
- **Perishability:** Obviously, services cannot be stored. If it is not rendered, it is wasted. For example, marketing consultant's time and energy are wasted if he remains free. That is why service firms face difficulty when demand fluctuates. Several strategies can help minimize the degree of perishability.
- **Inability to own a service:** This characteristic of not owning a service emanates from the characteristics of intangibility and perishability. The buyers can acquire a title of goods in a transaction process and continue to do so when they wish. On the other hand, when the service is performed, no ownership is transferred from the seller to the buyer.

6.6.4 ELEMENTS OF SERVICE MARKETING MIX

Marketing mix for good or service, more or less, has same elements; only contents and reference of each of the elements differ. Let's examine marketing-mix elements for a service.

- **Product Mix:** Service is an intangible product. Here, service is considered as, product. Various services, schemes, plans (for example, cell phone and insurance industry), facilities, constancy, and so forth are products of service providers. Branding, guarantee, after-sales services are also applicable. Unlike tangible product, a label cannot be directly attaches with product. The label, in form of description or explanation, describes service conditions and qualities. Packing and packaging are not applied in direct form. Regularity, reliability, consistency, continuity, positive response/behaviour, relation building, responsiveness (attentiveness), assurance, empathy, convenience, presence of physical supporting facilities, and so forth are important qualities of service product.

- **Price Mix:** Charge, fee, commission, or rate that service provider charges can be referred as price for the service. Discount, concession, special offer, etc., are also applicable in-service marketing. Pricing objectives, price setting methods, factors, pricing policies, etc., are key aspects while setting price for the service.
  Promotion Mix: Service promotion decisions are almost identical to physical product. Market communication is more crucial in-service industry. A firm must design its communication network systematically to help customers access the services. Most service providers have their websites to serve customers better. Banking, software, insurance, cell phone, brokerage, travels, hotels, and other service sectors provide online services. Compared to tangible products, the Internet is excessively used in service industry to promote and distribute services. Advertising, personal selling, sales promotion, and publicity and public relations can be applied to service industry with or without little variation. Service promotion strategies are almost identical to physical product difference lies only in types of offers.
- **Place Mix:** Physical distribution and channel of distribution decisions are somewhat different in-service industry because of absence of physical entity of product. Branches, agents, sales executives, service centers, etc., can be said as middlemen for service marketing. Company must open the adequate number of branches or offices at several places so that customers can easily access services. Logical and systematic physical arrangement of various counters or tables in the office, and deployment of trained staff play crucial role in offering of services conveniently. Services are rendered by employees/people. So, more emphasis is given on recruitment, training. Behavior, and motivation of employees. Market logistics system can be applied to services, too.

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SEMESTER II

COURSE: MARKETING MANAGEMENT

UNIT 7 – OBJECTIVES AND METHODS OF PRICING

STRUCTURE

7.0 Objectives

7.1 Introduction to Pricing

7.2 Importance of Pricing

7.3 Objectives of Pricing

7.4 Methods of Pricing

7.5 Pricing Strategy

7.6 Adjustment Strategies in the Pricing Objective

7.7 Conclusion

7.8 Test you understanding - c

7.9 Let us sum up

7.10 Key terms

7.11 Review questions

7.12 Answers to review questions

7.13 Further readings

7.0 OBJECTIVES

After studying the Unit, students will be able to

- What is Pricing
- Basic Pricing Concepts
- Importance of Pricing
- Objectives of Pricing
- Methods of Pricing
- Pricing Strategy
- Adjustment Strategies in the Pricing Objective

7.1 INTRODUCTION TO PRICING

The second element of the marketing mix i.e. 4P's is Price. Price is a significant element in the marketing mix. In the marketing mix, price has its own place which determines a customer's payment to acquire a product (Riaz & Tanveer, n.d.).

- Price is the exchange value of a good or service in terms of money.
- Price of a product or service is what the seller feels it is worth, in terms of money, to the buyer.

- Price of product or service is number of monetary units a customer has to pay to receive one unit of product/service

Any item is worth only if the buyer of the item is willing to pay a price for it. In the ancient society, the barter price may be determined by trading a good for another commodity. A horse may be worth 100 silver coins; 10 Mangoes may be worth 5 kilograms of wheat. The advanced and developing societies use money for trade. But in whichever case, the price of a good is its exchange value in terms of money or product. Customer will buy product/service if perceived value is greater than price. Price is the most effective driver of profit.

To understand the concept of price, one must have the correct understanding or the meaning of the words costly, expensive,cheap and bargain. On many occasions, many people use these words alternatively without considering that if these words are used wrongly then they are making a big mistake.

These words can be elaborated as:

1. Costly: The product is costly when the customer has paid a high price for a product and is dissatisfied and unhappy as regards to the price paid for the product.

2. Expensive: The product is expensive when the customer has paid a high price for a product and is fully satisfied and happy as regards to the price paid for the product.

3. Cheap: The product is cheap when the customer has paid a very low price for a product and feels that the price paid by him is just adequate and would not like to pay in any circumstances more than the price paid.

4. Bargain: The product is a bargain when the customer has paid a very low price for a product and feels that the price paid by him is a lesser amount than the actual price of the product.

7.2 IMPORTANCE OF PRICING

Price is one of the most important elements of the marketing mix for an company. It is the only element (4P’s) that generates revenue, the other 3 elements i.e. Product, Place and Promotion involve costs or expenses. It is an important tool in the marketing of an company to fight with the competitors. Price is highly distinguishable to the customers and thus it considerably affects the decision of the customers to buy a product or service. It enables to make a distinction of a product or service from the one offered by other companies with similar characteristics. It is a reason that directly decides the size of sales. So Price determines the potential of the product, acceptability of it by the customers and profitability the product will generate. It is a tool used by companies to face the competition. Pricing can have very major consequences for any company. It is one of the primary considerations for many customers and it establishes the profit margin on the various products offered by the company. Price is the most changeable feature of the marketing mix. Prices can be changed quickly, as compared to other three elements of the 4p's i.e. product, place and promotion. The changes in design of the products or distribution of products are a time consuming task. Similarly changing the advertisements or promotional activities may take a very long time to be implemented. But price is very flexible and can be altered according to the requirements of the situation. The wrong price decision can bring about the downfall of a company. It is extremely significant to fix prices at the right level after sufficient market research and evaluation of factors like competitors' strategies, market conditions, cost of production, etc.

In the initial stage a low price may attract customers, but it becomes very difficult for the company to increase the price in future. Similarly, if a very high price is fixed it will generate high profit margins, but it may also get lesser sales. So to maintain equilibrium between profits and sales volumes, it is very important to fix the correct price.

Price is first factor a customer observes about a product. While the final buying decision may be taken by the customer on evaluating the overall benefits presented by the product, but the customer will always compare the price of the product with the perceived value in making the buying decision. It is only after knowing the price of the product, the customers then finds out about the other product qualities. If a product is very highly priced, then the customer may not like to know anything more about the product. But if the customer feels that the product is affordable, then he would definitely try to get additional information. Therefore price is a decisive factor that influences the final buying decision.

Price is the most flexible component of (4P's) of the marketing mix. In case of products whose demand in the market is price sensitive, then a little reduction in price will generate a higher sales volume. However prices should not be changed too frequently to influence sales volume.

In case the increase in input costs is passed onto the customer by the way of a price increase and other companies are providing lower price attractive alternatives, the company may lose the customer. But if the price is not increased to incorporate the increased input costs, the company then incurs a loss. The challenge of managing the price is moreover higher when the company finds out that there are other companies in the industry that operate more efficiently and are able to control the prices.

Inflation influences price in two ways:

(i) It reduces the purchasing power and hence the customer searches for low priced products as substitutes.

(ii) It increases a company's cost because of the high cost of inputs, thus influencing the increase in the price of the product.

Even though in recent times there has been a change in buyer behaviour in the customer decision process as the non-price factors are now also playing a role, but price is still the most important factor that impacts the buyer's decision. So, only the correct pricing strategy can facilitate the company to achieve its goals. Price can be easily altered and is very flexible thus helping the companies to take action quickly to absorb the changes in the marketplace. Price if used as a differentiating factor can distinguish the product of the company from other products offered by other companies in the same category. Price is also often changed in order to target customers according to a particular segment. We as the customers take price for granted as it is assumed that whatever the seller tells us, we have to pay that but price is a very significant factor.

The entire economy of any country depends on the price. It is the price which decides trade and the country's economy is dependent on the trading activity.

Profit is the basic objective of any company and it directly depends on the product's price.

Price is very important and by fixing a logical price a seller can overcome competition if the price seems to be offering value for money.

A company has to price properly because numerous factors such as the demand, the profit, the market share, the competition etc. depend on the price. The price adjustments form a part of sales promotion as a lower price (discounts offered) in the short term stimulates sales of the product.

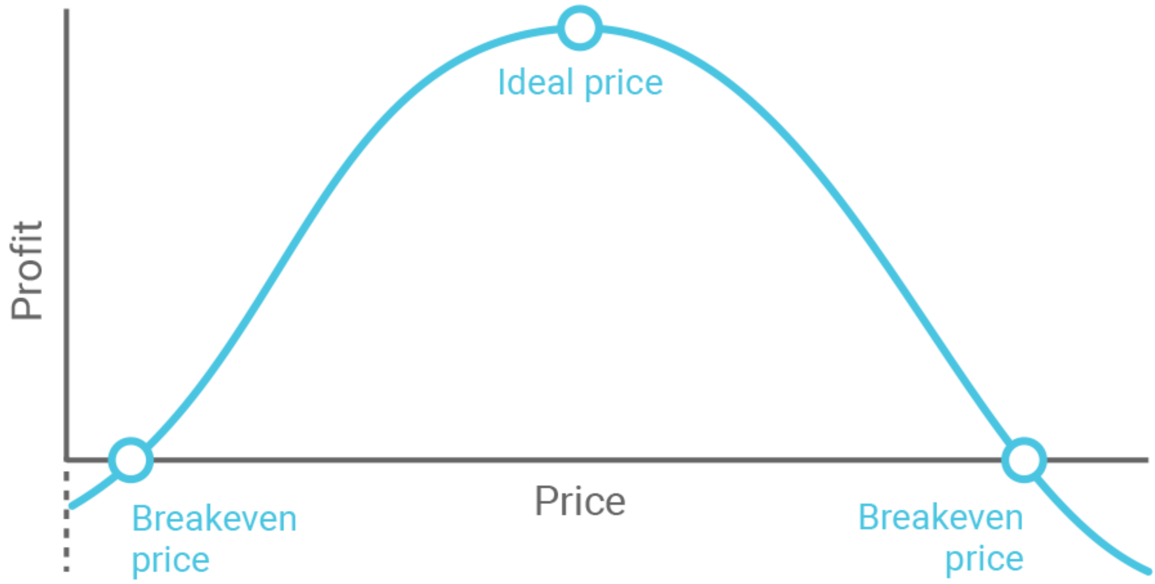

Figure 1 Effect of price on profit

As you raise your price (moving left to right), your profitability goes up—to a point. It's at the point where you've raised your price by too much that your profitability goes down. Source: Eric Dolansky

For marketers' price is the most easily adjustable factor in comparison of all marketing decisions. The decisions regarding the product change and change in methods of distribution can take months or years, or some forms of advertising like newspaper, television, radio advertisements can be time consuming to alter whereas price can be changed very quickly. Price may influence some customers to develop a perception about the product quality. For these customers, the higher the price the better quality the product is and vice-versa. Therefore, it is very important that the right price must be fixed according to the desired customer perception for the product. Fixing a wrong price may also draw legal complications. Therefore, a seller has to take into consideration all these factors also while determining the price. So, Price finally determines the future of any product, acceptability by the customers and profitability which can be generated by the company from the product. It is an important tool to face the competition in the market.

7.3 OBJECTIVES OF PRICING

Pricing decisions helps marketing to achieve certain objectives. Multiple pricing objectives for various products are a common feature in many companies. Pricing objectives may vary from company to company. Many companies attempt to maximize their profits by offering very high pricing for their products while some may use attempt to attract new business by offering low prices for their products.

Pricing objectives can be divided in 3 basic categories as given below:

1) Profitability objectives which includes Profit Maximization

2) Volume objectives which includes Market Share Goals

3) Other objectives which includes social and ethical considerations, status quo and image goals.

1) **Profitability Objectives:** In pricing strategy most companies have some type of profitability objective to achieve the company goals.

   Profit = Revenue — Expenses

   Revenue= selling price * quantity sold

In order to maximize profits some companies increase their prices to the point which leads to a disproportionate decrease in the quantity i.e. number of units sold. For example 10 percent increase in price results in only 7 percent decrease in the quantity sold leads to increase in profitability or becomes profitable. But if a 5 percent increase in price reduces the quantity sold by 7 percent then it leads to decrease in profitability or is unprofitable.

Profit maximization is the foundation to a large extent of economic theory. However, it is often not easy to apply in practice and several companies have decided to have a simpler profitability objective—the **target return goal**. For example, a company may decide the goal of a 24 percent return on investment or may be an 8 percent return on sales. Generally the companies have target return pricing goals that declares the desired profitability in terms of a return on either investment or sales

2) **Volume Objectives -** Another method of pricing objective is **sales maximization**, under which the company sets a suitable smallest amount level of profitability and thus tries to maximize sales by offering low prices. Sales growth is considered as being more significant than profits in the short run so as to achieve a better competitive position in the long-term for the company. A second volume objective is the **market share** which can be defined as the percentage of a market controlled by a company in terms of the product offered. Some

company may want to achieve a 25 percent market share among all other competitor companies in their specific industry. Another company may want to maintain or increase its market share for a particular product by offering lower price. Volume objectives have been accepted for a number of reasons by the companies. The most important reason is the ease with which managerial and corporate performance of a company can be measured by using market share statistics as a benchmark. Another reason is that increased sales by the company leads to lower production costs and may generate higher profits. For example it will be cheaper to manufacture 10,000 pens than it is to produce 500 pens and selling those 10,000 pens with reduced price may lead to a huge increase in market share.

3) **Other Objectives -** Objectives which are not related to profitability or sales volume like social and ethical considerations, status quo objectives, and image goals are frequently used in pricing decisions. Social and ethical considerations play a very important role in some pricing circumstances. For example, the price of some products is based on the intended customer's capacity to pay. Many companies have status quo pricing objectives: That is, they are inclined to follow the market leader. These companies try to find steady prices that will permit them to put their competitive efforts into other domains such as product design or promotional activities. This situation is mostly present in oligopolistic markets. For example pricing of Mobile tariffs are now similar of all operators lie Reliance Jio, Vodafone, Airtel etc.

The objective of pricing has to be decided by the company before actually setting price. According to experts, pricing objectives can also be considered as the overall goals that describe the role of price in a company's long term plans. The objective decided by the company helps the marketing department as guidelines to formulate marketing strategies.

The important pricing objectives can be further classified as:

1. Market penetration
2. Market skimming
3. Target rate of return
4. Price stabilization
5. Meet of follow competition
6. Market share
7. Profits maximization
8. Cash flow

9. Product line promotion
10. Survival

1. **Market Penetration Objective**

In the initial stages of entering the market to secure a large market share, the company may set a fairly low price. In case of a highly price sensitive market, the company may continue to sell its products even without any profit. The main objective is growth to a certain extent in rather than making a profit. To achieve the market penetration objective, the unit cost of production and distribution decreases when the volume of sales is above a particular target. In brief, market penetration objective is an effort to achieve a large market share by intentionally setting low prices. It is most suitable when

- Demand is expected to be very elastic; means the customers are price sensitive and the demand for quantity will increase considerably as price reduces.
- Huge decreases in cost are expected as sales volume increases.
- The nature of the product is that can grow its mass appeal very rapidly.
- There is a threat of existing competition and in the near future.

3. **Market Skimming Objective**

Market skimming Objective utilizes the market opportunities available to reap the benefits of high volume sales, increased profits and low per unit costs. In this case some companies study the buyer's needs and try to provide the suitable products and in return charge the high price. This objective is realized in those markets where the extent of competition is not there or is very low. In this situation the company can make profits over a short period till a similar product may be offered by the competition. The market-skimming objective becomes insignificant, when the customer refuses to purchase the products at the prices fixed by the company. This pricing objective is suitable only in the markets where the customers believe that costly products are also offering the superior quality.

Market skimming is most suitable when:

- Demand is expected to be relatively inelastic; means, the customers are not highly price sensitive.
- Huge cost savings are not expected at high sales volumes, or it is complicated to predict the cost savings that would be achieved at high sales volume.

3. Target Rate of Return Objective

Rate of return is usually measured in relation to investment and sales. The companies enjoying some protection in the market may have a preference to earn a target rate on investment. This would be possible where the company enjoys a brand franchise or is in a monopolistic situation. In the long term, every company endeavours to achieve an adequate return on investment through fixed price setting. The middleman like wholesalers, retailers of the company will adjust price of the products to earn a fixed rate of return on sales.

4. Price Stabilization Objective

The long-term interests of the companies are harmed with frequent price changes of product. Hence every company would aim at price stabilization of products. They do not take advantage of a short supply situation by increasing the price to earn the more profits. During the time of good business or huge sales, the companies try to ensure that prices are not raised much and during the time of depression or poor sales, they ensure that prices are not falling too low. Thus, a long-term view to achieve price stability is the major objective.

5. Meet or Follow Competition Objective

Pricing is often fixed to meet or prevent competition. If a company exits which is a price leader, it is better to follow it with similar price to ward off the possibility of competition and thus reducing profitability.

6. Market Share Objective

A company may either have the objective of maintaining the existing market share or increase its market share depending upon its position and the existing competition. The big companies normally adopt such pricing that it allows them to maintain their market share. If there is a raise in the market share of the company, it may draw the attention of the government for tax implications and if the market share gets reduced then it may lead to revenue loss. The small companies are normally interested in raising the market share so as to obtain the benefit of large-scale production. In few cases, small companies may also sell the products at a lower cost to capture the market share. However it may lead to a financial disaster in the company. In fact, the new companies should adopt this objective rather very cautiously.

7. Profit Maximization Objective

Profit maximization does not mean only profiteering. If this objective is practiced in the long term, then there is nothing wrong in this policy as many companies strive to maximize their profits. Maximization of profits should be on the total output produced by the company and not on a single product. The customers of these companies do not get dissatisfied since a particular segment of customers are not paying a high price for a particular product. In order to adopt this pricing objective, the marketers should use the sales promotion techniques to project a better brand or product image in the market. The marketers should continuously monitor the reactions of the customers. Profit maximization through price hikes should be sparingly used. For example Maggi and Parle G biscuits have been having a similar price for years but the weight is reduced to reduce the costs and maintain the profit maximization objective

8. Cash Flow Objective

One of the very important objectives of pricing is to recover the invested funds within a predetermined period of time so as to achieve breakeven. In this case most of the time the customer will find different prices for the cash and credit transactions. Normally, there are lower prices for cash sales and high prices for credit sales. When the company has a monopoly in the market only then this pricing objective can be implemented with good results.

