

**PROMOTION & DISTRIBUTION  
MANAGEMENT  
(DBPDM31)  
(BACHELOR OF BUSINESS  
ADMINISTRATION)**



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**LESSON - 1**

# PROMOTIONAL SERVICES IN INDIA- AN INTRODUCTION

**Objectives :**

After reading this lesson , you should be able to :-

- “ Know a complete overview of media scene in India.
- “ Discuss the rationale and inputs for the media selection decision.
- “ Give a comparative Evaluation of media in India and media habits of Indian consumers.
- “ Evaluate the marketing implications of media habits.
- “ Establish the relationship between advertising expenditure and sales promotion of products in the Indian context.

**Structure :**

- 1.1 Introduction.**
- 1.2 Media Selection.**
- 1.3 Media Status in India.**
- 1.4 Correlation between promotion expenditure and sales Generation.**
- 1.5 Advertising Expenditure in General A Profile.**
- 1.6 Advertising Agencies in India.**
- 1.7 Promotional scene for service and financial products.**
- 1.8 Summary**
- 1.9 Key Words**
- 1.10 Self Assessment Question.**
- 1.11 Further Readings.**

**1.1 Introduction :**

With in the last decade, the media has acquired a lot of significance in developing advertising campaign. The proliferation of media choice and their increased costs have made the task of media planner more difficult and risky. Mass media options including Television, Radio, Newspapers, Magazines, out of home media and others. The choice may seem to be straight forward, but it is not.

Nevertheless, you need to know something's else too i.e. an introduction to the world of realities of media scene in a country that you are working. Thus, the media manager of HLL (HLL manages 110 brands and spends around Rs.450/- crores on advertising every year) will have to be familiar with what are the major characteristics of promotion vehicles in India because the company even though MNC in character, can not expect to implement all its media plans in India

in view of inherent limitations and peculiarities of media scene in India. The same is true for a new company/product entering the Indian market for the first time, to know media availability through facts and figures. The aim of this lesson is to provide substance to media planners dreams and expectations as to what they can do and what they cannot possibly do.

## 1.2 Media Selection :

The selection of media has become quite intricate because of the nature of media themselves. The characteristics of each alternative must be considered carefully. The process of choosing between alternatives becomes even more complicated considering the wide range of alternatives within the same medium. New and evolving media have further contributed to the difficulty of planning when, where, and how the ad message will be delivered.

A number of media alternatives and media vehicles are available to advertisers. In certain cases it is possible that only one medium and vehicle may be used. This, sometimes may be the case with small budget companies. Large companies usually use a number of media alternatives and vehicles. Media planning and selection refers to a series of decisions that need to be taken in delivering the ad message to the large number of target audience in the most effective manner at the lowest cost. The decisions are on reach, frequency, Geographical coverage, relative cost of media and characteristics of media vehicles. In addition to that message needs, consumers purchase pattern, budget level, competitive activity and marketing objectives shall be taken into consideration for selection of media. Table – I provides creative advantages and disadvantages in selecting a certain medium.

Table – I: Creative Advantages and Disadvantages of Media

<b><u>Media</u></b>	<b><u>Creative advantages</u></b>	<b><u>Creative disadvantage</u></b>
Television	<ul style="list-style-type: none"> <li>·Offer Mass Coverage</li> <li>·High Level of reach</li> <li>·Combined impact of sight</li> <li>·Sound and motion</li> <li>·Prestige Value</li> <li>·Low cost per exposure</li> <li>·Attract attention</li> </ul>	<ul style="list-style-type: none"> <li>·Offer Low Selectivity</li> <li>·Short span of message life</li> <li>·High cost</li> <li>·High production cost</li> <li>·Creates advertising culture</li> <li>·Waste coverage</li> </ul>
Radio	<ul style="list-style-type: none"> <li>·Local Coverage</li> <li>·Lower Cost</li> <li>·High Frequency</li> <li>·Focused segment selection</li> <li>·Low production cost</li> </ul>	<ul style="list-style-type: none"> <li>·Only Audio</li> <li>·Noise</li> <li>·Low on attention getting</li> <li>·Message short lived</li> </ul>
News Papers	<ul style="list-style-type: none"> <li>·Mass coverage</li> <li>·Low cost large space</li> <li>·Short lead time for ad placing</li> <li>·Ad position choice possible</li> <li>·Good for current ads</li> <li>·Reader control exposure</li> <li>·Coupons can be inserted</li> </ul>	<ul style="list-style-type: none"> <li>·Short life of advertisement</li> <li>·Clutter</li> <li>·</li> <li>·Low attention getting</li> <li>·Poor production quality</li> <li>·Selective exposure</li> </ul>

Magazines	<ul style="list-style-type: none"> <li>·Potential for focused segmentation</li> <li>·Very good production quality</li> <li>·Longevity of message</li> <li>·High information content</li> <li>·More readers per copy</li> </ul>	<ul style="list-style-type: none"> <li>·Long lead time for ad placing</li> <li>·Only visual</li> <li>·Low frequency</li> <li>·Lack of flexibility</li> <li>·</li> </ul>
Out door	<ul style="list-style-type: none"> <li>·Good for specific location</li> <li>·High reputation</li> <li>·High visibility</li> </ul>	<ul style="list-style-type: none"> <li>·Short exposure time</li> <li>·Short message</li> <li>·Poor Image</li> </ul>
Direct Mail	<ul style="list-style-type: none"> <li>·High level of selectivity</li> <li>·Reader controls exposure</li> <li>·High information content</li> <li>·Opportunity for repeat exposures</li> </ul>	<ul style="list-style-type: none"> <li>·High cost per contact</li> <li>·Often thrown as junk mail</li> <li>·Clutter</li> <li>·</li> </ul>
Internet	<ul style="list-style-type: none"> <li>·User controlled</li> <li>·Increased attention and involvement</li> </ul>	<ul style="list-style-type: none"> <li>·Limited creative capabilities</li> <li>·Technology limitation</li> <li>·Limited reach</li> <li>·Few valid measurement techniques</li> </ul>

### 1.3 Media Status in India :

- ☞ Beyond facts and figures, there has been a substantial qualitative improvement in media status in the country. Both the demand and usage of media has been on the rise. Several factors have been accountable for this rise.
- ☞ Economic liberalization, globalization, both in the consumer and industrial markets, necessitated a different approach to markets. Competition was the new name of the game. Naturally, media was treated as on 'ally' in meeting competition.
- ☞ The markets were flooded with innovative, new and improved products. The traditional placid markets came suddenly to life. Media provides a significant vehicle for these products.
- ☞ There was an urgency in the efforts to defend market share by the traditional leaders of both consumer durables, non-durables and business products, use media in the process in a perceptibly bigger way.
- ☞ There is now a greater intimacy between media suppliers and media users in India. Media suppliers provide latest data about their reach and frequency to make advertisement, more effective. Value for money is the new slogan of media suppliers.
- ☞ Marketing research is being increasingly used by both media suppliers and users. This marketing research is used for both positioning the advertisement and effective use of reach and frequency in getting message across to the consuming public.

- ☞ The public preferences, knowledge and attitude toward media too has substantially changed. The awareness and appreciation of people is on the increase as to what media can or cannot do.
- ☞ Realizing fully the monetary gains and importance of media selling, media suppliers too have modernise the media services.

**Media reach in India is illustrated by Table – 2**

Which attempts major media reach in Urban and rural India and Table – 3 gives a very general view of metro media habits, especially useful to those media planners targeting at metro markets.

**Table – 2 : Major Media Reach in India**

Media (Figures in %)	Urban	Rural	Total
Press	49.4	17.4	26.8
T.V.	81.6	42.0	53.5
Radio	21.6	24.6	23.7
Cinema	15.3	8.6	10.6
Internet	1.6	0.1	0.5

**Source :** National Readership Survey, 2002

**Table – 3 Metro Media Habits**

Media	Mumbai	Kolkatta	Delhi	Chennai
Press	65.1	52.2	54.2	66.4
T.V.	42.7	24.7	55.4	46.3
Cinema	32.7	37.6	38.2	54.8
Radio	54.2	45.6	57.2	70.2

**Table – 4 Growth of Media in India**

Media	1993	2003
T.V. No. of channels	17	218
Press No. of Publication Industry Estimates	31000	51000
ABC Member Publication (Audit Bureau of circulation)	0	3402
Radio No. of Stations	90	275
Cinema No. of Theatre	14000	12900

Source : Hindu Survey on Indian Industry, 2005.

**1. The Press Medium in India :**

In the last nearly 200 years, Newspapers and Magazines have remained a very important mass media for advertising. The power of written word has been recognized since the era of shared information. In the recent years, when press and print medium in general felt threatened by Television, several leading exponents of print medium began on concerted exercise to .... back its audience and, by implication, advertisers and adverting revenue.