9. Product Line Promotion Objective

Product line means a collection of products that are related either as they satisfy similar needs of different market segments or as they satisfy different but related needs of a particular market segment. The intention of the company is to push through all the products without any discrimination. So the company may also include products, which are not popular in developing the product line. Thus, the final objective is to increase the overall demand of the products. In this pricing objective, equal prices are adopted for the entire product line.

10. Survival Objective

Perpetual existence of the company over a period is the indication of the sound financial health of the enterprise. All companies may have to face expected and unexpected, initial and external economic losses. These companies have to pool up the resources to meet all the unforeseen events through suitable pricing strategies. Price is used to increase sales volumes to cover up the ups and downs that the company may face due to these situations and try to survive.

7.4 METHODS OF PRICING

Pricing is such an exercise that under pricing results in loss and over pricing results in lowers sales volumes and will make the customers run away. To determine pricing in an effective and scientific manner, we need to understand the various pricing methods.

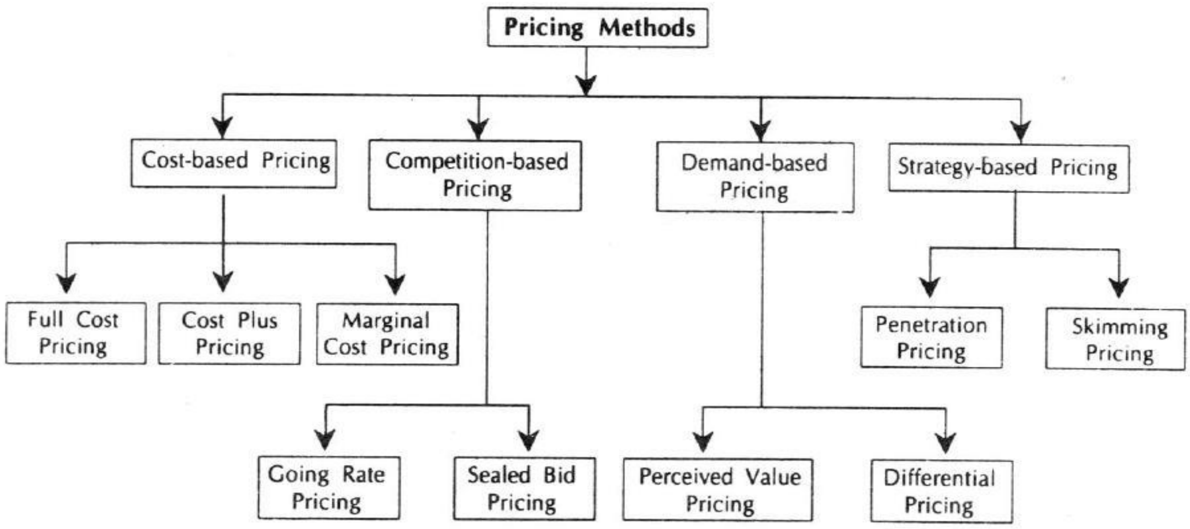

Figure 2 Pricing Methods

i. COST- BASED PRICING METHODS:

Cost-plus pricing

Cost-plus pricing is the simplest pricing method. The company computes the cost of producing the product and adds profit (a percentage of the cost)) to that cost to determine the selling price. This method is although simple but it has two defects; it does not consider the demand of the product and there is no way to determine whether the prospective customers will purchase the product at the determined selling price.

There are two ways to determine, first, full cost pricing that takes into consideration both the variable and the fixed costs and adds a % profit. The other is direct cost pricing which are variable costs plus a % profit, the second is only used in the phase of high competition as this method generally leads to a loss in the long term.

So here the prices are repeatedly based only on the cost of production. For example, the price of petrol or diesel in India is determined based on the cost of crude oil in the international markets.

The normal components of costs are:

i. Variable cost – It consists of direct materials and direct labour and consumables. These are directly calculated for each unit of product.

ii. Fixed costs – It consists of employee costs, marketing costs including advertising and sales promotion and distribution costs. These are not directly attributable to the product but have to be incurred nonetheless.

iii. Financial costs and profits – It consists of depreciation, interest, and return on investment.

The typical situations under which prices are based on costs are:

When the product or service is introduced for the first time in the market and there are no other references for fixing of the price. For example, when mobile phones service was first started in India, the initial prices were based on the mobile operator's costs, expected number of users, and the anticipated return on investment (ROI). Thus, the Cost-plus pricing was used.

When the competition in the market is limited to one or two companies. Cost- based pricing allows the companies to make sufficient returns and companies are also hopeful to achieve the target returns. This condition of 'live and let live' continues until either fresh competition enters the market or the companies recognize that the present pricing policy is not enabling growth and realize higher returns in the end. The cost-based pricing system continued in the mobile operator circles till the time only two operators were operating in each area.

Limitations of cost-based pricing:

i. Estimation of variable cost of a product or a service is very difficult. For example, in the case of the service provided to a customer in a hotel room or the cost of a passenger using airline or railway service, the variable cost is very difficult to measure. So without having proper reference to the variable cost, the total cost estimation may become even more difficult.

ii. The utility of services incurring the same costs may not be the same for the customer. For example, changing of the zipper of a trouser and changing of the zipper on a small cloth handbag may involve the same effort on the part of the worker. In the case of trouser, if the cost is Rs. 50 the customer would pay this happily, while in the case of handbag, the customer may think this to be too much, because the cost of the trouser was Rs. 1000 while that of the handbag was Rs. 150 only. Thus the service provider may be able to charge even Rs. 100 in the case of a trouser but not more than Rs. 25 in any case for a handbag.

iii. While the service provider may be aware of the cost structure, the customers may not be aware of it; hence, the customers may be hesitant to paying the price. For example, in a city there may be an expensive shopping centre very near the bus stand. It may costs Rs. 10 to park a car at the Bus Stand; it may cost Rs. 50 to park the car in the basement of the shopping centre. For many customers, it does not make sense to pay more price for the same service, while for the parking lot contractor; this is the minimum that he can charge in order to pay the monthly lease amount to the shopping centre.

Marginal cost pricing

In this method the selling price is fixed so that it covers fully the variable or marginal cost and also contributes to the recovery of fixed costs either fully or partly, depending upon the market conditions. This is also called Break-even pricing. Companies often use this as a method to determine the minimum sales volume needed at a certain price level to cover all costs. Companies can use breakeven analysis to calculate the profits or losses that would result from different proposed prices. As different prices will create different breakeven points, the calculations of sales volume as per each price is necessary so that the break even values could be compared with estimated sales obtained from other marketing research studies done by the company. This comparison will help to identify the most appropriate price, one that would attract enough customers to go over the breakeven point and earn profits for the company.

ii. COMPETITION – ORIENTED PRICING

- **Sealed bid pricing:** In sealed bid pricing, the companies submit bids in sealed covers for the price of the product/service or the work to be done. The government and other public agencies normally solicit price quotes to guarantee objective consideration of competitive bids. Interested vendors are formally notified in advance of the request for a bid as per the procedure and the vendors must meet a bidding deadline as well as fulfill the stringent bid format conditions prescribed in the bid. Sometimes these sealed bids are opened publicly at a specified informed time in the presence of all the bidders. The work order is awarded to the lowest bid after analyzing the complete bid documents.

- **Going Rate Pricing:** Going rate pricing is another type of competitive pricing. This is used in a situation when there are a large number of competitors, or when a new entrant comes into the market, usually the price cannot be decided by the new entrant or any single provider. The competition is very intense and there are hardly any factors to differentiate the product or service. Eg. When someone wants to buy or sell gold, the prevailing market rate at that time used to determine the price.

iii. DEMAND ORIENTED PRICING

Demand oriented pricing rules involve determination of prices according to the customer preference and the amount of demand. Thereby if the seller wishes to sell more than the price of the product needs to be reduced and if seller wants a good price for the product, then only a limited quantity of the product can be sold.

- **Perceived value pricing:** In perceived value pricing method, prices are decided on the basis of the buyer's perception of the value of the product. The company need to find out the buyer's perceptions of value of the product and not the cost incurred by the seller as the key indicator of pricing.
- So the company must develop procedures to determine the pricing rule for measuring the relative value of the product as per customer's perception.
- **Differential pricing:** Differential pricing is charging different prices to different customers for the same quality and quantity of product. In may also involve selling a product or service for different prices in different market segments. Price differentiation depends on geographical location of the customers, type of customer, purchasing quantity, season, time of the service etc. E.g. mobile tariffs, railway tickets, Airline tickets etc

iv. STRATEGY BASED PRICING

- **Market skimming:** Skimming is the process of setting a high price normally for a new product to capitalize on high demand. Instead of fixing the prices on the basis of the competition, a skimming price comes from within the company and the (financial) value of the product. This strategy is usually employed in emerging markets, where some specific customers will always look for the latest and most advanced product available in the market. It sometimes also works well in a matured market, where customers after realizing the value of the product and are still willing to pay more. Unexpectedly, skimming sometimes also works in declining markets, as some brand associated customers are willing to pay more money for what they see as an old product but superior in quality with a diminishing supply. Products are always sold at higher prices. Skimming is commonly used in electronic markets when a new range of products, such as latest smart mobile phones are initially introduced into the market at a high price. This strategy is often used to target a particular category known as "early adopters" of a product or service.

- **Market Penetration:** Market penetration is emphasized on growth of the sales of existing products and services in the current market. This method is exactly opposite to the skimming method. In this method the price of the product is fixed very low so that the company can increase its market share, i.e. the company plans to attain profits with increasing sales volumes.

7.5 PRICING STRATEGY

Pricing strategy is helpful to understand varied purchase behaviour of different customers. Also, a high degree of demand and market uncertainty can generate more revenue. Price is the value that is put to a product or service and is the result of a complex set of calculations, research and understanding and risk taking ability. A pricing strategy takes into account various market segments, paying ability, market conditions, competitor actions, trade margins and input costs along with many other factors. It is targeted at the specified customers and existing or future competitors.

The primary objectives and best-suited strategies of a company help derive the Pricing decisions. The most commonly used pricing strategies are high and low price strategies, and adjustable pricing strategy. The high price strategy requires setting of the price of the product on the basis of the value as perceived by customers. Adjustable strategy classifies strategies like price discrimination strategy, price skimming, discount strategy, penetration pricing and yield management. Price discrimination strategy depends on customers' needs and the purchasing capacity. Discount strategy signifies discount sale which states that a set of items are sold at a discounted price for a limited period of time. Another pricing strategy is price skimming, where initially a product is sold at a high price but is the price lowered with time. On the opposite, penetration pricing refers to a setting where the initial price is lower and it increases subsequently and this type is focused on cost reduction over time and discouragement of entry of new competitors. Lastly, revenue management focuses on sales expectation as well as behaviour of the competitors to generate revenue (Dolgui & Proth, 2010). There are other strategies like product mix pricing strategy and price adjustment strategy. Product mix pricing strategy can further be categorised into many types like product line pricing, optimal product pricing, captive product pricing, byproduct pricing, product bundle pricing. Finally, price adjustment strategies can be of various types like discount pricing and segmented pricing. Companies can apply any of these strategies to achieve their pricing objective.

7.6 ADJUSTMENT STRATEGIES IN THE PRICING OBJECTIVE

The adjustment strategies in the pricing objective, companies may take up any one or more of the following pricing strategies with the factor of Discounts and Allowances

Discounted pricing involves that the seller offers reduced prices from the usual price, and it can be done in the following manner: by providing Cash, quantity, and trade discounts and by providing seasonal discounts and special allowances on bulk purchases or quantity discounts.

- Quantity discounts are rewards given to the customers who buy large number of items of a product.
- Trade discounts are the methods used by manufacturers to quote prices to wholesalers and retailers; they are the promotion margins given and not actual discounts.
- Seasonal discounts are offered to buyers willing to buy at a time which is the off- season or outside the normal buying season.
- Trade-in allowances are given directly to the buyer. Customers are offered a fixed amount of price reduction if they sell back an old model of the product they are purchasing for example Apple Iphone buyback offer or Laptops etc.
- Differential pricing strategy is charging different prices from different buyers for the similiar quantity and quality of product offered in the market.
- Negotiated pricing is ascertaining a final price through bargaining by the customer and agreed upon by the seller.
- Secondary-market pricing is setting one price for the primary target market and another for other markets like milk product of Verka have differ prices for Punjab and other sttes.
- Periodic discounting is offering a brief reduction of prices on a patterned or systematic basis for a few days etc. like Festive sales

- Random discounting is offering a temporary reduction of prices on an unsystematic basis like upto 50 percent off so products have different discounts.
- Price skimming is charging the highest possible price that the customers are willing to pay and belong to a special category that has a desire for the product.
- Penetration pricing is setting the price below those of the competitor brands to penetrate a market and generate the growth in the market share quickly.
- Product-line pricing is establishing and adjusting of the prices of multiple products within a product line.
- Captive pricing is offering a low pricing for the basic product in a product line while other related items are priced at a higher level.
- Premium pricing is offering a higher pricing for the highest-quality or most versatile products in comparison with the other models in the product line.
- Bait pricing is offering a lower pricing of an item in the product line with the intention of selling another higher-priced item in the line.
- Price lining is offering a limited number of prices for selected groups or lines of products of the merchandise.
- Psychological pricing is offering a price that attempts to persuade a customer's perception of price to make a product's price look more attractive.
- Reference pricing is offering a price for a product at a moderate level and positioning it next to a more expensive model of the same company or brand of a different company.
- Bundle pricing is offering a package of two or more complementary products together and selling them for price of a single product
- Multiple-unit pricing is selling for a single price for a package of two or more identical products together.
- Everyday low prices are offering a low price for some products on a consistent basis.
- Odd-even pricing is ending the price with certain numbers to influence buyers' perceptions of the price or product like Bata is 99 at the end
- Prestige pricing is offering a pricing at an artificially very high level to convey prestige or a high quality image.
- Price leaders are offering the products with a pricing below the standard mark up, near cost, or below cost.
- Special-event pricing is offering advertised reduced price linked to a holiday, season, or event.

- Comparison discounting is offering a price at a specific level and making visible comparison with a higher price.

Price adjustments are done with these above methods which can be used with any of the specific pricing strategies.

7.7 CONCLUSION

"Pricing is one decision that shouldn't be driven by accounting," says Dolansky. Pricing is one of the most flexible of the 4p's of marketing mix because pricing strategies and prices can be changed quickly. When considering fixation of the price, it is important to recognize that pricing is not for yourself, but for the target customers of the company .

Pricing strategy deals with the multiple factors that influence the setting of a price. Companies can offer prices as an addition to what cost they have incurred in developing, packaging and marketing the product. Knowing which pricing strategy works best for your company is an essential tool and can only be established by recognizing the lifecycle of your products.

Some of these pricing strategies can co-exist as your product evolves through its lifecycle in the market; some elements must coexist. You need an overall price strategy (e.g., cost-based or value-based), you need to determine generally how high or low the price will be (skimming and penetration pricing), and you need to respond to competitors (competition-based pricing).

7.8 TEST YOUR UNDERSTANDING

1. What is Pricing? What is its importance?

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2. Write a brief note on Cost-based pricing.

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3. What is Competition Oriented Pricing?

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4. Discuss in brief about Market penetration and Market Skimming.

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....

5. Define Pricing Strategy. Describe various strategies used in pricing.

....

....

6. Fill in the blanks:

a. A pricing strategy takes into account various segments, ability to pay, market conditions, competitor actions, trade margins and ________________

b. Two types of pricing strategies, _______________and ________________are used by companies in a competitive market.

c. Going rate pricing is another type of _______________pricing.

7.9 LET US SUM UP

- Price is a significant element in the marketing mix.
- Pricing can have very major consequences for any company. It is one of the primary considerations for many customers and it establishes the profit margin on the various products offered by the company.
- Price is the most changeable feature of the marketing mix.
- Various objectives of pricing are Market penetration, Market skimming, Target rate of return, Price stabilization, Meet of follow competition, Market share, Profits maximization, Cash flow, Product line promotion and Survival

- The pricing methods can be categorised into the following types- Cost based Pricing, demand-based Pricing, Competition Based Pricing and Strategy based Pricing.
- A pricing strategy takes into account various segments, ability to pay, market conditions, competitor actions, trade margins and input costs, amongst others. It is targeted at the defined customers and against competitors.
- The most common price strategies are high and low-price strategies, and adjustable strategy.

7.10 KEY TERMS

- **Cost-plus pricing-**It is the simplest pricing method. The company computes the cost of producing the product and adds profit (a percentage of the cost) to that cost to determine the selling price.
- **Variable cost** – It consists of direct materials and direct labour and consumables. These are directly calculated for each unit of product.
- **Fixed costs** – It consists of employee costs, marketing costs including advertising and sales promotion and distribution costs. These are not directly attributable to the product but have to be incurred nonetheless.
- **Financial costs and profits** – It consist of depreciation, interest, and return on investment.
- **Marginal cost pricing -** In this method the selling price is fixed so that it covers fully the variable or marginal cost and also contributes to the recovery of fixed costs either fully or partly, depending upon the market conditions. This is also called *Break-even pricing.*
- **Perceived value pricing:** In perceived value pricing method, prices are decided on the basis of the buyer's perception of the value of the product.
- **Differential pricing:** Differential pricing is charging different prices to different customers for the same quality and quantity of product.
- **Market skimming:** Skimming is the process of setting a high price normally for a new product to capitalize on high demand. This strategy is usually employed in emerging markets, where some specific customers will always look for the latest and most advanced product available in the market.
- **Market penetration:** It is emphasized on growth of the sales of existing products and services in the current market. In this method the price of the product is fixed very low so that the company can increase its market share, the company plans to attain profits with increasing sales volumes.

- **Pricing strategy:** It takes into account various segments, ability to pay, market conditions, competitor actions, trade margins and input costs, amongst others. It is targeted at the defined customers and against competitors.

7.11 REVIEW QUESTIONS

- What are the major pricing strategies?
- Which pricing strategy is best? Discuss with reasons and examples
- What is the simplest pricing strategy? Discuss with reasons and examples.
- What is pricing? Discuss its importance in the business decision making.
- What are the objectives of Pricing?
- Give a detailed note on the various Pricing Methods.