Newspapers are the major form of print media, and the largest of all advertising media. Newspapers are quite important to national advertisers and are an especially important advertising medium to local advertisers. As of 31 December-2002, the total number of Newspapers and periodicals was a who opting 51,960 published in India as compared to 41,705 in 1997. The number of dailies in different languages was 5,638, weeklies 18,582 and monthlies 14,634 (see Table-5). Newspapers are published from all states and Union territories. According to the recent readership survey maximum number of dailies in English – 22 (IRS) 18 (NRS), second largest figure in dailies is in Hindi – 26 (IRS) 23 (NRS). In the regional languages Marathi and Gujarati dailies have the largest number – 23 (IRS) 15 (NRS) and 14(IRS) 11 (NRS) respectively. (See Table – 6).

## 2. Television in India :

Television is believed to be the most authoritative influential and exciting of all mediums. It is often said that television is the ideal medium for advertising because of its ability to combine visual images, sound, motion and colour. These characteristics allow the advertiser maximum opportunity to develop the most creative and imaginative ad messages as compared to any other medium. With the introduction of sponsored programmes, there will be an attempt to produce improved quality programmes. This will vastly improve the entertainment value and the consequent viewer ship. As it will also increase the cutter of commercials, we may see subject related commercials.

Advertising on television makes it possible to reach a large number of audiences. Durdarshan claim to have its terrestrial reach to 70 million house holds in India, including rural areas. It is estimated that over 191 Million TV audience are Urban and 171 Millions are rural areas. In villages, with population between 1000 and 5000, average time spent in viewing T.V. range between 24.6 to 32.0 minutes per working day. The same in metros and cities ranges between 32.1 to 36.8 minutes. C & S reach 20 million homes, mostly Urban.

**Table – 5**  
**Number of News Papers in 2002**  
(Language and periodicity wise)

Language	Dailies	TRI/B1- Weeklies	Week- lies	Fort- nights	Month- lies	Quar- terlies	Bi Monthly Half Yearly	Annual	Total
English	407	34	1010	745	3052	1308	854	186	7596
Hindi	2507	125	10243	3122	3633	693	228	38	20589
Assamee	18	3	77	39	65	13	10	1	226
Bengali	103	15	633	560	726	492	190	22	2741
Gujarati	159	13	1086	228	597	65	52	15	2215
Kannada	364	6	397	269	700	52	24	4	1816
Kashmir	0	0	1	0	0	0	0	0	1
Konkani	1	0	3	1	4	2	0	0	11
Malayalam	225	6	184	165	816	63	37	9	1505
Manipuri	15	0	6	5	10	7	4	0	47
Marathi	395	21	1410	226	594	123	49	125	2943
Nepali	3	2	26	6	12	17	7	0	73
Oriya	80	2	167	93	292	91	23	4	752
Punjabi	107	15	369	99	268	33	19	1	911

Promotion and Distribution Management **1.6** Promotional Services in India - ....

Sanskrit	4	0	9	4	17	16	6	0	56
Sindhi	13	0	38	11	37	9	2	0	110
Tamil	366	43411	241	987	37	26	8	2119	
Telugu	180	3	267	217	574	31	15	2	1289
Urdu	534	21	1348	377	533	72	18	3	2906
Bilingual	82	20	692	373	1334	389	161	37	3088
Multilingam		18	4	120	69	225	71	36	13 586
Others	57	15	85	31	128	56	13	1	380
<b>Total</b>	<b>5638</b>	<b>348</b>	<b>18582</b>	<b>6881</b>	<b>14634</b>	<b>3640</b>	<b>1774</b>	<b>469</b>	<b>51960</b>

**Table -6 :** **Top Dailies in India – 2004**

Publication	Language	Circulation
Times of India	English	24,71,884
Dainik Jagran	Hindi	21,61,446
Dainik Bhaskar	Hindi	20,08,778
Malayalam Manorama	Malayalam	13,73,079
Hindustan Times	English	11,87,913
Anand Bazar Patrika	Bengali	11,06,408
The Hindu	English	10,47,121
Eenadu	Telugu	9,85,278
Mathrubhumi	Malayalam	9,48,089
Rajasthan Patrika	Hindi	9,35,783

Audit Bureau of circulation, July, December, 2004

**Top Weeklies**

1. The Sunday times of India (Except Delhi)	English	14,23,152
2. Malayalam Manorama	Malayalam	9,82,419
3. Mangalam	Malayalam	5,40,642
4. Anand Vikatan	Tamil	4,30,534
5. Kumudam	Tamil	4,22,141
6. Balarama	Malayalam	2,95,288

**Top Fortnights & Monthlies**

1. Sara Salil	Hindi	10,51,279
2. Vanitha	Malayalam	5,43,233
3. Meri Saheli	Hindi	3,58,353
4. Grih Shobha	Hindi	3,64,096
5. Gruha Lakshmi	Hindi	2,70,008

**Top Annual**

1. Kalnirnay	Marati	49,04,084
2. Kalnirnay	Hindi	5,39,876
3. Malliga Panchanga Darshni	Kannada	2,83,446
4. Manorama Year Book	English	2,22,778
5. Sharadia Bartaman	Bengali	1,56,936

Source : Audit Bureau of circulations, July, December, 2004.

**Table – 7 : T.V. Viewer ship by Region (Figures in Millions)**

	West	South	East	North	Total
Urban	52.3	60.2	37.7	41.2	191.4
Rural	38.5	45.4	37.3	49.5	170.7
Others	33.4	24.7	28.3	31.0	117.4
<b>Total</b>	<b>124.2</b>	<b>130.3</b>	<b>103.3</b>	<b>121.7</b>	<b>479.5</b>

Source : Doordarshan 2001.

**Table – 8 : DD, Cable and Satellite (C & S) Revenue**

Year	DD (Rs. in crores)	C & S (Rs. in crores)
1994-1995	373	78
1995-1996	398	160
1996-1997	472	349
1997-1998	573	539
1998-1999	491	810
1999-2000	425	1175

### 3. Radio :

Radio can deliver ad message to a very large number of audiences across the length and breadth of our country. An estimated 104 million house holds in the country own radio's. Akashvani (AIR) reaches 97.3 percent population and its coverage by area is 90 percent. It has 208 stations and 313 transmitters (Medium Wave – 142, short wave – 85 and 116 FM transmitters). External service division covers about 100 countries in 26 languages (Indian Languages 10, and Foreign Languages 16). Commercial services of All India Radio include 30 Vividh Bharathi centres, 76 Local Radio stations and 4 FM Metro Channels. National Channel of AIR started in May, 1998, also accepts commercials.

Radio time in India is sold in spots of 7, 10, 15, 20 and 30 seconds. The ads are interspread among the programmes and a spot capsule contains a maximum of 4 spots not exceeding a total of 75 seconds. A 10 second spot on FM costs between Rs.250 to Rs.270/-

### 4. Outdoor :

Outdoor advertising is the oldest form of advertising, signs were used to mark the location of mercantile establishments. Today's outdoor media of advertising are nothing but a retirement of the ancient method of delivering a message to a large group of people. The modern outdoor media includes posters, bill boards, herding, non-standardised signs, highway advertising, transit advertising and at rail, bus and air terminals.

Outdoor ads are a Rs.650/- crores market, 1998 shared by some 80 different agencies. The rate of growth is 15% per year. Outdoor accounts for 10% of total ad business (Rs.5000 crores). Mumbai itself accounts for 20% of the spendings. The overall spend on TV is about Rs.1500 crores. This makes outdoor about 33% of TV spend. Rates are charged per unit of time say weekly, monthly or annually. Price very between Rs.5000/-, Rs.1.5 Lacks per hoarding and



depends on location. India is said to be spending highest (10PC) on Outdoor followed by Korea, Japan and Malaysia.

**5. Internet :**

Advertiser can put their messages on the Net. In the evolution of Internet as a media, advertising will play a significant role. Internet will expand by leaps and bounds in the next few years. The year 2003 will have around 200 million internet users. We in India around 2-2.5 million internet users already. Internet access means a reduction in time to access other India.

**1.4 Correlation between promotion expenditure and sales Generation :**

Business organisation, particularly those manufacturing consumer goods has high correlation with the expenditure incurred on advertising and sales promotion of goods. A relatively high correlation was found to exist in the case of HLL, Colgate Palmolive, Food Specilities, Coca-Cola, Brooke Bond, Nestle. The expenditure on advertisement and related promotional activities is often constructed as a selling costs by the companies. But advertisement is a product cost, forming a part of the cost, for manufacturing and Distribution of a new or supposedly better products. The selling cost is the cost incurred generally in maintaining or enlarging the market for products which are already in the market stream. Certain companies have high advertisement push effect on sales than others. Invariably the consumer good manufacturing companies have such a push – effect.

It has been found that there is no linear relation between generation of sales and expenditure on sales promotions. This is because the companies have generally a diversified product range. The media platform for advertisements and nature of products are also important factor in establishing linear relationship between sales promotion expenses and sales income of companies. It is concluded that sales promotion expenses do have an impact on the sales income of companies. But it appears that there is no one to one linear relationship between the two factors though these are highly correlated to one another.

**1.5 Advertising Expenditure in General – A Profile :**

As elsewhere in India too, there is a high spendings on advertising. Reasons for this reluctance are not far to seek. It is indeed a sensitive questions for any company to answer too. Secondly and perhaps more important is the inability to arrive at precisely the amount to be attributed to advertising as accounting practices in these companies do not accurately keep figures on various forms of promotions in a company.