7.12 ANSWERS TO TEST YOUR UNDERSTANDING.

6 a. input costs

6 b. limit pricing, predatory pricing

6 c. Competitive

7.13 FURTHER READINGS

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SEMESTER II

COURSE: MARKETING MANAGEMENT

UNIT-8 REGULATION OF PRICES

STRUCTURE

8.0 OBJECTIVES

After studying the Unit, students will be able to

- Define the Meaning of Price Regulation
- Explain the Advantages and Limitations of Price Regulation
- Analyse the forms of Price Regulation
- Identify the role of Price Regulation mechanism in inflationary conditions.

8.1 INTRODUCTION TO PRICING AND PRICE REGULATION

Pricing is an important element of marketing mix and is not just a number on a tag. Moreover, in the digital world of today, pricing has shown a change in favour of a downward price pressure owing to the internet which has changed the way the buyers and sellers interact. In the process of price setting, either in the traditional market form or the digital one, the first step is deciding the price objective, determining the demand, estimating costs, analysing the competitor’s costs, price and offers, selecting a pricing method to finalise the price of the product/ service. The pricing methods could be chosen from any of the following: Mark-up pricing which is the most basic method wherein a standard mark-up is added to the producer’s cost; target return pricing is one where the firm determines the price that yields its target rate of return on investment; perceived value pricing , which is based on the customer’s perceived value of a number of inputs such as the buyer’s image of the product performance, channel deliverables, the warrant quality, customer support, attributes such as supplier’s reputation, trustworthiness, and esteem.(Kotler and Keller,2021). The sellers generally would not set a single price but would develop a pricing structure dependent upon geographical location, market segmentation, purchase timing, etc. Thus, making the companies respond to circumstantial change in prices. Not only this, the companies have to follow certain regulatory norms of the governments in concern leading to price regulations or controls. In the following paragraphs, the phenomenon of price regulation/controls will be elaborated upon.

Price regulation is the pursuit of quantitative controls on products to be sold in market as well as other stages in the production process. If there be a situation of economic emergency or there be monopolistic tendencies or some essential commodities pricing is concerned, there will be a likelihood of prevalence of price regulations. The phenomenon is supported on the basis of accessibility to everyone whereas it is opposed on the grounds of reducing innovation, creativity and economic growth.

The demand–supply conditions prevailing in the market generally determine the prices under the capitalistic economies where profit orientation is the prime motive; but herein too the governments tend to regulate the prices of essential commodities and services to avoid inflationary rise in prices.

For example, citing a news item from the Times of India dated May 21, 2022 the price regulation and its significance to society will be rather clear to the readers. “Key medicines priced over Rs 100 per unit, which enjoy some of the highest trade margins, have caught the attention of the regulators. These include anti-allergics, cough syrups and analgesics. Trade margins are the difference between the price billed to trade by manufacturers, and price to patients or maximum retail price (MRP). The drug price watchdog National Pharmaceutical Pricing Authority (NPPA) has launched an exercise to cap the huge margins that could range up to 1,000% in certain cases, jacking up the MRP for patients. The NPPA has found that the most expensive medicines — those priced over Rs 100 per tablet — had the highest trade margins, ranging from 50% to 1,000%. Trade margins on these non-scheduled drugs, which are not under price control, could be even higher in the absence of clear market data, and capping them could be a mode of price regulation, top government officials feel. In a meeting on Friday, the regulator discussed the position of the industry and stakeholders on the capping issue, besides the method and calculation to rationalise traders’ margins on these non-scheduled medicines, also called trade generics. The trade generics are supplied to traders and distributors directly, and not through medical representatives to physicians or hospitals, with massive margins offered as incentives to push sales. Large companies like Cipla, Alkem and Abbott have a sizeable exposure, in the Rs 700-2,000 crore range, from trade generics, mostly sold in semi-urban and rural areas. The ‘trade generics’ market is estimated to be around Rs 15,000 crore — about 10% of the total domestic pharma market. It is understood that industry associations like Indian Drug Manufacturers Association (IDMA) and Indian Pharmaceutical Alliance (IPA) are in favour of capping trade margins. While IDMA wants the exercise to be implemented in a phased manner, IPA is of the view that it should be done for medicines priced over Rs 100 per tablet. When contacted, both industry associations declined to comment on the issue. The Organisation of Pharmaceutical Producers of India (OPPI), representing the views of MNCs, feels that patented medicines should be kept out of the purview of the rationalisation exercise. Further, three organisations — Indian Federation Pharma Generics, Laghu Udyog Bharati and Federation of Pharma Entrepreneurs (FOPE) — opposed the move to fix margins. FOPE, representing small and medium scale drug manufacturers, said that rationalisation of trade margins will impact their business. Sources said the government is concerned about the growing trend of steep trade margins of as much as 1,000% that adversely impacts affordability of medicines. NGOs representing consumers and patients said there cannot be a 'one size fit all' approach, and it should be a graded structure — steeply priced medicines like cancer should have less margins. For years now, capping trade margins has been a long pending and controversial issue, with the regulator deliberating on the modalities of calculation, market size, therapies and implementation strategy. Earlier in 2016, the Sudhansh Pant committee had recommended capping trade margins for almost 95% of the market, but no action was taken on it." (From the news titled Drug price watchdog targets steep margins, The Times of India, May 21, 2022).

The Drug Price Control Policy 2012 can be accessed at https://www.nppaindia.nic.in/en/drug-policy/national-drug-policy-2012-2/ , and the list of notified prices can be accessed through the following link for further reference: https://www.nppaindia.nic.in/en/utilities/list-of-notified-prices/dpco-2013/ .

Another major recent development in this regard is about medical devices. "Prior to February 11, 2020, the Indian Government used to regulate the quality and safety of medical devices in a piecemeal manner. There were only 37 categories of medical devices and medical equipment's that had been notified as drugs under Drug Control Act, DCA. However, on February 11, 2020, the Government declared all medical device and medical equipment to be drugs in order to bring them under the fold of quality and safety regulation under DCA, effective April 1, 2020. There was a collateral impact of this decision of the Government on price and supply chain of medical devices and medical equipment. India regulates production, control and supply of all essential commodities through a law called the Essential Commodities Act, 1955 ("ECA"). 'Drugs' are regulated as an essential commodity under ECA. Therefore, the Government has power to regulate product control and supply of all drugs under ECA. In furtherance of the provision of ECA, the Government has notified a price control order for drugs called the Drugs (Prices Control) Order, 2013 ("DPCO"). On February 11, 2020, when the Government decided to regulate all medical devices and medical equipment by notifying them as drugs; it automatically subjected them to the provision of DPCO. The authority responsible for the administration of DPCO, the National Pharmaceutical Pricing Authority (NPPA), has already brought out a clarificatory order stating that the provision of DPCO will squarely apply to all medical devices and medical equipment." (https://arogyalegal.com/)

There have been very recent instances of the unions urging the government to intervene to regulate prices of commodities in the market. One such recent intervention is cited in the form of news clipping below:

"As the frequent surge in prices of paper sheets is taking a toll on the business of printing units in the city, the Trichy district integrated printers' union has sought the intervention of the government to regulate the paper prices. The union said the cost of raw materials, including ink and other chemicals required for printing units, has gone through the roof. A bundle of 500 papers that was sold at Rs 150 until three months ago is said to be sold at Rs 250 now. Similarly, the full-size paper sheet that was sold at Rs 1,200 per bundle about three months ago is now sold at Rs 1,900, the union said. As the cost of paper and ink is increasing with each passing day, the printing press operators lamented that they were unable to share the cost estimate with their clients for executing the orders. As the cost of work is initially quoted based on the day's price of the paper sheets, the operators said that the frequent increase in paper cost was affecting their profit margin. "Paper producers blame the surge in prices on the Ukraine-Russia war. As the prices of paper sheets increase every day, we are forced to execute the orders committed either for low profit or zero profit," K Mohan, secretary of the printer's union in Trichy, said. The operators have been printing wedding invitations, letter pads for local companies, forms and billing books for organizations, including nationalised banks." (From a news item in The Times of India, May 15,2022 titled 'Printers' union calls for regulating price of paper.')

The key element in such regulations is setting a price that guarantees a reasonable profit in order to avoid driving away those whose investments fund the utility's research and development components, keeping it competitive.

Price regulation is also imposed during times of emergency or financial volatility. During World War II, the United States and some other Allied nations-imposed wage and price controls for the duration of the war to keep the domestic economy stable and fight inflation. The ultimate effect of price regulation, though, is to reduce supply if the price is too low, thus increasing demand. This is the reason capitalist societies only regulate essential goods and services, and even then, they set the regulations to ensure that the producer earns a reasonable profit. (What is Price Regulation? By Dale Marshall, June 15, 2022).

8.2 FORMS OF PRICE REGULATION /CONTROLS

Price regulations/controls can take the form of maximum and minimum prices. Price controls can also be used to reduce the rate of inflation. As a phenomenon of economics, maximum prices can reduce the price of a product say food to make it more affordable, but the flip side of the coin is that a maximum price may lead to lower supply and a shortage (demand-supply equilibrium)

Minimum prices can lead to benefits to the producers in the form of price they receive. The concept of Minimum Support Price (MSP) is an example wherein 'minimum price' has been used in agriculture to increase farmers' income. However, the drawback in applying 'minimum prices' is that it may lead to over-supply and thus burdening the government have to buy surplus.

Price controls could help reduce inflation is another argument provided about the Price Regulation as such. For example, if inflation is 19%, the government may attempt to bring in price controls, where prices are allowed to rise by only 7%.

Price Regulations and inflation control

When inflationary tendencies are rising, the monetary authorities can set a legal price limit on the amount prices can rise. In theory, this will limit price increases and keep inflation under control without resorting to higher interest rates. If prices enhance due to monopoly power of firms or any other such reason, then setting price regulations/controls increases can ensure prices don't rise, without causing a shortage of the good. In case of increasing prices of inelastic goods, or during adversities of war regulation of prices can effectively reduce prices without reduction in supply. In India, mechanism to regulate the use of a patent and to rein in the perceived ill effects is "price control", a mechanism widely prevalent in Europe to ensure that drug prices are not excessive. Other mechanisms in this regard include compulsory licensing (under the Indian patent act, a compulsory license can be granted if the price of the patented drug is "excessive") and even competition law (where an excessive price may be seen as an "abuse" of a dominant position in the market). Price controls are best used for a specific time period and for specific goods and services, e.g. food, rent of houses, at the end of a way or in 2022 at the end of the Covid pandemic.

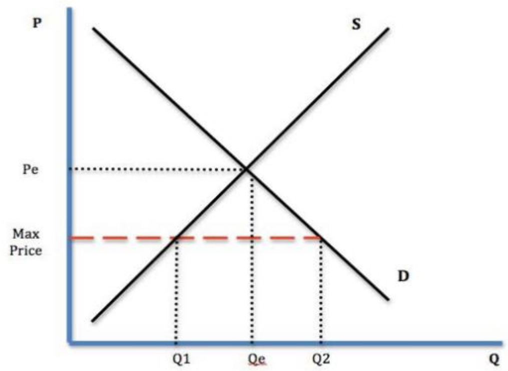
Problems with price regulations/ controls as a way to control inflation

Regulation/control of prices will not be sufficient measure to handle the basal cause of inflation as such. Price regulations would perhaps make the goods rather attractive if it is demand-pull inflation; and the shortage of goods may not be controlled through regulation of prices if inflation is cost-push in nature, thus the problems with price regulation/controls as away to control inflation could be in various forms like lack of incentive, shortages, wasteful activity as well as bureaucracy and interference. Also it may lead to black marketing and lower output.

Evaluation of price regulation/controls to deal with inflation

Maximum prices and pros/cons of maximum prices: A maximum price means firms are not allowed to set prices above a certain level. The aim is to reduce prices below the market equilibrium price. For socially advantageous goods, the concept of 'maximum price' is rather beneficial as it would lead to lower prices for the commodities.

In the figure below, the equilibrium price is Pe. A maximum price leads to demand of Q2, but a fall in supply to Q1. On the other hand, the negative aspect would be that it will lead to lower supply. If firms get a lower price, there may be less incentive to supply the good and the number



of properties on the market declines.

Figure 1: Maximum Price

Minimum Prices and pros/cons of minimum prices: prices are used to give producers a higher income. For example, they are used to increase the income of farmers producing food. The equilibrium price is Pe. A minimum price leads to an increase in supply to Q2, but fall in demand to Q1. Minimum prices encourage oversupply and are inefficient.

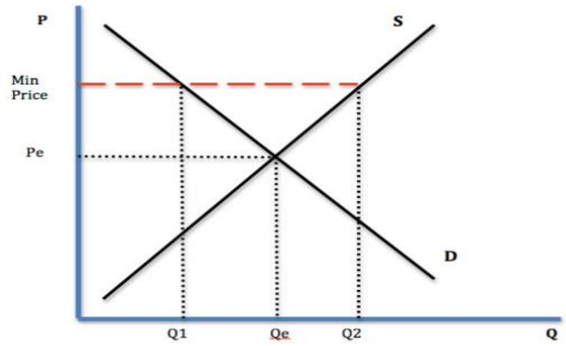


Figure 2: Minimum Price

Generally, price controls distort the working of the market and lead to oversupply or shortage. They can enhance problems rather than solve them. Nevertheless, there may be occasions when price controls can help for example, with highly volatile agricultural prices.

8.3 ADVANTAGES OF PRICE REGULATIONS/CONTROLS

Price regulation/controls may be rather disadvantageous in the long run, but are quite beneficial in the short-run. Generally speaking, price controls can achieve three things.

- Affordability of goods/services so far as price structure is concerned. Certain goods like food items which are a necessity need to be under regulated price mechanism so that they remain affordable commodities. Certain luxury products like tickets to games like cricket, football etc. is often set at a maximum price rather than the market price.
- Secondly regulation of prices ensures enough revenue for the producers and also limiting the possibility of any shortage. Without price regulations, farmers would face extreme hindrance in their routine carrying out of work.
- Regulation of prices would certainly be able to take care of extremely exorbitant prices. The use of a rent ceiling put a limit on the amount landlords could charge their tenants (Rockoff, 2015)

8.4 DISADVANTAGES OF PRICE REGULATIONS/CONTROLS

The disadvantages of price controls can be summed as follows –

i. when a price ceiling is imposed, and

ii. when a price floor is imposed.

To reiterate price ceiling, when the maximum price is set by law to be lower than the market price is a situation of price ceiling being imposed. Price ceiling leads to a fundamental problem of shortage. A market shortage commonly results in the following negative consequences:

Black markets can arise in which products that are unavailable in the regular market are sold. This can also be true of products with excess demand that are sold at higher prices than in the conventional market. Price discrimination may also commonly occur owing to shortage of products in the market. This is when similar goods or services are priced differently by the same producer to differing regions or groups of consumers. (Investopedia). Theoretically price discrimination discourages the resale of a good and leads to a decrease in competition. (Investopedia). This is a monopolistic market being created which implies there would be imperfection in the market. Also, there is a possibility of rationing of goods and services which are relatively scarce in order to keep a reasonable cost of living. This, in turn, would lead to emergence of black marketing in the economy.

On the other hand, regulation of prices in the form of price floor may lead to surpluses in the economy, which is disadvantageous to the system as well as excess supply can result in the market disequilibrium as price mechanism is not allowed to change naturally to attain its equilibrium state. Thus, in this state of disequilibrium a market is operating imperfectly. The minimum wage in the labour market is an example of price floor, which establishes a base line per hour wage. This can result in employers hiring fewer employees and subsequently the supply of workers exceeds the amount of work available causing the unemployment rate to go up (Boundless, 2014).

8.5 ANALYSIS OF PRICE REGULATION/CONTROLS

It may not be an easy task to analyse the phenomenon of regulation of prices as the argument of say a price ceiling for game tickets may on the one hand allow common fan to attend the show but, on the other hand, the shortage so created of tickets may lead to lesser number of fans being able to attend the show/game. Thus, need arises to formulate a particular policy and implement it in the economic system. Thus, the political view-point might not be in sync with the market economics as such. We can say that equilibrium of the market in the economic sense would arise only through natural movement of prices, and not by using regulation of prices. Also, the positive impacts of price control show that welfare and market intervention can increase the standard of living. So, it is a choice of whether the government wants to adhere to strict economic idealism and respect the balancing nature of Keynesian economics or if it wants to intervene in order to prevent a possible disaster. In the case for putting a price floor on agricultural products, not only are we protecting the farming industry but also working for the survival and upliftment of the economy. However, in case of the pharmaceutical market it is believed that there should be little government intervention. The logic behind a price ceiling on drugs and related commodities is that it makes medical care more accessible to the needy may on the other hand be harming the industry by reducing the expenditure on Research & Development which is of prime significance for further discoveries of medicines and cures of various diseases.

8.6 CONCLUSION

So, in conclusion, the amount someone is willing to pay for an item is the items price. From here we derive our basic set of supply and demand functions for our market economy. Essential to the market economy is the term scarcity, demand relative to the supply. Scarcity is what determines the market for goods and services. If the government feels the need to intervene in the market it can implement a price control. The government can approach implementing a price control in two different ways. Price controls are defined as when a government sets a minimum or maximum price for a particular good or service (Sowell 2011). In the arguments for and against price controls it can be found that most all price controls lead to an inefficient economy in the long run but a possible increase in market stability in the short run (Sowell 2011). It is up to each administration to decide if government intervention is necessary and most economists agree that it is wise to proceed with the utmost caution when doing so. Price controls when ineffective can result in not only long term disequilibrium, but also negatively affect the day to day life of citizens. When effective price controls can protect both consumers and producers, increase market stability, and maintain a reasonable cost of living.(Such as the farming example) In analyses it is best to determine whether a price control should be used on a case by case basis because each market represents different views, challenges, and characteristics. It is important to learn from the past examples of price controls, as they have been occurring for thousands of years, as they will continue to shape not only our financial future but our political future as well.

8.7 TEST YOUR UNDERSTANDING

1. Define the term Price Regulation.

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2. What are the advantages of Price Regulation?

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3. Give disadvantages of Price Regulations.

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4. Fill up the Blanks.

a. Price regulation is the pursuit of ______________________________on products to be sold in market as well as other stages in the production process.
b. Maximum prices can________________ the price of a product say food to make it more affordable.
c. Minimum price encourages _____________________.

8.8 LET US SUM UP

- Price regulation is the pursuit of quantitative controls on products to be sold in market as well as other stages in the production process.
- Price Regulation has two forms- Maximum Price and Minimum Price.
- Price regulations, on case-to-case basis may be advantageous or disadvantageous to the economic system.
- Price Ceiling: When the maximum price is set by law to be lower than the market price is a situation of price ceiling being imposed. Price ceiling leads to a fundamental problem of shortage.
- Price floor: Regulation of prices in the form of minimum price may lead to surpluses in the economy, which is disadvantageous to the system as well as excess supply can result

in the market disequilibrium as price mechanism is not allowed to change naturally to attain its equilibrium state.