**Table – 9**  
**Companies Allocations of Media Dollars – US and International**

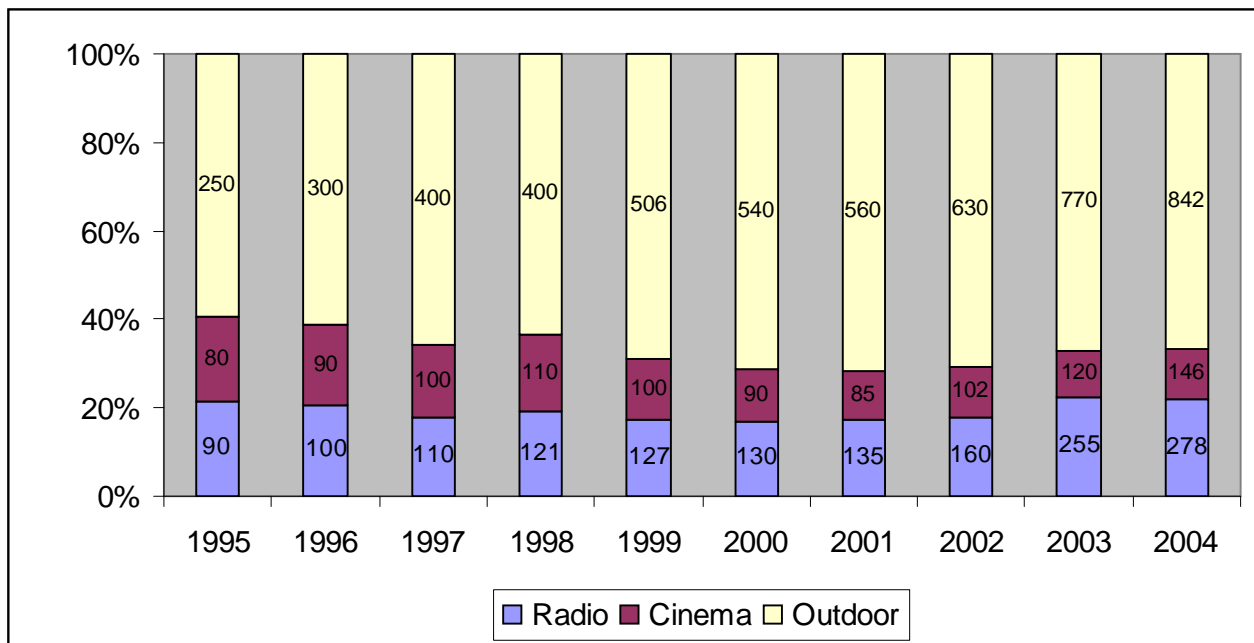
(Media Spendings in Millions)

Rank	Advertiser	Out side US	US	World Wide	Africa	Asia	Europe	Latin America	Middle East	Canada
1	Unilever	2967	698	3664	24	931	1713	291	7	0
2	P & G	2610	1542	4152	7	589	1513	397	41	61
3	Nestle	1560	327	1886	7	404	985	116	31	0
4	Toyoto	1345	790	2135	6	905	365	0	13	55
5	Volkswagen	1290	424	1714	4	14	1101	150	0	20

**Table – 10**  
**Top 10 Advertisers in India (Rank Wise)**

1985-86	1992	1998	2004
HLL	HLL	HLL	HLL
Colgate Palmolive	Tata's	Nestle	Hero Honda
Mc Donald's	MRF	Colgate, Palmolive	Bajaj Auto
Brooke Bond	Godrej	Coco-Cola	LIC of India
Peico	P & G	Dabur	Samsung
Reliance	Parle Exports	Pepsi	Hyndai Motors
ITC	Nestle	P & G	LG
Glaxo	Colgate, Palmolive	Reckitt & Column	ITC
Escort	ITC	Maruthi Udyog	Maruthi Udyog
Bombay Dying	Bajaj Auto	Tata Motors	Tata Motors

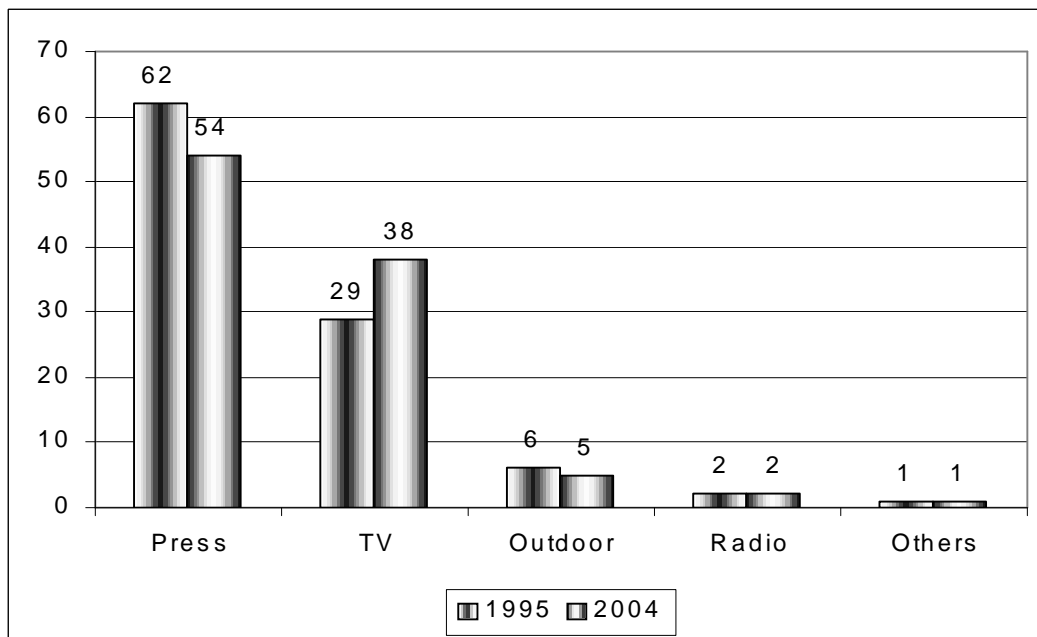
**Table – 11**  
**Advertising Expenditure by Medium**



Source : Hindu Survey on Indian Industry, 2006 P. 277

Figure – 1

Share by Media – Spending (1995 – 2004)



In growth terms, TV is scoring over other media during the said period. The print media accounts for 54% of the total ad expenditure in 2004, with the similar formidable track record in the past. The expenditure on Radio is constant.

### 1.6 Advertising Agencies in India :

Advertising agencies in India have kept pace with the expansion of media business and expenditure on advertising. While in 1939, there was only 14 agencies accredited to the Indian Newspaper Society (INS) by 1986, this strength has gone up to 383 and by 2004, the strength has increased at about 675. The top ten agencies in India are Hindustan Thompson Association (HTA), Bombay; Ogilvy Business Master (OBM), Bombay; Clarion Advertising & Marketing, Calcutta; Pressman Advertisement & Marketing, Calcutta; Lintas India, Bombay; Rediffusion Advertisement, Bombay; Ulka Advertisement, Bombay; R.K. Swamy Advertisement, Madras; Chaitra Advertisement, Bombay; Mudra Communication, Chennai.

Along with the expansion in numerical strength of advertisement agencies in India, there has been a substantial growth in billing of both accredited and non-accredited advertisement agencies in India. An important highlight of advertisement agencies in India is their affiliations with international agencies.

### 1.7 Promotional Scene for Service and Financial Products :

The promotional scene in India is so heavily tilted in favour of products in both consumer and Industrial Categories, that other emerging areas appear totally overshadowed. The purpose of this section is to pull two strongly emerging areas of marketing activities i.e., service and financial product out of their traditional neglect and make you aware of their current status.

**Service Products** : As stated earlier, promotional scene of service products is both exciting and peculiar because the contours of the same are yet to settle firmly. There are inbuilt reservations in the minds of both marketers and media about the suitability of already-known promotional methods in India and to find a perfect fit between them.

**Financial Advertising** : Since 1991 a new era of financial advertising has emerged in India, something that was seldom seen before. This is however inextricably linked to a new culture of savings and investments being witnessed these days. The culture was nurtured by a Virtuous – Circle of higher savings fuelled by newer avenues of investment and reinforced by better returns. The market was watershed where shares and debentures market experienced a boom. Financial advertising refers to the advertisement of financial instruments such as shares, debentures, bonds, bank deposits & advances, saving schemes, units, mutual funds etc. In many ways, financial advertising is akin to consumer advertising. Financial instruments are similar to consumer products, although engage higher customer involvement, commitment and risk. Thus, all marketing mix elements are of as much significance in financial products as they are in consumer products.

Two differences, however, are notable in comparing financial advertising with consumer advertising. Firstly, financial advertising is one time i.e., related to a particular event. There after, it is forgotten. Consumer advertising on the other hand it continual in nature. Secondly, the target audience in financial advertising is more limited and identifiable than in consumer advertising. Thus, media choice is more precise in financial advertising. Financial advertising is different from corporate advertising too. While the former is primarily to persuade the existing and potential investors to the financial products, the latter deals with the task of building corporate image of the advertiser usually, financial advertising is preceded by corporate advertising.