8.9 KEY TERMS

- **Price Regulation:** Price regulation is the pursuit of quantitative controls on products to be sold in market as well as other stages in the production process.
- **Price Ceiling:** When the maximum price is set by law to be lower than the market price is a situation of price ceiling being imposed. Price ceiling leads to a fundamental problem of shortage.
- **Price floor:** Regulation of prices in the form of minimum price may lead to surpluses in the economy, which is disadvantageous to the system as well as excess supply can result in the market disequilibrium as price mechanism is not allowed to change naturally to attain its equilibrium state.

8.10 REVIEW QUESTIONS

1. What do you understand by the concept of Price Regulations? What is its significance to the economy?
2. What are the Advantages of Price Regulations? Discuss with appropriate examples
3. Using appropriate examples from the Indian economy, discuss the disadvantages of the Price Regulations?

8.11 ANSWERS TO TEST YOUR UNDERSTANDING.

Test your Understanding

4. a. quantitative controls
   b. reduces
   c. oversupply

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SEMESTER II

COURSE: MARKETING MANAGEMENT

UNIT 9 – DISTRIBUTION CHANNELS

STRUCTURE

9.0 Objectives

9.1 Introduction to Distribution Channels

9.2 Classification of Distribution Channels

9.3 The Importance of Channels

9.4 Functions of marketing channels

9.5 Decisions involved in setting up a Channel

9.6 Test your understanding (a)

9.7 Patterns of Distribution

9.8 Prominent channel systems

9.0 OBJECTIVES

After studying the Unit, students will be able to

- Define the Meaning of Distribution channel.
- Understand the various distribution channels.
- Analyse the function of Distribution channels.
- Evaluate the various Distribution channel alternatives.
- Understand Distribution Chaneel conflict and their available resolutions.

9.1 INTRODUCTION TO ACCOUNTING

A distribution channel is a group of people & firms involved in the transfer of title or ownership as the product moves from the producer to the end user. It is the path or route along which goods move from producers or manufacturers to ultimate consumers or industrial users. In other words, it is a distribution network through which producer puts his products in the market and passes it to the actual users.

The AMA defines the same as **"A structure of intra company organization units & extra company agents, dealers, wholesalers & retailers through which a commodity, product or service gets marketed.** They are the sets of interdependent organizations involved in the process of making a product or service available for use or consumption.

Some intermediaries—such as wholesalers and retailers—buy, take title to, and resell the merchandise; they are called merchants. Others—brokers, manufacturers' representatives, sales agents—search for customers and may negotiate on the producer's behalf but do not take title to the goods; they are called agents. Still others— transportation companies, independent warehouses, banks, advertising agencies—assist in the distribution process but neither take title to goods nor negotiate purchases or sales; they are called facilitators.

It Deals with the “place” part of the marketing mix. Helps gain sustainable competitive advantage as the same is increasingly getting difficult through product, price or promotion Strategy.

9.2 CLASSIFICATION OF DISTRIBUTION CHANNELS

- **Producer-Customer**

  This is the simplest and shortest channel in which no middlemen is involved and producers directly sell their products to the consumers. It is fast and economical channel of distribution. Under it, the producer or entrepreneur performs all the marketing activities himself and has full control over distribution. A producer may sell directly to consumers through door-to-door salesmen, direct mail or through his own retail stores. Big firms adopt this channel to cut distribution costs and to sell industrial products of high value. Small producers and producers of perishable commodities also sell directly to local consumers.

- **Producer-Retailer-Customer**

  This channel of distribution involves only one middlemen called 'retailer'. Under it, the producer sells his product to big retailers (or retailers who buy goods in large quantities) who in turn sell to the ultimate consumers. This channel relieves the manufacturer from burden of selling the goods himself and at the same time gives him control over the process of distribution. This is often suited for distribution of consumer durables and products of high value.

- **Producer-Wholesaler-Retailer-Customer**

  This is the most common and traditional channel of distribution. Under it, two middlemen i.e. wholesalers and retailers are involved. Here, the producer sells his product to wholesalers, who in turn sell it to retailers. And retailers finally sell the product to the ultimate consumers. This channel is suitable for the producers having limited finance, narrow product line and who needed expert services and promotional support of wholesalers. This is mostly used for the products with widely scattered market.

- **Producer-Agent-Wholesaler-Retailer-Customer**

This is the longest channel of distribution in which three middlemen are involved. This is used when the producer wants to be fully relieved of the problem of distribution and thus hands over his entire output to the selling agents. The agents distribute the product among a few wholesalers. Each wholesaler distributes the product among a number of retailers who finally sell it to the ultimate consumers. This channel is suitable for wider distribution of various industrial products.

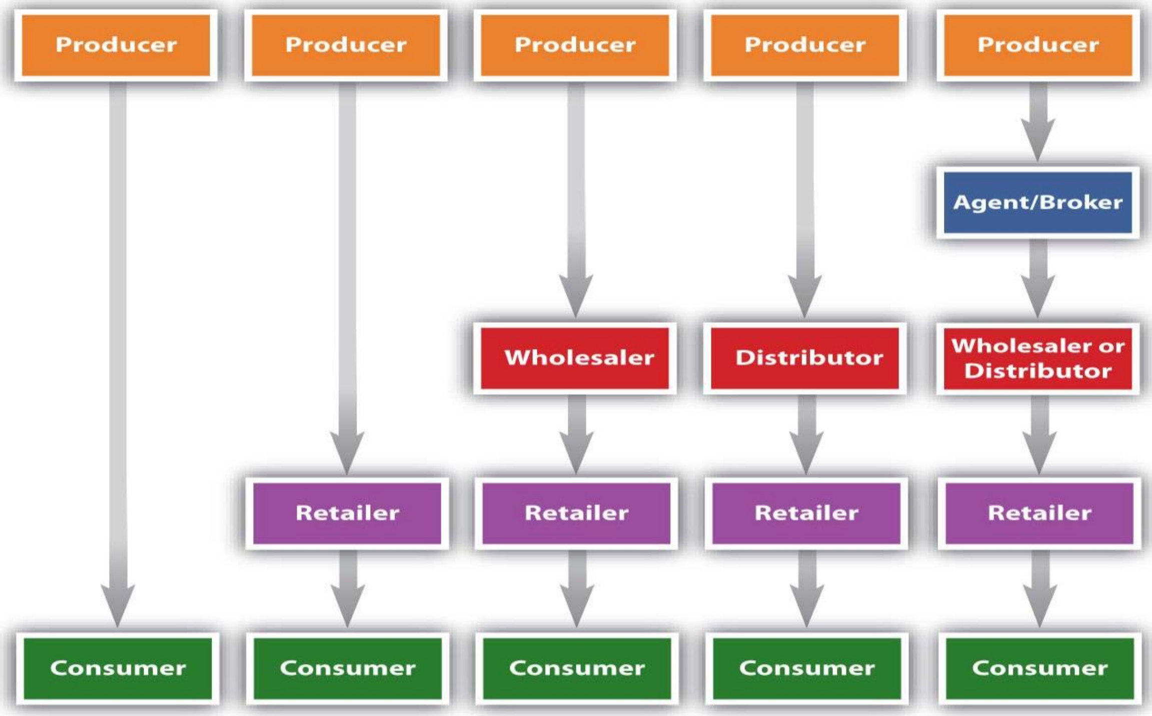

Figure 1

9.3 THE IMPORTANCE OF CHANNELS

Distribution of goods or services from the factory or the manufacturing unit to the consumer provides strategic advantage to the company in the highly competitive environment. Earlier people used to wait to get the products but now companies make them available as and when the customer demands. This is an opportunity as well as a challenge to the organizations to provide the right product at the right place in the right time. Companies are also emphasizing on how to reduce the cost in the supply chain. To meet the cost reduction objectives, they are integrating their system with information technology, outsourcing the distribution functions and streamlining the supply chain. Use of technology and corporate interest in the distribution management resulted in the evolution of professional retailing and wholesaling in India. These above factors made distribution one of the important components in planning the marketing strategies

In the United States, channel members as a group have historically earned margins that account for 30 percent to 50 percent of the ultimate selling price. In contrast, advertising typically has accounted for less than 5 percent to 7 percent of the final price. One of the chief roles of marketing channels is to convert potential buyers into profitable customers. Marketing channels must not just serve markets, they must also make them.The channels chosen affect all other marketing decisions. The company’s pricing depends on whether it uses online discounters or high-quality boutiques. Its sales force and advertising decisions depend on how much training and motivation dealers need. In addition, channel decisions include relatively long-term commitments with other firms as well as a set of policies and procedures. When an automaker signs up independent dealers to sell its automobiles, it cannot buy them out the next day and replace them with company-owned outlets. But at the same time, channel choices themselves depend on the company’s marketing strategy with respect to segmentation, targeting, and positioning. Holistic marketers ensure that marketing decisions in all these different areas are made to maximize value overall.

In managing its intermediaries, the firm must decide how much effort to devote to push and to pull marketing.

A **push strategy** uses the manufacturer’s sales force, trade promotion money, or other means to induce intermediaries to carry, promote, and sell the product to end users. This strategy is particularly appropriate when there is low brand loyalty in a category, brand choice is made in the store, the product is an impulse item, and product benefits are well understood.

In a **pull strategy** the manufacturer uses advertising, promotion, and other forms of communication to persuade consumers to demand the product from intermediaries, thus inducing the intermediaries to order it. This strategy is particularly appropriate when there is high brand loyalty and high involvement in the category, when consumers are able to perceive differences between brands, and when they choose the brand before they go to the store.

For example, Haldiram, a company which produces snacks, chats and sweets have two manufacturing locations at Delhi and Nagpur. The products from Delhi will be sent to 25 C&F agents. These C&F agents distribute the goods to 700 distributors, who in turn sell to 0.4 million retail outlets. In the same way, goods reach to 0.2 million retailers from Nagpur plant via 25 C&F's and 375 distributors. Consumer buys Haldiram snacks throughout India through these 0.6 million retailers.

9.4 FUNCTIONS OF MARKETING CHANNELS

1. **Helps in Physical distribution**: Transporting goods and storing them in the assigned warehouses or godowns.
2. **Promotes Communication**: Marketing intermediaries promote the company's products. Here channel member provides the information regarding the products and pushes it to the customers.
3. **Provides Information**: Retailers and wholesalers collect the information or feedbacks from the customers and provide the same to the company or manufacturer.
4. **Plays a key role in Title transforming**: Marketing intermediaries purchase the goods from the company and transform the title of goods or ownership to the next channel intermediary or customer.
5. **Supports Relationship management**: Here marketing intermediaries try to understand the needs of consumers, try to match his needs and satisfy them.

9.5 DECISIONS INVOLVED IN SETTING UP A CHANNEL

Marketers should consider various factors before deciding the particular type of channel. It may be organizational or competitive factors. The type of goods to be transported and stored will decide the length and intensity of channel. To decide on the particular channels, marketer will have to take into account the following factors.

1. ***Understanding the customer profile**:* Purchasing habits differ from individual to individual. Individuals who face shortage of time would like to purchase on the net (direct channel) and those who have abundant time would like to go through the shopping experience. Some of them would like to have variety of goods, while others want unique or specialized products. Hence marketers should understand who are his customers? How do they purchase and how often they purchase? For example, customers don't like to travel half a kilometer to purchase a shampoo sachet, but they don't mind travelling two kilometers while purchasing durable goods.

2. ***Determine the objectives on which channel is to be developed***.

A. Reach: Company would like to make the goods available in most of the retail outlets. So it, will adopt intensive distribution channel.

B. Profitability: Company wants to reduce the cost in the channels and enhance their profitability. It will restructure the channel to optimum level so that it can reduce the cost and increase the profit.
C. Differentiation: Company positions their products differently. When most of the industry players follow conventional system, company goes with new format of channels. For example, all computer manufacturers were adopting dealer-retailer channel to sell their products, but Dell started selling its product on the internet.

3. ***Identify type of channel members***: Once the objectives are set on the basis of company's policies, it will analyze which types of channels are most suitable. Merchants, agents and resellers are some intermediaries involved in the distribution. Merchants are those who buy the product, take title and resell the merchandise. Agents will find the customers, negotiate with them, but do not take the title of the product. Facilitators are the people who aid the distribution but do not negotiate or take the title of the product.

4. ***Determining intensity of distribution****:* Intensity of distribution means how many middlemen will be used at the wholesale and retail levels in a particular territory. If the number of intermediaries is more, then the cost of the channel will increase. However, if the number of intermediaries is less, then company will not be able to meet all target customers. Therefore, company should adopt optimum number of intermediaries. On the basis of how many intermediaries are required, company can adopt any one of the following strategies.

A. Intensive distribution: A strategy in which company stocks goods in more number of outlets. The intention is to make the goods available near to the customer. For example, you can find Parle-G glucose biscuits available in almost all the retail outlets in rural and urban areas.
B. Selective distribution: A strategy in which company stocks goods in limited number of retail outlets. For example, televisions are sold only in selected retail outlets. TVs cannot be sold like toothpaste. Onida TVs are available in electronic retail shops like Viveks, Girias, Next, E-zone etc…
C. Exclusive distribution: In this type of channel format, marketer gives only a limited number of dealers the exclusive right to distribute its products in their territories. For example, a Kaya skin care solution of Marico is marketed through exclusive distribution.

5. ***Assigning the responsibilities to channel members***. Company should define the territory in which the channel member should operate, at what price he should sell, services he should perform, and how he should sell.

6. ***Selecting the criteria to evaluate the channel member**:* Company may have different types of channel alternatives. It would like to choose any one of the alternatives, which meets its objectives. Channels can be evaluated in the design phase by the method called SCPCA.

A. Sales(S): The ability of each channel member to generate the sales for company in a given period.
B. Cost(C): How much cost each channel alternative incurs? Which one of the alternatives provides the optimum solution?
C. Profitability (P): Various channel alternatives available to the company and their profitability shall be compared. Channel with better profitability shall be selected.
D. Control (C): Every company would like to have better control over its channel members. Alternative channels can be evaluated on the basis of how much control each channel member desires. And how much control the company is willing to provide.
E. Adaptability (A): Marketing is a dynamic world. Competition exerts pressure on companies to relook at their practices and supply chain continuously. The channel alternatives should be flexible enough to meet the changing requirements. Whichever channel alternative meets such objectives shall be selected.

9.6 TEST YOUR UNDERSTANDING (A)

1.) What is a channel of distribution?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

2. State whether the following statements are True or False.

1) Only buying and selling activities are carried on by a distribution channel.

ii)Transportation is the primary function of a distribution channel.
iii) Risk bearing is one of the functions of a distribution channel:- *? \

iv) In a distribution channel facilitating agencies take title to goods.

v) Channels of distribution create convenience value to the goods

3. Distinguish between a direct channel and an indirect channel

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……………………………………………………………………………………………

……………………………………………………………………………………………

4. Avon, Amway and Tupperware use ___________.

A. Direct Marketing Channel

B. Indirect Distribution Channel

C. Exclusive Distribution Channel

D. Intensive Marketing Channel

9.7 PATTERNS OF DISTRIBUTION

A company can decide which type of distribuation pattern to select, as it determines the intensity of the distribution, Intensity decides the service level provided and Types of distribution intensity:

1. **Intensive distribution:** Make sure that the product is made available in as many outlets as possible. A form of distribution aimed at having a product available in every outlet where target customers might want to buy it. Strategy is to make sure that the product is available in as many outlets as possible.

Preferred for consumer, pharmaceutical products and automobile spares.

Distribution through every reasonable outlet available – FMCG

2. **Selective distribution:** Only few select outlets will be permitted to sell company's products. A form of distribution achieved by screening dealers to eliminate all but a few in any single area. A few select outlets will be permitted to keep the products. Outlets selected in line with the image the company wants to project. It keeps distribution costs lower

   Preferred for high value products. E.g.: Tanishque jewelry

   Multiple, but not all outlets in the market – pharma, frozen food

3. **Exclusive distribution:** All the more selective, only one outlet in the market may sell the company's product. A form of distribution that establishes one or a few dealers within a given area. Highly selective choice of outlets – may be even one outlet in an entire market. Could include outlets set up by companies – Titan, Bata

   May be only one outlet in a market, producer wants a close watch and control on the distribution of his products - car dealers.

9.8 PROMINENT CHANNEL SYSTEMS

A **conventional marketing channel** consists of an independent producer, wholesaler(s), and retailer(s). Each is a separate business seeking to maximize its own profits, even if this goal reduces profit for the system as a whole. No channel member has complete or substantial control over other members.

A **vertical marketing system (VMS),** by contrast, includes the producer, wholesaler(s), and retailer(s) acting as a unified system. One channel member, the channel captain, sometimes called a channel steward, owns or franchise's the others or has so much power that they all cooperate. Stewards accomplish channel coordination without issuing commands or directives by persuading channel partners to act in the best interest of all.

A channel steward might be the maker of the product or service (Procter & Gamble or American Airlines), the maker of a key component (microchip maker Intel), the supplier or assembler (Dell or Arrow Electronics), or the distributor (W.W. Grainger) or retailer (Walmart). Within a company, stewardship might rest with the CEO, a top manager, or a team of senior managers.

Channel stewardship has two important outcomes. First, it expands value for the steward's customers, enlarging the market or increasing existing customers' purchases through the channel. Second, it creates a more tightly woven and yet adaptable channel in which valuable members are rewarded and the less valuable are weeded out.

VMSs arose from strong channel members' attempts to control channel behaviour and eliminate conflict over independent members pursuing their own objectives. These systems achieve economies through size, bargaining power, and elimination of duplicated services. Business buyers of complex products and systems value the extensive exchange of information they can offer.60 VMSs have become the dominant mode of distribution in the U.S. consumer marketplace, serving 70 percent to 80 percent of the market. There are three types: corporate, administered, and contractual.

Corporate VMS: - A corporate VMS combines successive stages of production and distribution under single ownership. For years, Sears obtained more than half the goods it sells from companies it partly or wholly owned. Sherwin-Williams makes paint but also owns and operates 3,500 retail outlets.

Administered VMS: - An administered VMS coordinates successive stages of production and distribution through the size and power of one of the members. Manufacturers of dominant brands can secure strong trade cooperation and support from resellers. Thus, Frito-Lay, Procter

& Gamble, and Campbell Soup command high levels of cooperation from their resellers in the matter of displays, shelf space, promotions, and price policies. The most advanced supply-distributor arrangement for administered VMSs relies on **distribution programming**, which builds a planned, professionally managed, vertical marketing system that meets the needs of both manufacturer and distributors.