## 1.8 Summary :

The lesson covers all the promotional media is use in India. Through relevant data information on readership and other media habits of the Indian Population, region wise and state wise. The reach of the different media has been discussed and a comparative evolution of media option has been provided.

Promotional scene in India is undergoing a turbulent high growth period, with most advertisers waking upto the need for advertising and promotions, to create a niche in the increasingly competitive market. Services have also joined taken the promotional route and unconventional products like financial products, have also begin to advertise while this growing outlay on promotional expenditure may bear testimony to a gradual shift from the sellers market to a buyers market.

## 1.9 Key Words :

1. **Alternative media** : A term commonly used in advertising to describe support media.
2. **Average Frequency** : The number of times the average household reached by a media schedule is exposed to a media vehicle over a specified period.

3. **Effective reach** : A measure of the percentage of a media vehicles audience reached at each effective frequency increment.
4. **Mass Media** : Non-personal channels of communication that allow a message to be sent to many individuals at one time.
5. **Media Vehicle** : The specific programme, publication, or promotion piece used to carry an advertising message.
6. **World Wide Web** : The commercial component of the internet.
7. **Web Site** : The information made available to users of the internet by the provider.

#### 1.10 Self Assessment Question :

1. Review the media use in India from your perspective and brings out at least three highlights.
2. Assess the merits of print media and television for an hotelier of national repute.
3. What strategies would you recommend for select an appropriate advertising media ?

#### 1.11 Further Readings :

1. George E. Belch & Michael A Belch, Advertising and promotion. An Integrated Marketing Perspective, Tata Mc Grow Hill, New Delhi.
2. Chunawalla S.A., Advertising, Sales and promotion Management, Himalaya Publishing House, Mumbai.
3. Philip Kotter, Marketing Management, Prentice Hall of India, New Delhi.

- Dr. V. TULASI DAS

**LESSON –2**

## **Planning, Managing and Evaluation of Promotional Strategy**

### **2.0. Objectives:-**

After going through this lesson you should be able to :

- define the concept of promotional strategy
- explain the planning process of promotional strategy
- help to manage promotional strategy and allocate desired funds to the process
- understand the decision sequence analysis for promotional planning.

### **Structure :**

- 2.1 Introduction**
- 2.2 The Concept of Promotional Strategy and Tactics.**
- 2.3 The Planning Framework of Promotional Process**
- 2.4 Decision Sequence Analysis for Promotional Planning**
- 2.5 Summary**
- 2.6 Key Words**
- 2.7 Self Assessment Question**
- 2.8 Further Readings.**

### **2.1 Introduction :-**

This lesson picks up the thread of discussion from the lesson 3 concerning the frame work of marketing communication process. It has been observed in practice that firms have to manage more complex communication process than the literature might suggest. A wide range of communication tools and procedures are available to a firm to communicate with its target markets. It is therefore, imperative that they are well coordinated. Else, the communication process may not work to the fullest advantage of the firm. In fact, the financial and non-financial resources sunk in any marketing communication programmes are just too heavy to afford any misjudgment in promotional planning. The need of giving a strategic orientation to the potential efforts can hardly be over emphasised. A managerial perspective or a decision make approach to promotion efforts is the central concern this lesson. It seeks to cover the entire gamut of promotion planning process and strategies for a marketing firm.

### **2.2 The Concept of Promotional Strategy and Tactics :-**

The strategic orientation to promotional activities is a sine-qua-non to a firm with a destine to survive and profit in a highly competitive marketing environment. The orientation provides it with an orderly plan for putting marketing resources and for exploiting market opportunities. It is a design that guides promotional activities for a long period. Though the term strategy has been treated to numerous definitions and conceptualization, we would fall back on such definitions as are simple to understand and easy to operation alive in the context of promotional efforts. – “Strategy is the art of distributing and applying business means to fulfill the end of policy”-B.H. Liddele Hast. It is clear that strategy is the way of achieving the ends (or) objectives of a firm often termed as the corporate mission. It is a long term vision of what the business is or is striving to be.

**Fig 2.1**

In many leading texts on promotional strategy, the term tactics is also used. Tactics are the ways for strategy application and involve a deployment of resources with a view to implement strategy objective. This will be amply clear by an illustration of two marketing firms – called x & y supposing that firm x has formulated a strategy of offering continuously new products in the market. Since new products take time in customer acceptance, marketing tactics for the firm would be to issue generous discount coupons to encourage first trial and repeat purchase rates. Similarly, if company 'y' has wished to introduce up-market products, it will have to use, inter-alia, tactics of attracting packaging and promotion of high grade dealers.

### 2.3 The Planning Frame Work of Promotional Process :-

As with any business function, planning plays a fundamental role in the development and implementation of an effective promotional programme. The individuals involved in promotion design a promotional plan that provides the frame work for developing, implementing, and controlling the organization's promotional programs and activities. Promotional planners must decide on the role and functions of the specific elements of the promotional mix, develop strategies for each element and implement the plan. Promotion is but one part of, and must be integrated into, the overall marketing plan and programmes.

A model of the promotion planning process is shown in Figure 2.2. The promotional planning process comprises the following steps.

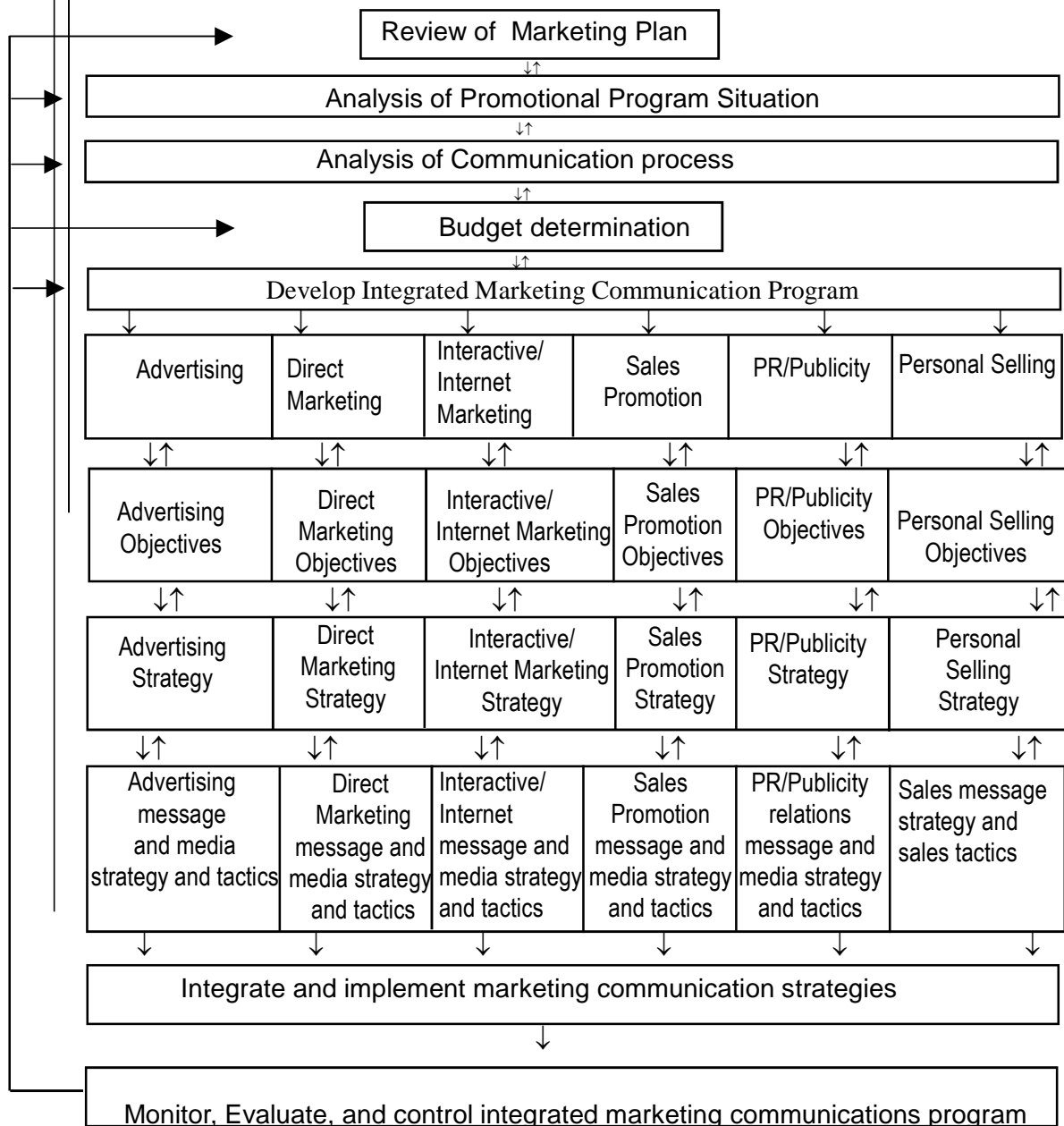
#### 1) Review of the Marketing Plan:-

The first step in the promotional planning process is to review the marketing plan and objectives. Before developing a promotional plan, marketers must understand where the company

has been, its current position in the market, where it intends to go, and how it plans to get there. Most of this information should be contained in the marketing plan, a written document that describes the overall marketing strategy and programme developed for an organisation.