Contractual VMS A contractual VMS consists of independent firms at different levels of production and distribution integrating their programs on a contractual basis to obtain more economies or sales impact than they could achieve alone.61 Sometimes thought of as "value-adding partnerships" (VAPs), contractual VMSs come in three types:

1. Wholesaler-sponsored voluntary chains—Wholesalers organize voluntary chains of independent retailers to help standardize their selling practices and achieve buying economies in competing with large chain organizations.
2. Retailer cooperatives—Retailers take the initiative and organize a new business entity to carry on wholesaling and possibly some production. Members concentrate their purchases through the retailer co-op and plan their advertising jointly, sharing in profits in proportion to their purchases. Non-member retailers can also buy through the co-op but do not share in the profits.
3. Franchise organizations—A channel member called a franchisor might link several successive stages in the production-distribution process. Franchising has been the fastest-growing retailing development in recent years

Horizontal marketing system: - It is a system in which two or more unrelated companies put together resources or programs to exploit an emerging marketing opportunity. Each company lacks the capital, know-how, production, or marketing resources to venture alone, or it is afraid of the risk. The companies might work together on a temporary or permanent basis or create a joint venture company. For example, many supermarket chains have arrangements with local banks to offer in-store banking. Citizens Bank has more than 500 branches in supermarkets, making up roughly one-third of its branch network. Citizens's staff members in these locations are more sales oriented, younger, and more likely to have some retail sales background than staff in the traditional brick-and-mortar branches.

9.9 EVALUATION OF CHANNEL MEMBERS

Channel member performance

- Channel member performance evaluation is as important as evaluation of employees working with the firm.
- Difference lies in dealing with independent firm than employee.

Channel Member performance Audit

- Is different from routine day to day monitoring of performance based exclusively on standard sale performance.
- Consists of three phases
    - Developing Criteria for measuring their performance.
    - Periodically evaluating their performance against the criteria.
    - Recommending corrective action.

Developing criteria for Performance

Many possible criteria for measuring channel member performance can be used

- Sale performance
- Inventory maintained by channel members
- Selling capability of channel member
- Competition faced by channel member
- General growth prospects of their channel member.

General growth prospects

Channel members organization expanding, showing signs of improvement, Channel member personal qualified, Succession management, overall capacity to meet market expansion.

The sales data should be evaluated in terms of the following:

- Comparison of channel member's current sales to historic sales
- Cross comparison of member's sales with those of other channel members.
- Comparison of channel members sales with pre-determined quota

Recommending corrective actions:

- Meant to improve channel member performances who are not meeting minimum performance standards.
- Carefully analyze channel member's needs & problem

- Approaches such as building a formal channel communication network, Conducting marketing channel audits, forming distributor advisory councils.

9.10 TYPES OF CONFLICT AND COMPETITION

Suppose a manufacturer sets up a vertical channel consisting of wholesalers and retailers hoping for channel cooperation and greater profits for each member. Yet horizontal, vertical, and multichannel conflict can occur.

- **Horizontal channel conflict** occurs between channel members at the same level. Some Pizza Inn franchisees complained about others cheating on ingredients, providing poor service, and hurting the overall brand image.
- **Vertical channel conflict** occurs between different levels of the channel. When Estée Lauder set up a Web site to sell its Clinique and Bobbi Brown brands, the department store Dayton Hudson reduced the space it gave the company's products.99 Greater retailer consolidation—the 10 largest U.S. retailers account for more than 80 percent of the average manufacturer's business—has led to increased price pressure and influence from retailers.100 Walmart, for example, is the principal buyer for many manufacturers, including Disney, Procter & Gamble, and Revlon, and is able to command reduced prices or quantity discounts from these and other suppliers.101
- **Multichannel conflict** exists when the manufacturer has established two or more channels that sell to the same market.102 It's likely to be especially intense when the members of one channel get a lower price (based on larger-volume purchases) or work with a lower margin. When Goodyear began selling its popular tire brands through Sears, Walmart, and Discount Tire, it angered its independent dealers and eventually placated them by offering exclusive tire models not sold in other retail outlets.

9.12 CAUSES OF CHANNEL CONFLICT

Some causes of channel conflict are easy to resolve; others are not. Conflict may arise from:

- **Goal incompatibility**. The manufacturer may want to achieve rapid market penetration through a low-price policy. Dealers, in contrast, may prefer to work with high margins and pursue short-run profitability.

- **Unclear roles and rights**. HP may sell laptops to large accounts through its own sales force, but its licensed dealers may also be trying to sell to large accounts. Territory boundaries and credit for sales often produce conflict.
- **Differences in perception.** The manufacturer may be optimistic about the short-term economic outlook and want dealers to carry higher inventory, while the dealers may be pessimistic. In the beverage category, it is not uncommon for disputes to arise between manufacturers and their distributors about the optimal advertising strategy.
- **Intermediaries' dependence on the manufacturer**. The fortunes of exclusive dealers, such as auto dealers, are profoundly affected by the manufacturer's product and pricing decisions. This situation creates a high potential for conflict

9.11 TEST YOUR UNDERSTANDING (C)

1. From which type of intermediary (wholesaler/retailer/dealer/showroom) you buy these items?

	Type of Intermediary
A. Bread	…………………
B. Milk	…………………
C. Shoes	…………………
D. Wooden Furniture	…………………
E. Tv sets	…………………
F. **Vegetables**	…………………

2. Explain on what basis Distribution intermediaries can be evaluated?

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3 Explain the different channels of conflicts in Distribution Channel.

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4. _______is the process of making a product available to the end consumer or business.

A. Sales

B. Distribution

C. Exchange

D. Barter

9.12 LET US SUM UP

- Most producers do not sell their goods directly to final users. Between producers and final users stands one or more marketing channels, a host of marketing intermediaries performing a variety of functions.
- Marketing channel decisions are among the most critical decisions facing management. The company's chosen channel(s) profoundly affect all other marketing decisions.
- Companies use intermediaries when they lack the financial resources to carry out direct marketing, when direct marketing is not feasible, and when they can earn more by doing so. The most important functions performed by intermediaries are information, promotion, negotiation, ordering, financing, risk taking, physical possession, payment, and title.
- Manufacturers have many alternatives for reaching a market. They can sell direct or use one-, two-, or three level channels. Deciding which type(s) of channel to use calls for analysing customer needs, establishing channel objectives, and identifying and evaluating the major alternatives, including the types and numbers of intermediaries involved in the channel.
- Effective channel management calls for selecting intermediaries and training and motivating them. The goal is to build a long-term partnership that will be profitable for all channel members. 6. Marketing channels are characterized by continuous and sometimes dramatic change. Three of the most important trends are the growth of vertical marketing systems, horizontal marketing systems, and multichannel marketing systems
- Channel integration must recognize the distinctive strengths of online, offline, and mobile selling and maximize their joint contributions.
- All marketing channels have the potential for conflict and competition resulting from goal incompatibility, poorly defined roles and rights, perceptual differences, and interdependent relationships. Companies can try to manage conflict through dual compensation, superordinate goals, employee exchange, co-optation, and other means.
- Channel arrangements are up to the company, but certain legal and ethical issues to be considered include exclusive dealing or territories, tying agreements, and dealers' rights

9.13 KEY TERMS

- **Distribution channels.** are the paths that products and services take on their way from the manufacturer or service provider to the end consumer.
- **Market Intermediaries**. independent firms which assist in the flow of goods and services from producers to end-users;
- **Wholesaler.** a merchant middleman who sells chiefly to retailers, other merchants, or industrial, institutional, and commercial users mainly for resale or business use
- **Retailer**. Person or business that sells goods to the public in relatively small quantities for use or consumption rather than for resale.
- **Channel Conflict.** Channel conflict can be explained as any dispute, difference or discord arising between two or more channel partners, where one partner's activities or operations affect the business, sales, profitability, market share or similar goal accomplishment of the other channel partner.

9.14 REVIEW QUESTIONS

5. Explain the various channels of distribution?
6. What are the functions performed by market Intermediaries?
7. On what Basis a distribution channel should be selected by the Producer?
8. How can the performance of distributors be evaluated?
9. What are the various reasons for distribution channel conflict? Also mention remedial measures available for producers to resolve such conflict?

9.15 ANSWERS TO TEST YOUR UNDERSTANDING.

Test your Understanding A

4 (a) Direct Distribution Channel

Test your Understanding B

4 (B) Distribution.

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SEMESTER I

COURSE: MARKETING MANAGEMENT

UNIT-10 MARKETING INTERMEDIARIES AND MARKETING LOGISTICS

STRUCTURE

10.0 OBJECTIVES

After studying the Unit, students will be able to:

- Define the meaning of marketing intermediaries.
- Understand various types of marketing intermediaries- Retaliers, Wholesalers, Agents and Brokers.
- Understand the trends involved in Retailing and Wholesaling sector.
- Evaluate the marketing decisions in the context of Retailing and Wholesaling.
- Understand the meaning and goals of Market Logistics.
- Understand the various Market Logistics Functions

10.1 Introduction

Intermediaries are independent organizations that will carry out a number of activities. Merchants, which include wholesalers and retailers, buy, take title to and resell the firm's goods, whereas brokers and agents do not buy or carry the producer's products, but help to sell these to customers by negotiating prices and sales terms and conditions on the supplier's behalf. Other intermediaries - transport companies, independent warehouses, finance companies, banks - perform a range of channel functions to facilitate the flow of goods or services from producer to user.

Retailing-

Retailing includes all activities involved in selling goods or services directly to final consumers for personal, non-business use. A retailer or a retail store is any business enterprise whose sales volume comes primarily from retailing. Any organisation selling to final consumers- whether it is a manufacturer, wholesaler or retailer- is doing retailing. It does not matter how the goods or services are sold (by person, mail, telephone, vending machine or Internet) or where they are sold (in a store, on the street or in consumers home).

10.2 TYPES OF RETAILERS

1. *Speciality store*: A retail store that curries a narrows product line with a deep assortment 'within that line. Examples- Athlete’s foot, The Body Shop, Hermes and Mauritz.
2. *Department store*: A retail organisation that carries a wide variety of product lines - typically clothing, home furnishings and household goods; each line is operated as a

separate department managed by specialist buyers or merchandisers. Examples- Sears, Nordstrom.

3. *Supermarket:* Large, low-cost, (owmargin, high-volume, self-service stores that carry a wide variety of food, laundry and household products. Examples- Kroger, Food Emporium.
4. *Convenience store*: A relatively small store located near a residential area that is open long hours seven days a week and carries a limited line of high-turnover convenience goods. Examples- Happy Shopper.
5. *Discount store*: Standard merchandise sold at lower price with lower margins and higher volumes. Discount retailing has moved into speciality merchandise stores, such as discount- sporting goods store, electronic stores, bookstores. Examples- K-mart, Wal-mart etc.
6. *Off-Price retailer*: Merchandise bought at less than regular wholesale prices and sold at less than retail: often leftover goods, overruns and irregulars.
7. *Superstore*: A store almost twice the size of a regular supermarket that carries a large assortment of routinely purchased food and non-food items and offers such services as dry cleaning, post offices, film developing, photo finishing, cheque cashing, petrol forecourts and self-service car-washing facilities. Examples- Home Depot, IKEA.
8. *Hypermarkets*: Huge stores [hat combine supermarket, discount and warehouse retailing; in addition to food, they carry furniture, appliances, clothing and many other products.
9. *Catalog Showroom:* Broad selection of high-markup, fast-moving, brand-name goods at discount prices. Consumers order goods from a catalog, then pick these goods up at a merchandise pickup area in the store. Example- Service Merchandise.
10. *Cash and Carry retailers*- Cash-and-carry retailers are large stores (around 3,000-4,000 square metres] selling an extensive assortment of goods, ranging from groceries to office furniture. Example, Makro, the Dutch-based retailer.
11. *Warehouse clubs*- Off-price retailer that sells a limited selection of brand-nama grocery items, appliances, clothing and a hodgepodge of other goods at deep discounts to members who pay annual membership fees.

Levels of Service:

Retail stores come in all shapes and sizes, and new retail types keep emerging. Generally, they can be distinguished by the amount of service they offer, the product line and relative price emphasis.

Retailers can position themselves as offering one of the four levels of service:

1. *Self service*- Self-service retailers cater for customers who are willing to perform their own 'locate-compare-select' process to save money. Today, self-service is the basis of all discount operations and is typically used by sellers of grocery and convenience goods (e.g. supermarkets) and nationally branded, fast-moving shopping goods (eg-discount stores).
2. *Self-selection*- Consumers can find their own goods, although they can ask for assistance.
3. *Limited service*- Limited-service retailers, such as department stores, provide more sales assistance because they carry more shopping goods about which customers need information. They also offer additional services such as credit and merchandise return not usually offered by low-service stores.
4. *Full service*: Salespeople who are ready to assist in every phase of the locate-compare-select process. Customers who like to be waited on prefer this type of store. The high staffing cost, along with higher proportion of speciality goods and slower moving items and the many services, results in high-cost retailing.

10.3 MARKETING DECISIONS:

Today, national brands such as Calvin Klein, Levi's are found in department stores, in their own shops, in merchandise outlets, and in off-price discount stores. In their drive for volume, national brand manufactures have placed their branded goods everywhere. The result in that retail store assortments have grown more alike. In the face of increased competition from discount houses and speciality stores, department stores are waging a comeback war. Moreover, supermarkets have opened larger stores, carry a larger number of varieties, and upgraded facilities. We will examine retailer's marketing decisions in the areas of target market, product assortment and procurement, service and store atmosphere, price, promotion, and place.

Target Market: A retailers most important decision concerns the target market. Until the target market is defined and profiled, the retailer cannot make consistent decisions on product assortment, store décor, advertising messages and media, price, and service levels. Some retailers like Wal-Mart have defined the target market quite well.

Product assortment and procurement: The retailer's product assortment must match the target market's shopping expectations. The retailer has to decide on product-assortment breadth and depth. The real challenges begins after defining the store's product assortment, and that is to develop a product-differentiation strategy. After deciding on the product-assortment strategy, the retailer must establish procurement sources, policies and practices. Retailers are rapidly improving their skills in demand forecasting, merchandise selection, stock control, space allocation and display. Stores are using **Direct product profitability (DPP)** to measure a product's handling costs from the time it reaches their warehouse until a customer buys it in their retail store.

Service and store atmosphere: Retailers must also decide on the service mix to offer to customers. It includes Prepurchase, Post purchase and ancillary services. Atmosphere is another element in the store arsenal. Every store has a physical layout that makes it hard or easy to move around. The store must embody a planned atmosphere that suits the target market and draws the consumers towards purchase.

Price decision: Prices are a key positioning factor and must be decided in relation to the target market, product and service assortment mix, and competition. Retailers must also pay attention to pricing tactics.

Promotion decision: Retailers use a wide range of promotion tools to generate traffic and purchases. They place ads, run special sales, issue money-saving coupons in-store food sampling etc. Each retailer must use promotion tools that support and reinforce its image positioning.

Place decisions: Department-store chains, oil companies and fast- food franchiser exercise great care in selecting locations. Retailers can locate their stores in the central business district, a regional shopping centre, a community shopping centre, a shopping strip, or within a larger store.

10.4 TRENDS IN RETAILING:

- New retail forms and combinations: Some supermarkets include bank branches. Bookstores feature coffee shops. Likewise, Gas stations include food stores.
- Growth of intertype competition: Discount-stores, catalog showrooms, department stores all compete for the same consumers by carrying similar type of merchandise.
- Growing investment in technology: Retailers are using computers to produce better forecasts, control inventory costs, order electronically from suppliers, send e-mail between stores and even sell to customers within stores.

- Global presence of major retailers: Retailers with unique formats and strong brand positioning are increasingly appearing in other countries. U.S retailers such as McDonalds, GAP have become globally prominent.
- Selling an experience not just goods: Retailers are now adding fun community in order to compete with other stores and online retailers.

Wholesalers:

Wholesalers render important services to producers and resellers. Wholesalers' sales forces help manufacturers reach any small customers at a low cost. The wholesaler has more contacts and is often more trusted by the buyer than the distant manufacturer. Wholesalers can select items and build assortments needed by their customers, thereby saving the consumers a considerable amount of work. They save their customers money by buying in huge lots and breaking bulk (breaking large lots into small quantities). Wholesalers hold inventories, thereby reducing the inventory costs and risks of suppliers and customers. Wholesalers can provide quicker delivery to buyers because they are closer than the producers. They finance their customers by giving credit, and they finance their suppliers by ordering early and paying bills on time. Wholesalers absorb risk by caking title and bearing the cost of theft, damage, spoilage and obsolescence. They give information to suppliers and customers about competitors, new products and price developments. Wholesalers also provide management services and advice - they often help retailers train their sales assistants, improve store layouts and displays, and set up accounting and inventory control systems.

There are many types of wholesalers. They are classified according to the breadth and depth of their product/service lines and the range of services they offer. Full-service wholesalers provide a full set of services, such as carrying stock, using a sales force, offering credit, making deliveries and providing technical advice and management assistance.

Wholesalers are broadly classified as:

Merchant Wholesalers- Independently owned businesses that take the title to the merchandise they handle. They are called jobbers, distributors or mill supply houses and fall into two categories- full service and limited service.

Full- Service Wholesalers- Carry stock, maintain a sales force, offer credit, make deliveries and provide management assistance. There are two types of full -service wholesalers:

1. Wholesale merchants sell primarily to retailers and provide a full range of services.

2. Industrial distributors sell to manufacturers rather then to retailers and provide several services- carrying stock, offering credit and providing delivery.

Limited-Service Wholesalers: Limited-service wholesalers perform a limited number of functions and offer fewer services to their suppliers and customers. There are several types of limited-service wholesaler.

1. *Cash and carry wholesalers*- They have a limited line of fast- moving goods and sell to small retailers for cash. Example- Makro
2. *Truck Wholesalers*- (also called truck jobbers) perform a selling and delivery function. They carry a limited line of goods (such as milk, bread or snack foods) that they sell for cash as they make their rounds of supermarkets, small groceries, hospitals, restaurants, factory1 cafeterias and hotels.
3. *Drop Shippers*- They operate in bulk industries such as coal, oil, chemicals, lumber and heavy equipment. They do not carry inventory or handle the product. They receive orders from retailers, industrial buyers or other wholesalers and then forward these to producers, which ship the goods directly to the customer. The drop shipper takes title and risk from the time the order is accepted to the time it is delivered to the customer. Because drop shippers do not carry inventory, their costs are lower and they can pass on some savings to customers.
4. *Rack Jobbers*- They serve grocery and general merchandise retailers, mostly in the area of branded non-food items, such as books, magazines, toys, stationery, housewares, health and beauty aids, and hardware items. These retailers do not want to order and maintain displays of hundreds of non-food items. Rack job orders send delivery trucks to stores and the delivery person sets up display racks for the merchandise. They price the goods, keep them fresh and maintain inventory records. Rack jobbers sell on consignment - they retain title to the goods and bill the retailers only for the goods sold to consumers. Thus they provide services such as delivery, shelving, inventory and financing. They do little promotion because they carry many branded items that are already highly advertised.