For most firms, the promotional plan is an integral part of the marketing strategy. Thus, the promotional planners must know the roles of promotional mix elements in overall marketing program. The promotional plan is developed similarly to the marketing plan and often uses its detailed information.

**Figure 2.2 An integrated marketing communications planning mode**





**A Model of Promotion Process****Review of the Marketing Plan**

Examine overall marketing plan and objectives

- Role of Promotion – Competitive Analysis
- Assess Environmental Influence

**Situation Analysis****Internal Analysis**

- Promotional Department Organization
- Firm's ability to implement Promotional Programme
- Agency Evaluation and Selection
- Review of Previous Programmes results

**External Analysis**

- Consumer Behaviour Analysis
- Market
- Segmentation and target marketing
- Market Positioning

**Analysis of Communication Process**

- Analyse receiver's response process
- Analyse Source, Message, Channel Factor
- Establish Communications goals and objectives

**Budget Determination****Specification and Management of Programme Element**

- |   |                                    |
|---|------------------------------------|
| * Advertising   | * Sales Promotion                  |
| - Analysis of Media Resources                                   | * Public Relations & Publicity     |
| - Selection of Media  |                                    |
| - Message Determination   |                                    |
| * Personal Selling  | * Interactive / Internet Marketing |
| - Analysis of Resource  |                                    |
| - Selection, Motivation, Deployment compensation and evaluation |                                    |

**Integrate and Implement Marketing communication's Strategies.**

- Integrate promotional mix strategies
    - Create and produce ads
    - Purchase media time, space etc,
  - Design and Implement remaining promotional Programmes
- Monitor, Evaluate and Control Promotional Programme**
- Evaluate Promotional programme results / Effectiveness
  - Take measures to control and adjust promotional Strategies

Source : George E. Belch & Michael A. Belch (2003) Advertising and promotion, Tata MC Gra – Hill, New Delhi, P. 27.

**2) Situation Analysis :-**

After the overall marketing plan is reviewed, the next step in developing a promotional plan is to conduct the situation analysis. The situation analysis focuses on the factors that influences or are relevant to the development of a promotional strategy. The promotional programme situation analysis includes both an internal and external analysis. Among the major external variables, attention is focussed on market demand, competition, positioning. As for internal variables, the focus will be on how the employees and publics within an organization consider its capability, good will and resources for carrying out its marketing and promotional assignments.

**3) Analysis of Communication Process :-**

This stage of the promotional planning process examines how the company can effectively communicate with consumers in its target markets. The promotional planner must think about the process consumers will go through in responding to marketing communication. Communication decisions regarding the use of various sources, message, and channel factors must also be considered.

An important part of the stage of promotional planning process is to establishing communication goals and objectives. Communication objectives refers to what the firm seeks to accomplish with its promotional program. It may include creating awareness or knowledge about a product and its attributes, or benefits, creating an image. Should be the guiding force for development of the overall marketing communication strategy and of objectives, or developing favourable attitudes, preferences, or purchase intentions. Communication objectives for each promotional mix area.

**4) Budget Determination :-**

After the communication objectives are determined, attention turns to the promotional budget. Two basic questions are asked at this point. What will be the promotional program cost? How will money be allocated?. In reality, promotional budgets often determined using a more simplistic approach, such as how much money is available or a percentage of a brand sales revenue. At this stage the budget is often tentative.

**5) Specification and Management of Program Element:-**

This step is most detailed step of the promotional planning process. As discussed earlier lesson each promotional mix element has certain advantages and limitations. At this stage of the planning process, decisions have to be made regarding the role and importance of each element and their coordination with one another. As figure 14.2 shows, each promotional mix element has its own set of objectives and a budget and strategy for meeting them. In a promotional strategy, marketers endeavor to arrive at the best possible mix of promotional elements.

**6) Coordination and Integration of promotional Efforts :-**

A promotion coordination has to ensure that unless otherwise required, advertising should not overshadow personal selling for a given product or vice-verea. Similarly, a careful decision has to be taken for involving outsides like ad Agencies, market research and media buying services in your promotional efforts. A proper balance is to be arrived at between management and outside experts thinking.

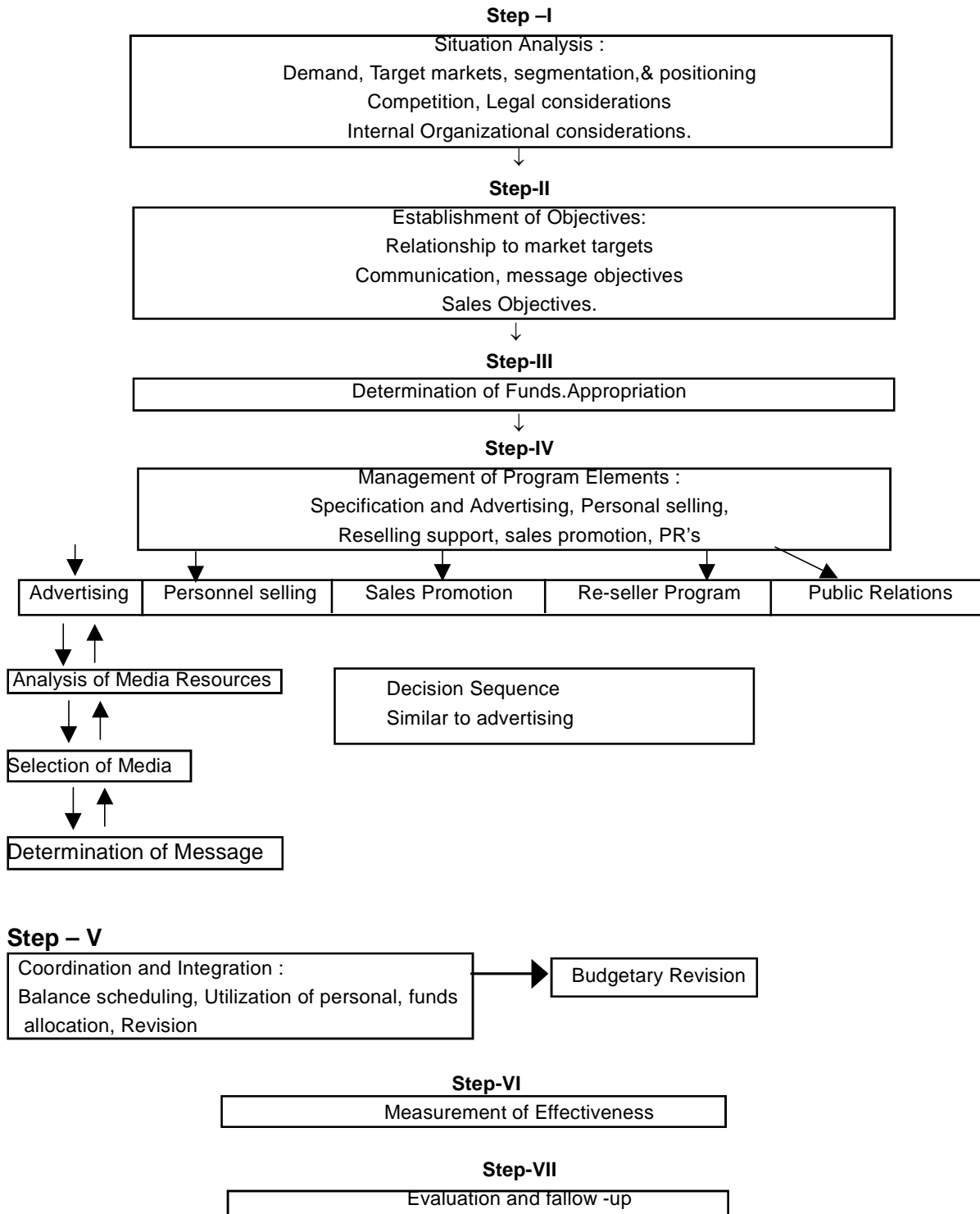
**7) Monitoring, Evaluation and control :-**

This final stage is important to determine how well the promotional program is meeting communication objectives and helping the firm accomplish its overall marketing goals and objectives. The promotional planner wants to know not only how well the promotion programme is doing but also why. This final stage of the process is designed to provide managers with continual feedback concerning the effectiveness of the promotional program which to turn can be used as input into planning process

**2.4 Decision Sequence Analysis for promotional Planning:-**

Figure 14.3 Illustrates a decision sequence analysis for promotional strategy. It provides an illustration of the stages in the promotional planning framework discussed in the previous section. It should be noted that the decision sequence analysis is based on the propositions that the promotional planning is a continual and on-going process. Evaluation, feedback and follow up are the integral post of the process that provide it with vitality and relevance in the changing needs of promotion. based on an 'adaptive' process. It, thus, includes systematic procedures for gathering information and bringing about modifications when needed in the promotional planning.