10.6 WHOLESALER MARKETING DECISIONS

Wholesalers have to improve their strategic decisions on target markets, product assortments and services, price, promotion and place.

Target markets: Wholesalers can choose a target group of customers by size, type of customers, need of service or other criterion. Within the target group they can identify the most profitable customers and design stronger offers to build better relationships with them.

Product assortment and services : Wholesalers must maintain sufficient stocks for immediate delivery , but the cost of carrying huge inventories can kill profits. Wholesalers today are re-examining how many lines to carry and are choosing to carry only the more profitable ones. The key is to find a distinct mix of services valued by the customers.

Price decisions: Wholesalers are beginning to experiment with new approaches to pricing. They might their margins on some lines in order to win an important new customer. They will ask supplier for a special price break when they can turn into an opportunity to increase the supplier's sale.

Promotion decision: Wholesalers rely primarily on their sales force to achieve promotional objectives even here they need to develop an overall promotion strategy involving trade advertising, sales promotion and publicity. They also need to make a greater use of supplier promotion material and programs.

Place decisions: In the past wholesalers were typically located in low rent, low tax areas and put little money into their physical setting and offices. Today progressive wholesalers have been improving materials handling procedures and cost by developing automated warehouse and improving their supply capabilities through advanced information systems.

10.7 TRENDS IN WHOLESELLING

Manufactures have always the option of bypassing wholesalers or replacing inefficient wholesalers with better ones. Manufacturers usually complaint about wholesaler regarding the following- They do not aggressively promote the manufacturer's product line and act more like orders taken and do not carry enough inventory and therefore fail to fill customer's orders fast enough.

It even appeared that wholesalers were headed for a significant decline as large manufacturers and retailers moved aggressively into direct buying programs. Savvy wholesalers rallied the challenge and recognised that they have to add value to the channel. Following ways were identified which helped wholesalers in strengthening their relationship with the manufacturers:

- They sought a clear relationship with the manufacturers about their expected functions in the marketing channel.
- They gained insight into the manufacturer's requirements by visiting their plants and attending manufacturer association conventions and trade shows.
- They fulfilled their commitments to the manufacturer by meeting the volume targets, paying bills promptly, and feeding back customer information to the manufacturers.
- They identified and offered value-added services to help the suppliers.

The wholesaling industry remains vulnerable to one of the most enduring trends- fierce resistance to price increases and the winnowing out of suppliers based on cost and quality. The trend towards vertical integration, in which manufacturers try to control or own their intermediaries is still strong.

10.8 BROKERS AND AGENTS:

Brokers and agents differ from merchant wholesalers in two ways: they do not take title to goods, and they perform only a few functions. Their main function is to help in buying and selling, and for these services they earn a commission on the selling price. Like merchant wholesalers, they generally specialize by product line or customer type. Because they are specialists, they can offer valuable sales advice and expertise to clients. A broker brings buyers and sellers together and assists in negotiation. Brokers are employed temporarily and paid by the parties hiring them. They do not carry inventory, get involved in financing, or assume risk. The most familiar examples are food brokers, real estate brokers, insurance brokers and security brokers. Agents represent buyers or sellers on a more permanent basis. There are several types:

Manufacturers' agents or representatives are the most common type of agent. They represent two or more manufacturers of related lines. They have a formal agreement with each manufacturer, covering prices, territories, order handling procedures, delivery, warranties and commission rates. They know each manufacturer's product line and use their wide contacts to sell the products. They do not, however, have much influence over prices and other marketing decisions, and provide limited, if any, technical, product or service support. Manufacturers' agents are used in lines such as clothing, furniture and electrical goods. Most manufacturers' agents are small businesses, with only a few employees who are skilled salespeople. They are hired by small producers that cannot afford to maintain their own field sales forces and by large producers that want to open new territories to sell in areas that cannot support a full-time salesperson. Manufacturers' agents therefore help producers to minimize selling costs for current and new products and market territories.

Selling agents contract to sell a producer's entire output - either the manufacturer is not interested in doing the selling or feels unqualified. The selling agent serves as a sales department and has considerable influence over prices, terms and conditions of sale, as well as packaging, product development, promotion and distribution policies. Unlike other manufacturers' agents, the selling agent normally has no territory limits. Selling agents arc found in product areas such as textiles, industrial machinery and equipment, coal and coke, chemicals and metals.

Purchasing agents generally have a long-term relationship with buyers. They make purchases for buyers and often receive, inspect, warehouse and ship goods to the buyers. One type of purchasing agent is a resident buyer in big clothing markets - purchasing specialists who look for apparel lines that can be carried by small retailers located in small cities. They know a great deal about their product lines, provide helpful market information to clients, and can also obtain the best goods and prices available.

Commission merchants (or houses) arc agents that take physical possession of products, grade, store and transport them, and negotiate sales with buyers in the market. They are normally not used on a long-term basis. They are used most often in agricultural marketing by farmers who do not want to sell their own output and who do not belong to cooperatives. Typically, the commission merchant will take a truckload of farm products to a central market, sell it for the best price, deduct expenses and a commission, and pay the balance to the fanner. Commission merchants have more power than the small producer over prices and terms of sale. Not only do they obtain the best price possible in the market for the producer, but they may also offer planning and financial assistance.

Number of Marketing Intermediaries:

Companies must also decide on channel breadth: that is, how extensive their market coverage should be and, therefore, the number of channel members to use at each level. Three strategies are available: intensive distribution, exclusive distribution and selective distribution.

- Intensive distribution: Slocking the product in as many outlets as possible. Example- Coca Cola, Nestle, Fuji, Kodak distribute their products in this way.

- Exclusive distribution: Giving a limited number of dealers the exclusive right to distribute the company's products in their territories. Example- Rolls-Royce, Hugo Boss, Giorgio Armani.
- Selective distribution: The use of more than one, but lens than all of the intermediaries that are willing to carry the company's products. Example- Philips- whirlpool, Electrolux.

10.9 TEST YOUR KNOWLEDGE

1. Discuss various marketing decisions that retailers have to take vis-à-vis target market, product assortment and procurement, price, promotion and place.

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2. Discuss the various types of wholesalers giving relevant examples.

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3. Discuss the trends that have taken place in the retailing and wholesaling sector.

10.10 Physical Distribution and Logistics Management

In today's global marketplace, selling a product is sometimes easier than physically getting ii. to customers. Companies must decide on the best way to store, handle and move their products and services, so that they are available to customers in the right assortments, at the right time and in the right place. Logistics effectiveness will have a significant impact on both customer satisfaction and company costs. A poor distribution system can destroy an otherwise good marketing effort. Here we consider the nature and importance of marketing logistics, goals of the logistics system, major logistics functions, choosing transportation modes and the importance at international logistics.

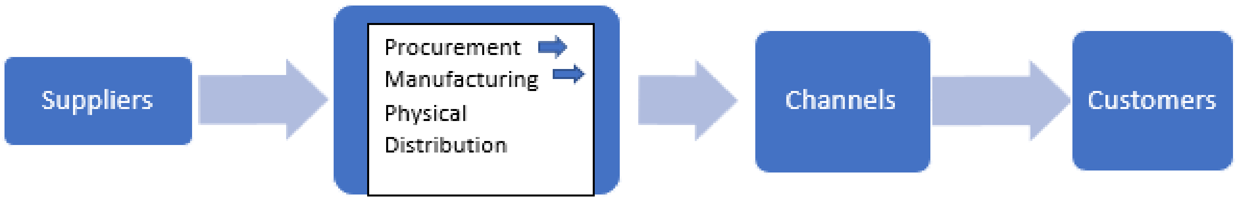
Market Logistics

Physical distribution starts at factory. Managers choose a set of warehouses (stocking points) and transportation carriers that will deliver the goods to final destinations in the desired time or at the lowest total cost. Physical distribution has now been expanded into the broader concept of **supply chain management (SCM).** Supply chain management starts before physical distribution. It involves procuring the right inputs (raw materials, components, capital equipment), converting them efficiently into finished products, and dispatching them to final destination. Market logistics planning has four steps:

1. Deciding on company's value-proposition to its customers.
2. Deciding on the best channel design and network strategy for reaching the customers.
3. Developing operational excellence in sales forecasting, warehouse management, transportation management, and materials management.
4. Implementing the solution with the best information systems, equipment, policies, and procedures.

10.11 NATURE AND IMPORTANCE OF PHYSICAL DISTRIBUTION AND MARKETING LOGISTICS

To some managers, physical distribution means only trucks and warehouses. But modern logistics is much more than this. Physical distribution or marketing logistics involves planning, implementing and controlling the physical flow of materials, final goods and related information from points of origin to points of consumption to meet customer requirements at a profit.



In short, it involves getting the right product to the right customer in the right place at the right time. Traditional physical distribution has typically started with products at the plant and tried to find low-cost solutions to get them to customers. However, marketing logistics thinking starts with the marketplace and works backwards to the factory. Logistics addresses the problem of outbound distribution (moving products from the factory to customers) and that of inbound distribution (moving products and materials from suppliers to the factory). It involves the management of entire supply chains, value-added flows from suppliers to final users. Thus, the logistics manager's task is to co-ordinate the whole channel physical distribution system - the activities of suppliers, purchasing agents, marketers, channel members and customers. These activities include forecasting, purchasing, production planning, order processing, inventory management, warehousing and transportation planning following figure shows supply chain depicting value added flows from suppliers to final users.

Companies today are placing greater emphasis on logistics for several reasons.

- Customer service and satisfaction have become the cornerstones of marketing strategy in many businesses, and distribution is an important customer service element. Companies are finding that they can win and keep more customers by giving faster delivery, better service or lower prices through more effective logistics. On the other hand, companies may lose customers when they fail to supply the right products on time.
- Logistics is a major cost element for most companies. About 15 per cent of an average product's price is accounted for by shipping and transport alone. Companies that do not take advantage of modern decision tools for coordinating inventory levels, transportation modes, and plant, warehouse and store locations make poor logistics decisions that result in higher costs. Improvements in physical distribution efficiency can yield tremendous cost savings for both the company and its customers.
- The explosion in product variety has created a need for improved logistics management. For example, in the early part of the twentieth century, Che typical grocery store carried only 200-300 items. The store manager could keep track of this inventory on about ten pages of notebook paper stuffed in a shirt pocket. Today, the average store carries a bewildering stock of thousands of items. Ordering, shipping, stocking and controlling such a variety of products presents a sizeable logistics challenge.
- Finally, developments in information technology have created opportunities for positive gains in distribution efficiency. The increased use of computers, electronic point-of-sale scanners, uniform product codes, satellite tracking, electronic data interchange (EDI) and electronic funds transfer (EFT) has allowed companies to create advanced systems for order processing, inventory control and handling, and transportation routing and scheduling. These recent technological advances benefit not only manufacturers, but also members at other levels of the channel. Take EDI, for example: it speeds up the sending of business

information, such as invoices and orders. With the need for fast response time, a retailer connected up to its suppliers could ensure that the lead time between order and supply is shortened as far as is possible. The manufacturers or suppliers have up-to-date information on retailer stocking levels and needs, and can respond faster than by using traditional manual methods. Consumers further down the line gain in that they can buy what they want at the right time and the right place. Indeed, in some industry sectors, such as retailing, certain companies are demanding EDI connections as a condition of trading.

10.12 GOALS OF LOGISTIC SYSTEM

Many companies state their market-logistics objectives as "getting the right goods to right places at the right time for the least cost". The starting point for designing a marketing logistics system is to study the service needs of customers. They may want several distribution services from suppliers: fast and efficient order processing, speedy and flexible delivery, pre- sorting and pro tagging of merchandise, order-tracking Information, and a willingness to take back or replace defective goods. Unfortunately, few companies can achieve the logistic objective of both maximizing customer service and minimizing distribution costs. Maximum customer service implies rapid delivery, large inventories, flexible assortments, liberal returns policies and a host of other services - all of which raise distribution costs. In contrast, minimum distribution cost implies slower delivery, small inventories and larger shipping lots — which represent a lower level of overall customer service. Instead, the goal of the marketing logistics system should be to provide a targeted level of customer service at the leant cost by identifying the importance of various distribution services that customers require and then setting desired service levels for each segment, taking into account the level of service offered by competitors. The ultimate objective is to maximize profits, not sales. Therefore, the company must weigh the benefits of providing higher levels of service against the costs.

10.13 MAJOR LOGISTICS FUNCTIONS:

The major logistics functions are order processing, warehousing, inventory management and transportation.

- *ORDER PROCESSING*

The logistics process starts with the firm getting an order from the customer. Orders can be submitted in many ways - by mail or telephone, through salespeople, or via computer and electronic data interchange (EDI). Once received, orders must be processed quickly and accurately. The order-processing system prepares invoices and sends order information to those who need it. The appropriate warehouse receives instructions to pack and dispatch the ordered items. Products out of stock are back-ordered. Shipped items are accompanied by shipping and billing documents, with copies going to various departments. Both the company and its customers benefit when the order-processing steps are carried out efficiently. Ideally, salespeople send in their orders daily, often using online computers. The order department immediately processes these orders and the warehouse sends the goods out on time. Bills or invoices go out as soon as possible. Most companies now use computerized order-processing systems to speed up the order—shipping-billing cycle. Such modern computing systems enable firms to reduce distribution costs, while speeding up activities and increasing the level of service to customers.

- *WAREHOUSING*

Every company must store its goods while they wait to be sold. To ensure it can meet orders speedily, it must have stock available. A storage function is needed because production and consumption cycles rarely match. For example, a lawn mower manufacturer must produce all year long and store up its products for the heavy spring and summer buying season. The storage function overcomes differences in needed quantities and timing. A company must decide on /IOTO many and what types of warehouses it needs, and 'where they will be located. The more warehouses the company uses, the more quickly goods can he delivered to customers and the higher the service level. However, more locations mean higher warehousing costs. The company, therefore, must balance the level of customer service against distribution costs. Some company stock is kept at or near the production plant, with the rest located in warehouses around the country. The company might own private warehouses, rent space in public warehouses, or both. Companies have more control over owned warehouses, but that tics up their capital and is less flexible it' desired locations change. In contrast, public warehouses charge for the rented space and provide additional services (at a cost) for inspecting goods, packaging them, shipping them and invoicing them. By using public warehouses, companies also have a wide choice of locations and warehouse types.

- *INVENTORY:*

Inventory levels also affect customer satisfaction. The major problem is deciding how much stock should be held. Logistics managers have to decide on how to maintain the delicate balance between carrying too much inventory and carrying too little. Carrying too much inventory results in higher-than-necessary inventory carrying costs and stock obsolescence. Carrying too little may result in stock-outs, costly emergency shipments or production, customer dissatisfaction or. worse, lost sales as unserved customers defect to a competitor. In making inventory decisions, management must balance the costs of carrying larger inventories against resulting sales and profits.

Inventory decisions involve knowing both when to order and how much to order. In deciding when to order, the company balances the risks of running out of stock against the costs of carrying too much. In deciding how much to order, tire company needs to balance order-processing costs against inventory carrying costs. Larger average-order size means fewer orders and lower order-processing costs, but it also means larger inventory carrying costs.

During the past decade, many companies have greatly reduced their inventories and related costs through just-in-time (JIT) logistics systems. Through such systems, producers and retailers carry only small inventories of parts or merchandise, often only enough for a few days of operations. New stock arrives at the factory or retail outlet exactly when needed, rather than being stored in inventory until being used, JIT systems require accurate forecasting along with fast, frequent and flexible delivery, so that new supplies will be available when needed. However, these systems result in substantial savings in inventory carrying and handling costs. By keeping the flow in the pipeline - raw materials, work-in-progress, finished goods - to a minimum, suppliers can enhance logistics efficiency, while ensuring that customer service objectives are regularly met.

- *TRANSPORTATION*

Transportation decisions have a critical impact on logistics costs. The choice of transportation carriers affects the pricing of products, delivery performance and condition of the goods when they arrive - all of which will ultimately affect customer satisfaction.

In shipping goods to its warehouses, dealers and customers, the company can choose among five transportation modes: road, rail, water, pipeline and air.

ROAD Trucks are highly flexible in their routing and time schedules. They arc efficient for short hauls of high-value merchandise, hi the EU, the bulk of goods traded is moved by road vehicles. The Conference of European Transport Ministers (CEMT) reported that transport volumes in the EU have risen by more than 50 per cent in the last 20 years. The hulk of this growth has been in road transport, which accounts for over 74 per cent of European freight transport/" Haulage rates for different cargo loads over different distances among EU member nations do, however, vary - Greek domestic rates are the lowest, followed by UK rates: German haulage costs are the highest, with France and Italy close behind in the high end of the rate spectrum. The gradual deregulation and removal of restrictive practices in the road transport market in the EU is expected to increase intra-EU haulage competition, with a downward pressure on rates. Also, there will be greater freedom for international hauliers to transport goods between destinations within one country, thereby raising the efficiency in use of trucks.

WATER In countries favourably served by coastal and inland waterways, a large amount of goods can be moved by ships and barges. On the one hand, the cost of water transportation is very low for shipping bulky, low-value, non-perishable products such as sand, coal, grain, oil and metallic ores - a single coaster or ro-ro (roll on, roll off) ship can carry the same cargo as dozens of trains or hundreds of trucks. On the other hand, water transportation is the slowest transportation mode arid is sometimes affected by the weather. Again, producers and suppliers have to make choice decisions based on trade-offs between speed, security and costs of transportation.

PIPELINE. Pipelines are a specialized means of shipping raw commodities such as petroleum, natural gas and chemicals from sources to markets. Pipeline shipment of petroleum products costs less than rail shipment, but more than water shipment. Host pipelines are used by their owners to ship their own products.

AlR Although the use of air carriers tends to be restricted to low-bulk goods, they are becoming more important as a transportation mode. Air-freight rates are much higher than rail or truck rates, but air freight is ideal when speed is needed or distant markets have to be reached. Among the most frequently air-freighted products are perishables (fresh fish, cut flowers) and high-value, low-bulk items (technical instruments, jewellery). Companies find that air freight also reduces inventory levels, packaging costs and the number of warehouses needed.

RAIL. Railroads are one of the most cost-effective modes for shipping large amounts of bulk products - coal, sand, minerals, farm and forest products - over long distances. In Europe, rail accounts for just over 17 per cent of total freight traffic.