**Figure 2.3: Decision sequence Analysis of Promotional Strategy**



Source: J.F. Engel, M.R. Warshaw and T.C. Kinnear. 'Promotional Strategy' R.D. Irwin 1987, P.26

## 2.5 Summary:-

The lesson sheds light on the hidden aspects of promotion strategy. It first differentiates between strategy and tactics orientation. The lesson follows with a detailed framework of promotional planning process. It contains a number of steps: a review of the marketing plan, situation analysis, analysis of communication process, budget determination, development of promotional program, Integration and implementation of promotional program, and mentoring, evaluation and control of the program. The lesson finally develops a managerial framework for evaluating and controlling the promotional effort.

## 2.6 Self Assessment Questions :-

1. Evaluate the Decision sequence analysis for promotional strategy of a firm.
2. Define Promotional strategy. What objective should a firm set for promoting its products targeted at women ?
3. What do you understand by the decision making frame work of promotional planning process? What are its components and stages?

## 2.7 Further Readings :-

1. John Wright, Advertising, tata Mc. Graw Hill
2. W.M. Weilbacker, Advertising, Mc Million publishing
3. George E. Belch and Michael A. Belch, Advertising and Promotion, Tata Mc-Graw-Hill, New Delhi

- Dr.V. Tulasi Das

**LESSON –3**

## Marketing Communication Process

**3.0. Objectives:-**

After studying this lesson you should be able to :

- Explain the concept and role of Marketing Communication
- Analyse the Marketing Communication Process
- Come to know the role of Various Promotional elements in Marketing Communication Programme
- Explain the planning process of promotional strategy and
- Manage and evaluate the promotional strategy.

**Structure :**

- 3.1 Introduction**
- 3.2 Concept of Marketing Communication**
- 3.3 Developing Effective Communication**
- 3.4 Elements of Marketing Communication Mix**
- 3.5 Managing and Co-ordinating Integrated Marketing Communication**
- 3.6 Summary**
- 3.7 Key Words**
- 3.8 Self Assessment Questions**
- 3.9 Further Readings**

**3.1 Introduction**

'Integrated Marketing Communications is a way of looking at the whole marketing process from the view point of the receiver. Modern marketing calls for more than developing a good product pricing it attractively, and making it accessible. Companies must also communicate with present and potential stakeholder, and the general public. Communication is a unique tool used by marketers in an attempt to persuade consumer to act in a desired manner. Suitable communication can trigger favourable feelings and emotions that put consumers in a more receptive frame of mind thereby encouraging and leading to purchase action. In fact, communication can work as a bridge between marketers and consumers and also between consumers and their socio- cultural environment. In its linkage with buyers, it encompasses everything including product, packaging and distribution channels, and forms as a vital part of overall marketing efforts towards buyers and also the other sections of society.

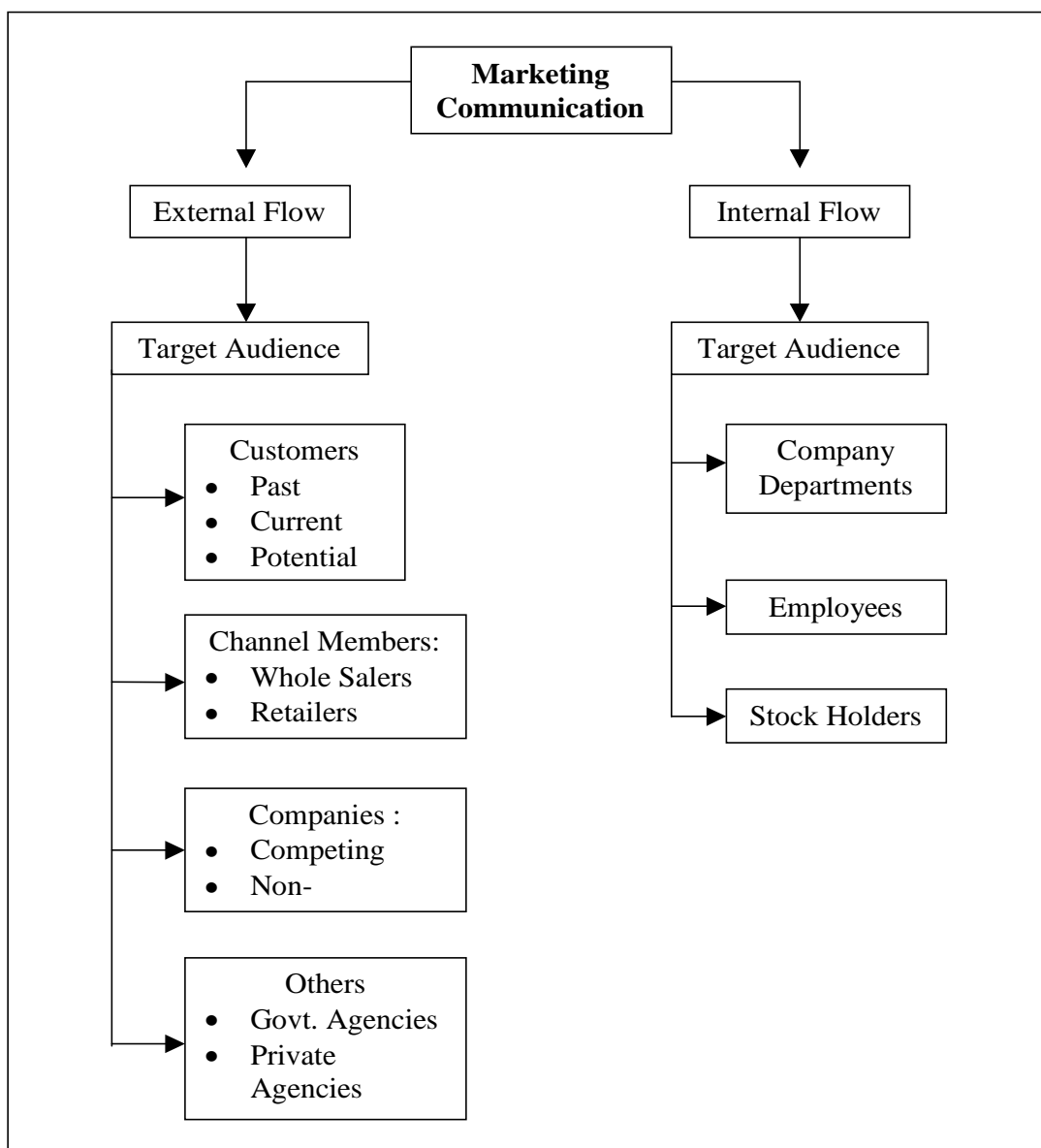
**3.2 Concept of Marketing Communication**

Today there is a new view of communications as an interactive dialogue between the company and its customers that takes place during the pre-selling, selling, consuming and post consuming stage. Marketing Communication supports the marketing plan and help the target audience to understand and believe in the advantage of the marketers offer over competition. This is possible only through the designing and implementing of persuasive communications. Marketing communication has an external flow and an internal flow.

The external flow of marketing communication is directed at the past, current and potential customers; at the channel members; at competing and non competing companies and at various

other audiences who may influence the company's operations. Such as government agencies, private agencies, and experts in the field. The Communication may include advertising, personal selling, direct mail, point of purchase display, warranties, sales promotion, publicity, etc. Such communications help in developing and maintaining healthy relationships with different audience outside the company. The internal flow aspect of marketing communication flow involves various departments in the company, all company employees and stakeholders. When the company is introducing new products or dropping some existing products or product prices are raised or the company enters new markets or new distribution outlets, company employees often need to know what the marketing department is doing. Convening and persuasive marketing communication can help in influencing employees perception and shape their morale and performance. (See figure 3.1)

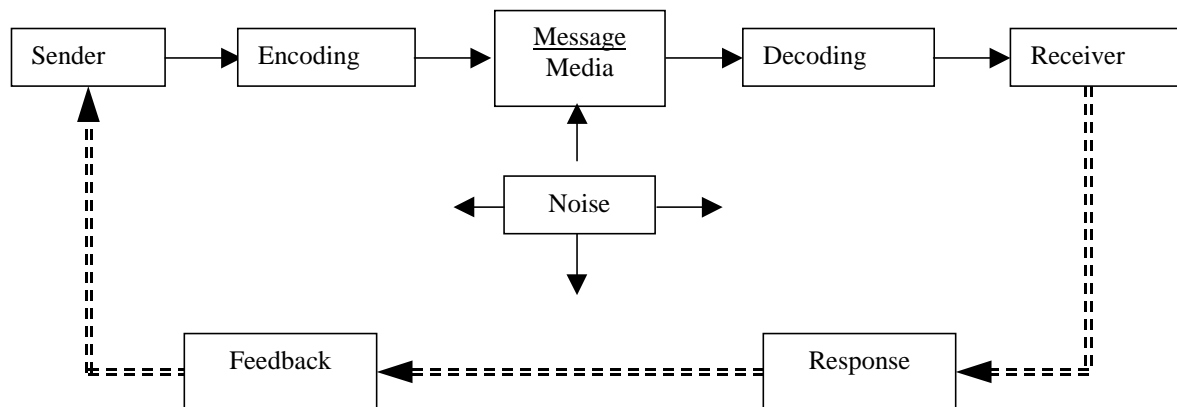
**Figure 3.1 Marketing Communication Flow**



Promotion strategy implementation requires a clear understanding of needs and wants of target audience and a great deal of data concerning competitors, new media, government and available techniques. Communication is the soul of promotion activity and understanding communication is essential to the betterment of a marketing communication programme.

**Communication Process :** To communicate effectively marketers need to understand the fundamental elements underlying effective communication. Figure 3.2 shows a Communication model with nine elements. Two represent the major parties in a communication sender and receiver. Two represent the major communication tools – message and media. Four represents major communication functions. encoding, decoding, response and feedback. The last element in the system in Noise. Company communication goes beyond this specific communication platforms.

**Figure 3.2: Elements in the communication Process.**



The model underscores the Key factors in effective communication. Sender must know what audience they want to reach and what response they want to get. They must encode their message in way that understands how the target audience usually decodes messages. They must transmit the message through efficient media that reach the target audience and develop feedback channels to monitor the response.

### 3.3 Developing Effective Communication

There are eight steps in developing effective communication. The marketing communicator must. 1) Identify the target audience, 2) Determine the communication Objectives, 3) Design the Message, 4) Select the Communication Channels, 5) Establishing total communication budget, 6) Decide the Communication Mix, 7) Measure the Communication's Results, and 8) Manage the Integrated Marketing Communication Process.

**1) Identifying the Target Audience :** The process must start with a clear target audience in mind: Potential buyers of the company's products, current users, Decider, Influences, Individuals, Groups, Particular Public, or general public. The target audience is a critical influence on the communicator decision on what to say? How to say? When to say it? Where to say it? And whom to say it?

A Major part of audience analysis is assessing the current image of the company, its products, and its competitors. To measure the audience's knowledge of the object using the



familiarity scale consists of 5 points related to product awareness and favourability scale, then the organisation must overcome a negative image problem.

**2) Determining the Communication Objectives :** Once the target market and its perceptions are identified, the marketing communicator must decide on the desired audience response. The marketer can be seeking a cognitive, affective, or behavioural response. That is, the marketer might want to put something into the consumers mind, change an attitude, or get the consumer to act. Figure 3.3 illustrates the different models of consumer response stages.

**Fig 3.3 Response Hierarchy Models**

Stage	AIDA Model (a)	Hierarchy of Effects Model (b)	Innovation Adoption Model (c)	Communication Model (d)
Cognitive Stage	Attention ↓	Awareness ↓ Knowledge	Awareness ↓	Exposure ↓ Reception ↓ Cognitive Response
Affective stage	Interest ↓ Desire ↓	Liking Preference Conviction	Interest ↓ Evaluation	Attitude ↓ Intention ↓
Behaviour Stage	Action	Purchase	Trial Adoption	Behaviour

**Source :** (a) E.K. Strong, the psychological selling, ( Mc-Graw Hill U.S.A) (b) Robert J. Lavidge and Gray a steiner, A model of predictive measurement of Advertising Effectiveness, Journal of Marketing. Oct 1961, P.61(c) Everet M. Rogers, Diffusion of Innovations (New yark free press 1962, P.P.79 86, (d) various sources.

All these models assumes that the buyer passes through a cognitive, affective, and behavioural stage, in that order. By choosing the right sequence the marketer can do a better job of planning communication.

**3. Designing the Message :** After defined the desired response the communicator moves to developing an effective message. Ideally the message should gain attention, hold interest, arouse desire, and explicit action. In practice, few message take the consumer all the way from awareness through purchase. Formulating the message will require four logical components i.e., message, content, message structure, message format and message source.

- i) In determining message content, management search for an appeal, theme, idea, or unique selling proposition. There are three types of appeals rationale : engages self interest, emotional attempt to stir up negative or positive emotions that will motivate purchase, and moral appeals are directed to the audience's sense of what is right and proper.

- ii) Message effectiveness depends on structure as well as content. The systematic structure will enable the consumers easily understandable and early response.
- iii) The strong message format contains different components like headline, illustration, copy, color, words, Vocalization, non-verbal clues etc., depends on the nature of advertisement must copy appeals.
- iv) Message delivered by attractive or popular sources achieve higher attention and recall. The factors underlie source credibility are expertise, trust worthiness and likeability

#### 4) **Selecting communication Channel:**

The communicator must select efficient communication channels to carry the message. Communication Channels are of two types, personal and non personal. Within each are many sub channels. The personal communication channel involves two or more persons communicating directly with each other face to face, person to audience, over the telephone, or through e-mail. Non personal communication channels includes media, atmosphere and events.

#### 5) **Establishing the total marketing communications budget:**

One of the most difficult marketing decisions is how much to spend on promotion. Usually the expenditure might amount to 30 to 50 percent of sales in the cosmetics industry and 5 to 10 percent in the industrial equipment industry. Within a given industry, there are low and high spending companies. To decide on the communication budget four common methods shall taken into consideration.

a) **Affordable Method :** Many companies set the promotion budget at what they think the company afford.

b) **Percentage of Sales Method :** Many companies set promotion expenditures at a specified percentage of sales (either current or anticipated) or of the sales price.

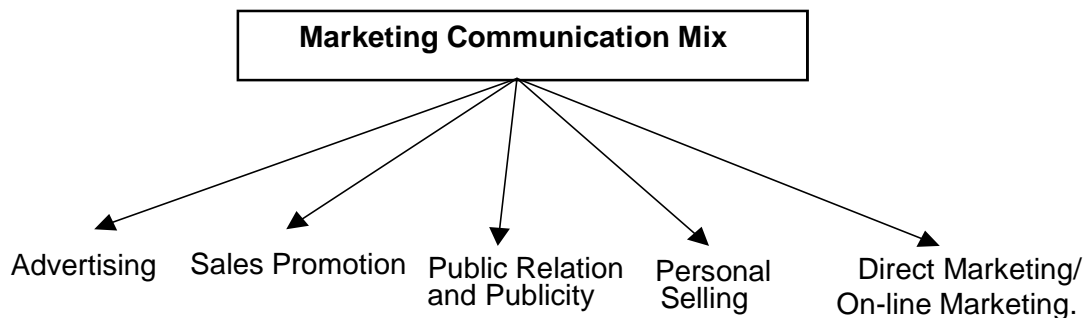
c) **Competitive Parity Method :** Some companies set their promotions budget to achieve share of voice parity with competitors.

d) **Objective and Task Method:** The objective – and Task method calls upon marketer to develop promotion budgets by defining specific objectives, determining the tasks that must be performed to achieve these objectives and estimating the costs of performing these tasks. The sum of these costs is the proposed promotion budget.

#### 3.4 **Elements of Marketing Communication Mix :**

Companies must allocate the promotion budget over the five promotional tools – advertising, sales promotion, public relations and publicity, personal selling, and direct marketing. Within the same industry, companies can differ considerably in their allocations, and always searching for ways to gain efficiency by substituting one promotional tool for another. Many companies have replaced some field sales activity with ads, direct mail, and telemarketing. Companies have also increasing their sales promotion expenditure in relation to sales promotion and advertising.

i) **The promotional Tools of Marketing Communication Mix :**



a) **Advertising** : Advertising is any paid form of non-personal presentation and promotion of Ideas, goods or services by an identified sponsor. (AMA definition). The key elements in ad are non-personal, promotion of ideas, goods/services, paid form and identified sponsor. To advertise, ordinarily use a mass medium of T.V. Radio, News papers, Hoarding etc.,

b) **Sales promotion** : A variety of Short-term incentives to encourage trial or purchase of a product/ service. The tools are – coupons, contests, premium, and the like-are highly diverse, and offer three distinctive benefits of communication incentive and invitation.

c) **Public Relations and publicity** : A variety of programmes designed to promote or protect a company’s image or its individual products. The appeal of PR and publicity is based three distinctive qualities: High credibility, ability to catch buyers off guard and Dramatization, form of non-paid publicity is formally defined as any commercially significant views of editorial comments about ideas, products and investments.

Difference between Advertising and Publicity

Advertising	Publicity
Paid form	Non-paid form
Product Related Message	Public welfare related message
Less creditable	More creditable
More subjective	More objective
Maximum control over the message	Little control over the message.

d) **Personal Selling** : Face to face interaction with one or more prospective purchasers for the purpose of making presentations, answering question/ queries, and procuring orders. It is the most effective tool at later stages of the buying process, particularly in building up buyer preference, conviction and action. It has three distinctive qualities : personal confrontation, cultivation and response.

e) **Direct Marketing** : Use of mail, telephone, fax, e-mail, or Internet to communicate directly with or solicit a direct response from specific customers and prospects.

ii) **Factors in setting the Marketing Communication Mix :** Companies must consider several factors in developing their promotion mix. The factors are:

a) **Type of product market** : Promotional allocation vary between consumer and business markets (See fig 13.4). Consumer marketers spend on sales promotion, ad, personal selling, and public

relations in that order. Business marketers spend on personal selling, sales promotion, advertising, and public relations in that order. In general, personal selling is more heavily used with complex, expensive, and risky goods and in markets with fewer and larger sellers.