10.16 INTERNATIONAL LOGISTICS:

International logistics is a critical area for more and more global businesses, whose inbound supply movements are shifting from domestic sources to global ones, and whose outbound supplies undergo an equally international trade flow. Sophisticated computer-based technologies, such as computer-integrated logistics (OIL), are being used to enable international companies and logistics service providers to manage the supply chain and specific logistics functions. International logistics place even greater demands on good integration of logistics operations and systems between supplier/manufacturer and others involved in moving supplies or goods along the supply chain across national borders. In the European market, increasing competitive pressures and the continuing drive for greater efficiency have forced distribution service providers, in the first instance, to focus more heavily on service quality improvement or risk losing out on invitations to bid for new business. Manufacturers and distribution operators alike have sought to set up pan-European distribution networks, although with mixed results. To be effective, international logistics must be planned and co-ordinated to achieve desired cost advantages while meeting customer service needs.

Test your knowledge:

1. Write a note on the goals of market logistics system.

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2. What are the various market logistics functions?

10.17 LET'S SUM IT UP

The company then identifies the main channel alternatives in terms of the types of intermediaries, the number of intermediaries and the channel responsibilities of each. There are many types of channel intermediary, ranging from wholesalers, brokers and agents to retailers. Wholesaling includes all the activities involved in selling goods or services to those who are buying for the purpose of resale or for business use. Wholesalers perform many functions, including selling and promoting, buying and assortment building, bulk-breaking, warehousing, transporting, financing, risk bearing, supplying market information and providing management services and advice. Wholesalers fall into two groups. First, merchant 'wholesalers take possession of the goods. They include full-service wholesalers (wholesale merchants, industrial distributors) and limited-service wholesalers (cash-and-carry wholesalers, trucks wholesalers, drop shippers, rack jobbers, producers' co-operatives and mail-order wholesalers). Second, manufacturers" sates branches and offices are wholesaling operations conducted by non-wholesalers to bypass the wholesalers. Agents and brokers do not take possession of the goods, but are paid a commission for facilitating buying and selling. Retailers perform activities involved in selling goods and services directly to final consumers for their personal use. There are many types of retailers, which differ in the amount of service they provide (e.g. self-service, limited service or full service); product line sold (e.g. speciality store, department store, supermarket, convenience store, superstore, hypermarket); and their relative price emphasis (e.g. discount store, category killer, cash-and-carry' warehouse, warehouse club and catalogue showroom).

More business firms are now paying attention to physical distribution or marketing logistics. Marketing logistics involves co-ordinating the activities of the entire supply chain to deliver maximum value to customers. No logistics system can both maximize customer service and minimize distribution costs. Instead, the goal of logistics management is to provide a targeted level of service at the least cost. Increasingly, companies are adopting the integrated logistics concept, recognizing that improved logistics requires teamwork in the form of close working relationships across functional areas inside the company, and across various organizations in the supply chain.

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M.COM

SEMESTER II

COURSE: MARKETING MANAGEMENT

UNIT 11 – MARKETING COMMUNICATION PERSONAL SELLING AND SALES PROMOTION

STRUCTURE

11.0 OBJECTIVES

After studying the Unit, students will be able to understand:

- The concept of integrated marketing communication
- Why communication is important in marketing?

- Steps for effective communication
- How marketers can make the consumers aware about their products?
- The working model of AIDA
- The personal selling and its functions as well as goals to promote the business
- Motives of programs under Sales Promotion
- Various tools for the Sales Promotion

11.1 INTRODUCTION

Now days the competition has increased so much that exchange of information between the consumers and the sales person has become very important. Due to the wide markets and variety of the products available in the markets and markets being dynamic the communication has become important.

Business environment keeps on changing with time and it is difficult for companies to develop or survive without marketing in such kind of environment. After liberalization and globalization, huge changes have taken place in the consumer market, as a result of which their needs or wants have also changed. So, without identifying the needs of customers, it is difficult for companies to satisfy them. The intend of marketing is to identify and understand the customers so well that companies can produce the products as per the requirements of customers.

11.2 INTEGRATED MARKETING COMMUNICATION

Integrated marketing communication is the process in which all the communication channels of the company are integrated and coordinated to deliver clear, appealing, consistent message about the product, service and the company. In short it can be said that it involves planning, creation, coordinating and implementing different methods of marketing communication.

"Integrated *marketing communication is a communication process that entails the planning, creation, integration, and implementation of different forms of marketing communication like sales promotion, advertising, publicity etc."* (Terence A. Shimp).

11.3 ROLE OF MARKETING COMMUNICATION

Many of the marketing objectives are achieved through the marketing communication. Following are the objectives of marketing communication:

- **Differentiate the product:** In the markets where there is tuff competition and number of products and services, marketing communication plays the role of differentiator in such markets. It is the communication that enables the consumers to buy the products by creating brand image in the mind of the consumers. The image created in the mind of the consumers help them to buy the product in which they have confidence and towards which they have developed positive attitude.
- **Reinforce:** The experiences and the beliefs of the consumers can be reinforced with the help of marketing communication. In this, the consumers are persuaded to transaction by reminding them of the benefits they received from the past transactions. More over the consumers can be ensured that they will be provided, after sales services and the comfort after the purchase. Reinforce is cost effective and helps to retain the consumers as well as create the new consumers.
- **Inform the people:** All the organizations have to make their consumers aware about the product and there is need to make the consumers aware about the benefits of the product as well as about the use of the product.
- **Persuade**: It is the objective of marketing communication in which the consumers are convinced to change their behavior or continue with the same behavior. The change may be like convincing them to visit the sites to try a new product, brand, etc.

11.4 COMMUNICATION PROCESS

The communication process consists of:

- The sender of the message formulates a clear idea, opinion, facts or message he wants to convey.
- The communicator converts the idea into words, symbols which he expects the receiver of the message to understand also known as encoding.
- Then the suitable media is selected to deliver the message, that may be telephone, telegraph etc.
- The receiver decodes the message to understand it.
- The receiver takes the action as he understood the message.

11.5 AIDA COMMUNICATION MODEL

AIDA stands for Attention, Interest, Desire and Action. Following principle was postulated by Lewis in one of his publications regarding the advertisement that:

The mission of an advertisement is to attract a reader so that he will look at the advertisement and stand to read it; then to interest him so that he will continue to read it; then to convince him so that when he has read it, he will believe it. If an advertisement contains these qualities, it is considered as successful advertisement. As the word of advertising is becoming more important or more competitive, so our advertisement should be such as it must attract the attention of the reader and persuade him to take action by buying the product. AIDA helps the marketing manager to develop the effective communication strategies. The elements of AIDA are;

Attention: The important goal of every promotional strategy is to attract the attention of potential customers. The powerful words or a picture that will catch the reader's eye and make them stop and read what you have to say next. It is the first phase that will create the interest of consumer. There are many ways to seek the attention of the consumer like surprising them, attractive words, asking a thought-provoking question etc. The advertisement should be designed in such way that it gives the prospects a reason to notice it.

Interest: Once you have gained the prospects' attention the next step is to maintain interest of prospect in your product or service to keep the recipients engaged by demonstrating the advantages and benefits of the product. The interest can be created by providing the information in entertaining and memorable way. Once the interest is created, the customer will willingly spend his precious time in understanding the message. A customer's interest can be created by:

- Listening to them and talking about their problems.
- Telling things that affect their problems.
- Demonstrating things.
- Getting them actively involved.

Desire: In this stage main objective is to show the consumer that how the product can solve their problem and benefits of that product can fulfil their needs. The main way of doing this is by appealing to their personal needs and wants. For example, in the ad of an electronic heater one can show its light weight, easy to carry, all utensils will work on it, equally heat is provided, easy to clean, save electricity and takes a little space in the kitchen, etc. By explanting all the features one can create desire among customers and they must have a feeling that it defiantly for them in this way the mission of advertising that is to sell, can be achieved.

Action: It is the final stage where the customer is persuaded to take action and ask them to purchase the product. The technique to stimulate action involve creating the sense of urgency by intending the offer for a limited time or including a bonus of a special gift to those who act with in the specific time period.

11.6 PERSONAL SELLING

Personal selling is the art of selling the goods by convincing the consumers to buy the products and services. The products are sold to the consumers by understanding the needs and wants of the consumers and finding the different ways to fulfil their needs.

"*Personal selling is an oral presentation in conversation with one or more prospective purchases for the purpose of making sales." (*American Marketing Association)

11.7 OBJECTIVES OF PERSONAL SELLING

Following are the objectives of personal selling:

- To increase the sales volume.
- To increase the sales volume so that the profits of the organization can also be increased.
- Personal selling is done to fulfil the needs of the existing consumers.
- Through personal selling the required marketing information can be collected.
- Personal selling helps to provide the technical knowledge to the consumers so that they can easily use the complicated products.

11.8 FUNCTIONS OF PERSONAL SELLING

Personal selling is the face-to-face conversation between the seller and the consumers. Following are the main functions of personal selling:

- **Sales:** The main aim of the organization to go for personal selling is to increase the existing sales and to create the new sales.

- **Records:** Personal selling is done to keep the record of the sales so that the record can be sent to the manufacturer.
- **To achieve the targets:** Personal selling helps the manufacturers to achieve the targeted sales.
- **Promotion of new product:** Personal selling is done to make the consumers aware about the new product and create the demand for the new product.
- **Demonstration:** Personal selling is more effective when the seller needs to physically demonstrates the product and make the consumer aware about the features and the benefits related to the products. The consumers develop positive attitude towards the product after the demonstration and buy the product after being satisfied.
- **Goodwill:** Many after sale services and other services are provided to the consumers which help in building the goodwill of the organization and the sales person which ultimately leads to increase in the sales.
- **Training:** The experienced sales person of the companies trains the new sales person and helps them to solve the grievances of the consumers if any.

11.9 SALES PROMMOTION

As advertisement and personnel selling are the essential parts of the marketing mix, sales promotion is the additional to all these elements of marketing mix. Sales promotion consists of short-term tools designed mainly to increase the sales of the goods and services, for example discount coupons, price cuts, contests and prizes etc.

"Sales promotion is an organized effort applied to the selling job to secure the greatest effectiveness for advertising and dealer's help." (GEORGE W. HOPKINS)

11.10 OBJECTIVES OF SALES PROMORION

Following are the specific objectives of sales promotion:

- The main purpose of the sales promotion is to attract new consumers.
- Sales promotion helps to attract the new consumers which will further help to increase the market share.
- Sales promotion is also used to match with the competitors' promotional activities.
- It is used to make the people aware about the new products its features and benefits.
- Sales promotion leads to the creation of brand image.

11.11 SALES PROMOTION PROGRAMMES

- **Size of the Incentive:** To develop the promotion program the optimum size of the incentive is to be decided. The size of the incentive will dependent on certain factors such as target segment – if the target segment is price oriented, small rate of discount will help to increase the sales, competition level- if the consumers are more loyal to competitors' brand than the amount of the incentives should be high, brand equity- the organizations with high brand equities need to provide less incentives and vice versa.
- **Terms and Conditions:** In sales promotion the terms and conditions are to be decided in advance so that there is no confusion to the consumers when the offers are on. For example, if contest is held there can be certain procedure to participate in that contest, there can be conditions like collection of certain number of wrappers. With the value of the purchase the discount can vary, moreover the discounts can be offered by the sellers in particular regions.
- **Promotion time duration:** There should be optimum time duration for the promotion of the product. The time duration of the product's promotion may vary from product to product, depending on the various situations. In certain cases, the short time duration helps in promoting the sales but it may not produce effective results, on the other hand the long duration may also make the promotion programs ineffective.
- **Promotion timing:** Generally, the organizations develop some particulars dates for the promotion of their products. But for the new products the companies have no option but to promote their products at the time of their launch. In countries like India people save money to make purchases during the festival seasons, so the schemes of sales promotion are at peak during Diwali. The timing of the sales promotion tool and the amount of incentives to be provided to the customers should complement each other.

11.12 METHODS OF SALES PROMOTION

Sales promotion is a technique which is used to make consumers aware about the product and to increase the sales. There are different methods which are adopted by the organizations to promote their sales. These methods can be divided into three parts:

- Consumer Sales Promotion.
- Dealer Sales Promotion.

- Sales Force Promotion.

11.12.1 CONSUMER SALESPROMOTION: Consumer sales promotion helps to increase the sales of the product, helps in creating awareness among the consumers as well in creating the new consumers. The different sale promotion methods used by the companies at the consumer levels are:

- **Samples:** Under this technique of sales promotion the companies give free samples to the consumers to increase the sales. This technique is adopted for the promotion of the new product so that the people can use the product and feel the benefit of the product. The samples can be delivered to the consumers door to door, sent through mail, can be offered with another product, offered at the retailers' outlet etc. Free sample distribution is effective way for the promotion of the product but at the same time it is costly method so it is not feasible to provide free samples at each and every stage.
- **Coupons:** The companies offer discount coupons to the customers. The coupons are the certificates which reduce the price of the product. The coupons can be mailed directly to the consumers, can be inserted insides the packets, can be given for the next purchase at the time of present purchase, can be inserted in the newspapers and magazines etc. The coupons are offered to the consumers to increase the sales, so these should be valid for short span of time. The main aim of the sellers here is to attract the consumer and make them buy particular brand by providing the coupons.
- **Contests:** The companies conduct the contests to attract the consumers or to make the consumers aware about the new product. There may be certain conditions to participate in the contest like the consumer may be asked to bring the package of the product to participate in the contest. The consumers will participate in the contest only when they are interested in the product. The prizes are given to the consumers on the basis of their skills and ideas.
- **Trial of the Product:** Free trials of the products are given to the consumers. It is the method in which the prospective consumers are invited and the product is provided to them free of cost with the hope that they will buy the product after the trial. Thus, the consumers are encouraged to buy the product by creating the interest of the consumer in the product.
- **Promotional packs:** The organizations can offer two products together in a pack which are related to each other. To attract the consumers the price of these products is kept less than the M.R.P. For example, a liquid hand wash whose price is Rs 50 can be sold in pack with refill of Rs 30. The total price is Rs 80, the company can sell it in a pack and charge Rs 65.

The products which are sold together in pack, should be beneficial to the consumers otherwise the consumer will not buy the product.

- **Offering loyalty rewards:** If the consumers are loyal to the organizations, they reward the loyalty of the consumers. The consumers are provided the loyalty points and they can redeem the points at the time of the purchase.
- **Warranties:** Product warranties are provided to the consumers to build the faith among the consumers about the product and its quality. Under this method the consumer's product is maintained by the producer after the sale for the specific period of time without cost, which is called warranty. If during the period of warranty, there is any problem in the product the consumer can get the defect removed without paying.

11.12.2 DEALERS SALES PROMOTION: The producers use number of techniques for the co-operation from the middlemen and the retailers. The dealers' sales promotion techniques are used to create the interest of the dealers. Following are the techniques of dealers' sales promotion:

- **Display allowances:** In this method the dealers are provided discounts by the producers for displaying their products. The amount of the discount varies with the space provided by the dealers for the product of the company.
- **Advertising material:** Under this technique of sales promotion, free advertising material is provided by the producer to the dealers. The material provided for advertising can be signboards, almirah, bill books etc. such material is provided with the dealers' name.
- **Allowance:** Buying allowances are offered to the dealers by the producers to attract the dealers to buy their products. Such allowances can be provided to the dealer in cash or can be deducted from the total amount of goods sold to them. Allowances helps the manufacturers to increase their sales as well as the dealers can earn good profits. This technique is adopted to induce the dealers to buy the product in large quantities.
- **Buy back allowance:** The dealers are offered buyback allowances by the producers at the time of each purchase on the basis of their previous purchases. This method helps in building long term relations between the producers and the dealers.
- **Listing the dealers:** In Listing of the dealers, a list of the dealers is provided who are involved in the promotion of the product. For example, the advertisement of Bombay Dyeing in newspaper may carry the list of the dealers of their product. The consumers can

buy the product from any one of the listed dealers. This method encourages the dealers to stock the products.

- **Free tours:** In this the method free tours are offered to the dealers who achieve more than their targets in a specific period of time. Free tours can be within the country as well as to the foreign countries.
- **Gifts to the dealers:** The producers offer different gifts like radios, televisions, watch etc. to the dealers when they order with the producers.
- **Cooperative Advertising:** Sometimes, the dealers advertise the product of the producer. The dealers can take the money spend by them on the advertisement from the producer. It is an indirect method of advertising for the producer and it will help increasing the sale of the product.

11.12.3 SALES FORCE SALES PROMOTION: Sales promotion is also important for the sales force. The sales force promotion is required to make the sales force more effective and efficient. Following are the methods of sales promotion for the sales force:

Bonus: The sales force is encouraged by providing them bonuses to increase the sale of the product. The targets are set by the producers for the sales force and if they achieve the targets within specific period and bonus is provided to them.

Contests: The contests are held for the sales force by the producers. Prices are given to the top performers.

Sales force meetings: The meetings conventions and conferences are held by the producers for giving rewards and appreciating the efforts of the sales force. These are also conducted to educate the sales force about the new selling techniques and inspiring the sales force.

11.13 SUMMARY / LET US SUM UP

- Due to the wide markets and variety of the products available in the markets and markets being dynamic the communication has become must.
- Integrated marketing communication is the process in which all the communication channels of the company are integrated and coordinated to deliver clear, appealing, consistent message about the product, service and the company.

- The mission of an advertisement is to attract a reader, so that he will look at the advertisement and stand to read it; then to interest him so that he will continue to read it; then to convince him so that when he has read it, he will believe it. Persuasive advertisements are done to convince the consumers. These advertisements are done by the producer to create demand for their product or service or brand.
- Because of globalization the whole world has turned into one market. Global advertising is directed towards the whole of the country.
- Personal selling is the art of selling the goods by convincing the consumers to buy the products and services. The products are sold to the consumers by understanding the needs and wants of the consumers and finding the different ways to fulfil their needs.
- Sales promotion is a technique, which is used to make consumers aware about the product and to increase the sales. There are different methods which are adopted by the organizations to promote their sales.

11.14 KEYWORDS

- **Sales promotion**: It is a technique which is used to make consumers aware about the product and to increase the sales.
- **Integrated marketing:** The process in which all the communication channels of the company are integrated.
- **Sales promotion:** It is an organized effort applied to the selling job to secure the greatest effectiveness for advertising.
- **Integrated marketing communication:** The process in which all the communication channels of the company are integrated.
- **AIDA:** Attention, Interest, Desire and Action.
- **Personal selling:** The art of selling the goods by convincing the consumers to buy the products and services.

11.15 REVIEW QUESTIONS

- What are the sales promotion tools to influence the middlemen to buy more?
- What is personal selling and why company go for it?
- What is integrated marketing communication? Why business organisation needs to have efficient communication methods?
- What is sales promotion? What are the different methods to increase the sales?

- Describe the personal selling. What are the objectives and functions of personal selling?
- What is AIDA communication model and why it is more successful?

11.16 QUESTIONS & ANSWERS OF SHORT QUESTIONS

1. Integrated marketing communication is the process in which all the communication channels of the company are not integrated. (True/False)
2. Personal selling does not help the manufacturers to achieve the targeted sales. (True/False)
3. AIDA stands for Attention, Interest, Desire and Action. (True/False)
4. Personal selling is the face-to-face conversation between the seller and the consumers. (True/False)
5. ……….. helps the marketing manager to develop the effective communication strategies.
6. Under **…………** technique of sales promotion, the companies give free samples to the consumers to increase the sales.
7. The important goal of every promotional strategy is to attract the attention of ………….. customers.
8. Once you have gained the prospects attention the next step is to maintain …………… of prospect in your product.
9. In the …………. method, the dealers are provided discounts by the producers for displaying their products.
10. **………..** is the art of selling the goods by convincing the consumers to buy the products and services.

    A. Advertising
    B. Sales Promotion
    C. Personal Selling
    D. All three

11. **…………….** consists of short-term tools designed mainly to increase the sales of the goods.

    A. Advertising
    B. Sales Promotion
    C. Personal Selling
    D. All three

ANSWERS:

1. False
2. False
3. True
4. True
5. AIDA
6. Sample
7. Potential
8. Interest
9. Display allowance
10. C

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SEMESTER II

COURSE: MARKETING MANAGEMENT

UNIT 12: ADVERTISING AND PUBLICITY, EMERGING ISSUES IN MARKETING

STRUCTURE

12.0 OBJECTIVES

After studying the Unit, students will be able to understand:

- The concept of advertising and its importance
- How marketers can use different types of advertising
- How we can promote the products without spending money
- Why green marketing is preferred by consumers and marketers
- Marketing Mix for green products
- How marketers using the network marketing
- The things marketers have to consider for Event marketing

12.1 INTRODUCTION TO ADVERTISING

Nowadays, customers are exposed to marketing efforts by organizations all the time. From morning to night customers are exposed to thousands of marketing messages. Marketing is a bit that influences customers even though they may not necessarily be conscious about it.

Advertising is derived from the Latin word "Advertise" which means to "turn the attention". Everything that grabs the attention of the people towards any product or service can be said advertisement. Advertisement is a paid form of a persuasive message carried by a non-personal medium which supports other promotional efforts. Advertisement is directed to the target audience through different methods of media to promote the products or services etc. Advertisement can be audio, visual or both.

MESSAGE + MEDIUM = ADVERTISEMENT

"Advertisement is any paid form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor." (American Marketing Association)

"Advertisement is a means of communication with the user of product and services. Advertisements are messages paid for by those who send them and are intended to inform or influence people who receive them." (Advertising association)

Following are the characteristics of advertising:

- Advertisement is indirect and non – personal form of communication.
- The advertisements should be able to reach large number of audiences.
- In advertisement there is flexibility in the messages.
- The advertisements control the content of the message.
- Advertisements are the main source of persuasion.
- Advertisements are the main, effective and efficient way of reaching the people.
- It is one of the major tools of promotion.
- It is the best method for the promotion of new product in the market.

12.2 TYPES OF ADVERTISING

12.2.1 PRODUCT ADVERTISING: Basically, advertising is done for the promotion of the products & services as well as to make the consumers aware about the product. The product advertising is of three types:

Informative: This advertisement is basically done to make the people aware of the product. These are the advertisements which create initial demand in the market for the product. These are the advertisements which are done by the producer at the introduction of the new product. Informative advertisements are done to simply make the people aware about the availability of the product.

Persuasive: Persuasive advertisements are done to convince the consumers. These advertisements are done by the producer to create demand for their product or service or brand. These are the advertisements which are basically used at the growth stage of the product where the promotion costs are high and the sales start increasing.

Reminder: These are the advertisements which are done to boost up the previous promotion activities of the organization. The product is advertised to remind them of the brand or the product.

12.2.2 INSTITUTIONAL ADVERTISING: These are the advertisements which are done by the producer not for the promotion of their products or to increase the sales. Institutional advertisements are aimed towards the building of the good image of the organizations among the shareholders, employees, suppliers and public etc. The aim of these advertisements is basically to benefit the organizations as a whole. These can be of different types such as patronage, public relations and public service institutional advertising.

12.2.3 ON THE BASIS OF DEMAND: Advertisements can be of two types depending on the demand of the products:

Primary: The primary demand of the product is the demand for the product not any particular brand. The purpose of promotion is to create demand for all the products of the same category not any brand. These advertisements are effective at the time of launch of new product in the market. For example, many years back Bisleri did the advertisement of mineral water, its emphasis was not on the brand "Bisleri" but on the positive effect of mineral water on health. These advertisements are effective when there is less competition in the market.

Selective: These are the advertisements which are basically done to create to demand for a particular brand. For example, Surf excel detergent powder.

12.2.4 ON BASIS OF TARGET AUDIENCE:

Consumer Advertising: The consumer advertisements are the advertisements which are directly focused towards the consumers. As the consumers are the end users these advertisements are also called the end product advertising. The focus of these advertisements is basically to induce the consumers to buy the products.

Industrial Advertising: Advertising which is done for the industrial product is industrial advertising. These advertisements are directed towards the people who buy the industrial goods and services. Industrial goods are the goods which are used for the manufacturing of other goods or which are required to run the business. The expenditure done on industrial advertisements by the produce is very less as compared to the consumer goods.

Trade Advertising: The consumers buy the product from the retailers, so it is must to make the product available to the retailers. Trade advertisements are targeted towards the channel of marketing which includes wholesalers, distributors and retailers. The main aim of the advertisements is to create confidence in the mind of the wholesalers and retailers to buy the manufactures' product.

Professional Advertising: These are advertisements which have influence on the professionals such as doctors, engineers, professors, etc. Professional advertisements induce these professionals to buy the company's products. For example, the medicines are bought by the people on the recommendation of the doctor not by the choice of the patients. So, these advertisements are directed towards the people who influence the choice of the products.

12.2.5 GEOGRAPHICAL ADVERTISEMENTS: Following are the advertisements on the basis of the geographical spread:

Global: Because of globalization, the whole world has turned into one market. Global advertising is directed towards the whole of the world. The advertisements have impact on the consumers all over the world where the product of the company is being sold. Here is slight change in the advertisements according to customs and cultures of the people in the different nations.

National: National advertising is done within the boundaries of the country. The main aim of national advertising is to make the consumers aware about the product, its features and benefits all over the country. All the advertisements which we watch on national channels are the examples of the national advertising.

Local advertising: Advertising which is done by the retailers and the local manufacturer to influence the consumers to buy the product from their stores. Local advertising is also used by the marketers who first like to restrict their product to the local markets and once the products are successful these are sold in the other regions also. Sometimes the business is small and he may like to restrict his business to the local area so he uses local advertising for the promotion of his products.

12.2.6 SERVICE ADVERTISING: Advertisements for the services are different than that of the products. Services are intangible, perishable. The main service industries are:

- Hotel services
- Education services
- Transportation services
- Financial services

The advertisement of the ATM (Automatic Teller Machine) which is service of different banks such as State Bank, HDFC etc.**12.2.7 ADVERTISING ACCORDING TO RESPONSE:** According to the response of the consumers the advertisements can be of two types:

Direct action advertising: These are the advertisements which generate direct and immediate response of the consumers. Direct advertising influences the consumers to buy the product immediately.

Indirect action advertising: These are the advertisements which do not induce the consumer to buy the product immediately but create positive attitude of the consumers towards the product. The purpose of these advertisements is to create long term impact on the consumers.

12.3 PUBLICITY: Publicity is non-paid form of communication. In it the communication of the organization and its products is done through media. Different forms of the publicity may include, news story or a speech or interview. Following are the characteristics of publicity:

- It is non-paid form of communication.
- Publicity is not to persuade the consumer but to provide the information.
- In publicity the messages are not shown again and again i.e., there is no repetition.
- Identified sponsors are not required for the publicity of the products.

12.4 EMERGING ISSUES IN MARKETING

12.4.1 GREEN MARKETING: Green marketing involves developing and promoting products and services that satisfy customers want and need for Quality, Performance, Affordable Pricing and Convenience without having a detrimental input on the environment.

Green marketing refers to the process of selling products and/or services based on their environmental benefits. Such a product or service may be environmentally friendly in itself or produced and/or packaged in an environmentally friendly way. *Green marketing must satisfy two objectives: improved environmental quality and customer satisfaction.*

12.4.2 EVOLUTION OF GREEN MARKETING: The green marketing has evolved over a period of time. According to Peattie (2001), the evolution of green marketing has three phases. First phase was termed as **"Ecological"** green marketing, and during this period all marketing activities were concerned to help environment problems and provide remedies for environmental problems. Second phase was **"Environmental"** green marketing and the focus shifted on clean technology that involved designing of innovative new products, which take care of pollution and waste issues. Third phase was **"Sustainable"** green marketing. It came into prominence in the late 1990s and early 2000.

12.4.3 REQUIREMENT OF GREEN MARKETING: Man has limited resources on the earth, with which she/he must attempt to provide for the worlds' unlimited wants. There is extensive debate as to whether the earth is a resource at man's disposal. In market societies where there is "freedom of choice", it has generally been accepted that individuals and organizations have the right to attempt to have their wants satisfied. As firms face limited natural resources, they must develop new or alternative ways of satisfying these unlimited wants. Ultimately green marketing looks at how marketing activities utilize these limited resources, while satisfying consumers wants, both of individuals and industry, as well as achieving the selling organization's objectives. P*ossible reasons green marketing are as follows:*

- Organizations perceives environmental marketing to be an opportunity that can be used to achieve its objectives.
- Organizations believe they have a moral obligation to be more socially responsible. Governmental bodies are forcing firms to become more responsible.
- Competitors' environmental activities pressure firms to change their environmental marketing activities**.**
- Cost factors associated with waste disposal, or reductions in material usage forces firms to modify their behavior.

12.4.4 GREEN MARKETING MIX: Every company has its own favorite marketing mix. Some have 4 Ps and some have 7 Ps of marketing mix. The 4 Ps of green marketing are that of a conventional marketing but the challenge before marketers is to use 4 Ps in an innovative manner.

- **Product:** The ecological objectives in planning products are to reduce resource consumption and pollution and to increase conservation of scarce resources.
- **Price:** Price is a critical and important factor of green marketing mix. Most consumers will only be prepared to pay additional value if there is a perception of extra product value. This value may be improved performance, function, design, visual appeal, or taste. Green marketing should take all these facts into consideration while charging a premium price.
- **Promotion:** There are three types of green advertising: -
  - ✓ Ads that address a relationship between a product/service and the biophysical environment
  - ✓ Those that promote a green lifestyle by highlighting a product or service

- ✓ Ads that present a corporate image of environmental responsibility

- **Place:** The choice of where and when to make a product available will have significant impact on the customers. Very few customers will go out of their way to buy green products.

12.4.5 NETWORK MARKETING: Network Marketing is a subset of direct selling and is also known as "multilevel marketing", "structure marketing" or "multilevel direct selling", Network marketing can best be described as a direct selling channel that focuses heavily on its compensation plan because the distributors (members of the network) may receive compensation in two fundamental ways. First, sales people (distributor) may earn compensation from their personal sales of goods and services to the consumers (non-member of the network). Second, they may earn compensation from sales to or purchase from those persons whom they have personally sponsored or recruited into the network (down lines), these down lines continue sponsoring or recruiting to the network sharing the benefits with their sponsors or recruiters (up lines). Hence, the network marketing organization can be defined as "those organizations that depend heavily or exclusively on personal selling, and that reward sales agents for (a) buying products, (b) selling products, and (c) finding other agents to buy and sell products".

12.4.6 How Does network marketing Work?

In network marketing, you share information and develop personal and professional contacts. You are rewarded for sharing information that results in product's sales. Network Marketing empowers you to build your own networking sales organization from your personal and professional contacts, which also empowers everyone to do the same, creating exponential growth of your network. You can earn income from the successful efforts of your network of business associates. Unlike conventional Corporations with one chief executive at the top, in Network Marketing everyone is the CEO of his or her own independent organization.

A network marketing company supplies the product. Then they join in partnership with a network of independent representatives, each one in business for themselves. The company takes care of the research and development, finances, management, public relations, production, warehousing, packaging, quality control, administration, shipping, data processing, the accounting and payment of representative sales commission checks.

12.4.7 EVENT MARKETING: More and more companies are interested in Event Marketing today. Event Marketing can be anything from product tasting in stores to customer seminars with education on the schedule. The common factor of all activities is that they provide experiences and stimulate all senses. The big difference between reading about fireworks and experiencing them is the actual experience. The core of Event Marketing is the possibility to give the consumer positive experiences in connection with the company or its products.

Event marketing encompasses a wide range of event types from exhibitions and trade shows to publicity stunts, themed and created events and corporate entertainment. In fact, there are very few events which could not be used for a marketing purpose as all communicate something to a target audience. Events can be used to perform a number of marketing functions (for example communications, relationship and loyalty building, database compilation, targeting, brand enhancement and personal selling). Event marketing is not, therefore, merely another form of promotion but a new way of marketing which fits well with society's demands in this new millennium. It has the ability to deal with small groups or individuals, to be customized, to create interactivity, involvement and interest and to cut through the clutter of competing brands. Events can be and often are related to worthy causes and social responsibility and take an audience through from initial attention and interest to purchase, use and post experience evaluation, reward and loyalty. Event marketing is experience marketing in its practical form.

As marketing events range from product launches to trade shows, from mega-event sponsorship to charity fundraisers the marketing implications are wide ranging and varied. Examples of the areas to be included within the track are given below, although this list is far from exhaustive.

- The effectiveness of events as communication tools
- Experiential marketing through events
- Relationship marketing and business to business events
- Cause related events and social marketing
- Brand building through themed events
- Leveraging the benefits of event sponsorship
- Corporate entertainment and key account management
- Public relations, publicity events and press conferences

One of the greatest advantages with using Event Marketing is the possibility to add more content to the traditional marketing mix. Events are not only communicating information that should lead to increased values, but rather by using events a company can actually do something that adds value to the customer and/or other external factors.

While marketing an event, there are a few key tactics and methods that can be employed to ensure that the event gains the maximum response and also that event is managed in the minimum cost possible. Event marketing has been a concept that has only recently been pioneered in India. But, though new, the concept has taken off very well with the Indian consumers who are evolving rapidly.

Some of the tactics and methods are listed below. Following them can ensure a cost-effective implementation of the event marketing.

- If the event is meant to market a certain product, then it is necessary to ensure that the purchase decision-maker attends the event. It is important to get the message across to the target audience and therefore enough research about the profile of the attendees is important to be able to communicate effectively to them about the product. It is important that least 50-60% of the people attending the event are targets of the product to be promoted.
- It is also important to evaluate the value-added benefits that the venue or the trade show organizer makes available to your business. Make sure you find out, if they allow access to the attendee mailing list so you can implement a pre-mailing process in order to promote your one-day trade show special, as well as the location of your booth. Make sure you get participant contact information before the event as well as after. Other value-added benefits that can be expected from the show organizer include: being included in participant email distributions promoting the event, as well as an advertisement in the event show guide.
- Before the event is undertaken, the cost effectiveness of promoting the product through the event should be questioned by asking yourself event qualifying questions around the “who" instead of the “how many”.
- The giveaways at the event should be relevant to the business being promoted through the event. And make sure you don't give something away for free just for the heck of it.
- The location chosen for the event is perhaps the most important aspect. Make sure you don't purchase a cheap booth at a popular exhibition because there are strong chances that no one will be visiting you, since your booth will be tucked away hidden from all eyes. The most ideal locations in any exhibition areas are found at the entryway to the event and near the pathway to the food stations and restrooms.

12.5 LETS US SUM-UP

- Advertisement is a paid form of a persuasive message carried by a non-personal medium which supports other promotional efforts. Advertisement is directed to the target audience through different methods of media to promote the products or services etc.
- Green marketing refers to the process of selling products and/or services based on their environmental benefits. Such a product or service may be environmentally friendly in itself or produced and/or packaged in an environmentally friendly way.
- Organizations perceives environmental marketing to be an opportunity that can be used to achieve its objectives. Organizations believe they have a moral obligation to be more socially responsible. Governmental bodies are forcing firms to become more responsible.
- Network Marketing is a subset of direct selling and is also known as "multilevel marketing", "structure marketing" or "multilevel direct selling", Network marketing can best be described as a direct selling channel that focuses heavily on its compensation plan because the distributors (members of the network) may receive compensation in two fundamental ways.
- Event Marketing can be anything from product tasting in stores to customer seminars with education on the schedule. The common factor of all activities is that they provide experiences and stimulate all senses.

12.6 KEYWORDS

- ✓ **Advertising material:** Under this technique of sales promotion free advertising material is provided by the producer to the dealers.
- ✓ **Cooperative Advertising:** sometimes the dealers advertise the product of the producer.
- ✓ **Advertisement:** It is paid form of non-personal presentation and promotion of product.
- ✓ **Informative Advertising:** Advertisement done to make the people aware of the product.
- ✓ **Primary Advertising:** The purpose of advertising is to create demand for all the products of the same category not of any brand.
- ✓ **Green marketing:** It refers to the process of selling products based on their environmental benefits.
- ✓ **Direct action advertising:** Advertisements which generate direct and immediate response of the consumers.

- ✓ **Network marketing organization:** Those organizations that depend heavily or exclusively on personal selling.
- ✓ **Event Marketing:** The marketing, to give the consumer positive experiences in connection with the company or its products.

12.7 REVIEW QUESTIONS

- How would you define the advertising? Discuss the various methods of marketing.
- Why advertising is important and how it has been done by the business organizations?
- How advertising is different from publicity and which one is more important?
- In the present era what is role of green marketing to promote the products?
- Why business organizations have been using the network marketing and for which type of business it is more suitable?
- What is event marketing and what is the contribution of event marketing for marketing managers?

12.8 SHORT QUESTIONS AND ANSWERS

1. Advertising is concerned with to turn the Behaviour. (True/False)
2. Advertisement is any paid form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor. (True/False)
3. The core of Event Marketing is the possibility to give the consumer positive experiences in connection with the company or its products. (True/False)
4. Reminder advertisement is basically done to make the people aware of the product. (True/False)
5. Professional Advertising are done to influence the ……………..
6. ……… advertisements are basically done to create to demand for a particular brand.
7. ………….. refers to the process of selling products and/or services based on their environmental benefits.
8. First phase of green marketing termed as ……….., and during this period all marketing activities were concerned to help environment problems and provide remedies for environmental problems.
9. ……………….. advertisements are done to convince the consumers.
    A. Reminder
    B. Informative
    C. Persuasive
    D. All three