### **Relative Spendings on Promotional Tools in Consumer Vs Business Markets.**

Consumer Goods	Industrial Goods
Sales promotion	Personal Selling
Advertising	Sales promotion
Personal Selling	Advertising
Public Relation & Publicity	PR &P
Direct Marketing	Direct Marketing.

**b) Push Vs. Pull strategy :** The promotional mix is heavily influenced by push vs. pull strategy. A push strategy involves the manufactures using sales force and trade promotion to induce intermediaries to carry, promote and sell the product to end users. A pull strategy involves the manufacturers using advertising and consumer promotion to induce to ask intermediaries for the product.

**c) Buyer - Readiness stage:** Promotional tools vary is cost effectiveness at different stages of buyer readiness. Ad and publicity play the most important roles in awareness building stage, ad and personal selling influence customer comprehensions, customer conviction is influenced mostly by personal selling, and closing the sale is influenced mostly by personal selling and sales promotion ad reorders is also affected mostly by the personal selling and sales promotion.

**d) Product life cycle stage:** Promotional tools also vary in cost effectiveness at different stages of product life cycle. In introduction stage advertising & Publicity, growth stage all the tools, maturity stage. Sales promotion, ad & personal selling and in the decline stage sales promotion is strong.

**e) Company Market Rank :** Market lenders derive more benefits from advertising than sales promotion. Conversely, smaller competitors gain more by using sales promotion in their marketing communication mix.

### **Measuring Results :**

After implementing promotional plan, the communicator must measure its impact on the target audience – Awareness, conviction, attitude, behavioural measure etc., of the consumers on programmes.

## **3.5 Managing and Co-ordinating Integrated Marketing Communication**

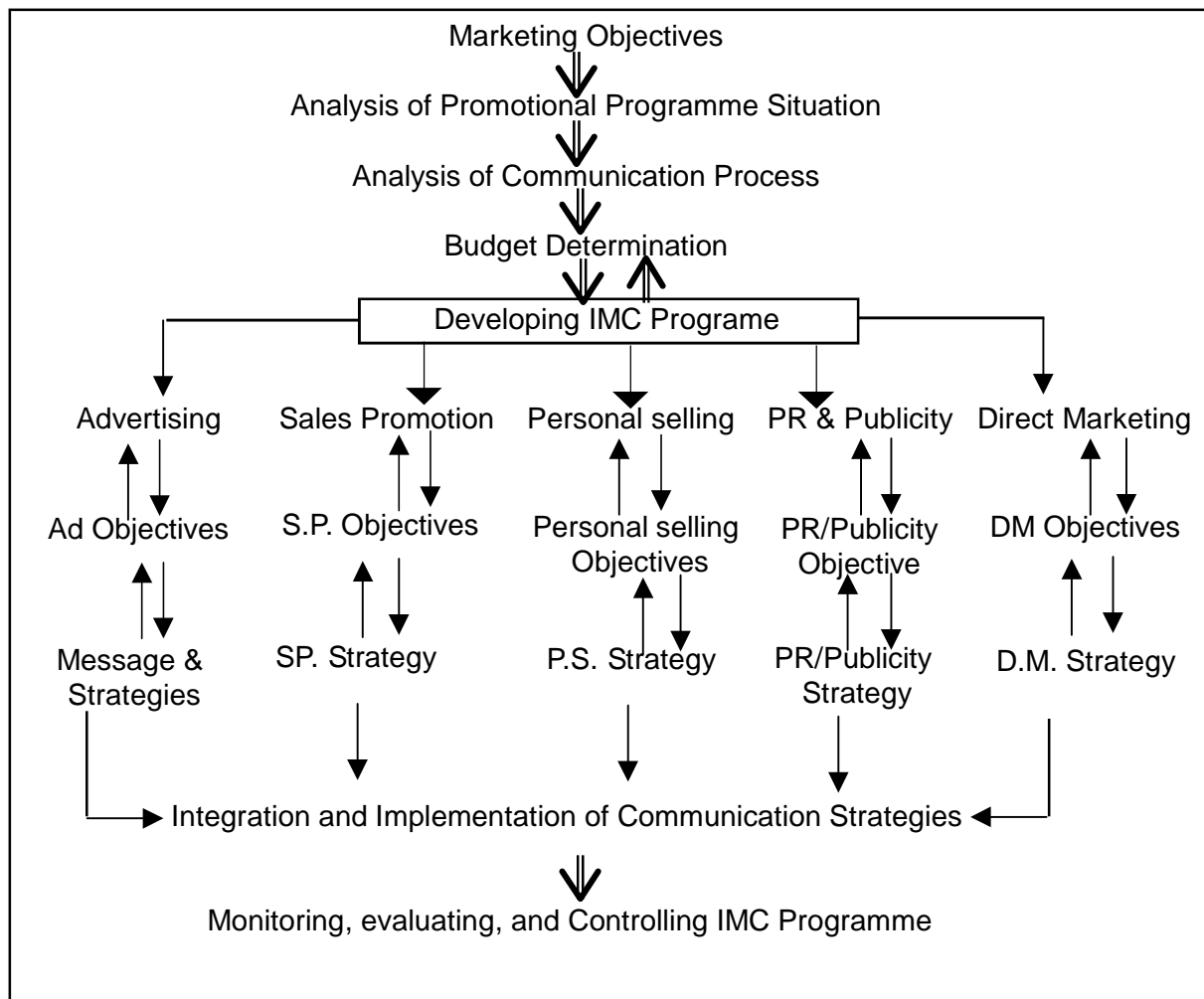
Many companies still rely on one or two communication tools to achive their communication aims.. Integrated Marketing communication (IMC) is an attempt to coordinate various marketing and promotional activities in such a manner that marketing communication to target customers becomes more effective and efficient.

The IMC can be defined as “..... a concept of marketing communication planning that recognises the added value of a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines for example general advertising, direct response, sales promotion and public relations and combines these disciplines to provide clarity, consistency, and maximum communication impact” – Don E. Schultz, *Integrated Marketing communications: May be definition is in the point of view*, Marketing News, January 18, 1993, p.17.

The IMC calls for a big picture approach to planning marketing and promotion programmes and coordinating the various communication functions. It requires firms to develop a total marketing communication strategy that recognizes how all of a firms marketing activities, not just promotion, communicate with its customers.

The objectives of IMC are to co-ordinate all the company marketing and promotional efforts to project and reinforce a consistence unified image of the company or its brands to the market place. The IMC approach is an attempt to improve over the traditional method of treating promotion elements as totally separate activities. IMC is increasingly helping companies to develop most suitable and effective methods to contact customers and other integrated groups (See fig 3.5)

**Fig 3.5 Integrated Marketing Communication Plant**



A major reason for the growing importance of IMC is the ongoing revolution in global business practices that is changing the rules of marketing and the role of traditional advertising agencies. Some major features are :

- Ø More budget allocation for sales promotion due to intensifying competition.
- Ø In general, advertising has become more expensive and less cost effective.
- Ø Escalating price competition is resulting in more price promotions than advertising.
- Ø Power of trade compels companies to offer fees and allowances for promotion.
- Ø Companies are using computers to build databases containing customer names; Geographic; demographic and psychographic profiles; purchase patterns; media preference; and other relevant characteristics.
- Ø Companies are increasingly relying on direct marketing methods rather than relying on mass media
- Ø Advertising agencies are being made more accountable.

### 3.6 Summary :-

All the elements of promotion mix work to communicate with the audience. Marketers use communications in an attempt to persuade customers to act in a desired manner. The process of communication can be fairly complex. Successful marketing communication depends on a number of factors such as the nature of message, the interpretation by the audience, and the environment in which the message is received. In deciding on the marketing communication mix, marketers must examine the distinct advantages and cost of each promotional tool. They must also consider the type of product market in which they are selling, whether to use a push or a pull strategy, how ready consumers are to make a purchase, the product stage in the PLC and the company market rank. Managing and coordinating the entire communication process calls for integrated market Communication.

### 3.7 Key Words

**Marketing Communication** : A continuing dialogue between the firm and its target audience.

**Advertisement** : A non- personal way of promoting a product which is paid for by an identified sponsor.

**Publicity** : A way of informing about any marketing plan/ practice of a company by mass media, which is not sponsored and paid.

**Sales promotion** : The incentive to encourage quick adoption of a product.

**Integrated Marketing communication** : Managing and Co-ordinating the entire communication process.

### 3.8 Self Assessment Question.

1. Discuss the various elements of communication process.
2. Discuss the ways in which promotional mix for a refrigerator would differ from the promotional mix of a tooth paste.

3. What is marketing communication ? enumerate the steps in developing effective communication.
4. What factors would you taken into consideration for selecting promotion tool ?

### 3.9 Further Readings :

1. Philip kotler : Marketing Management, 10<sup>th</sup> Ed. (1999) Prentice Hall of India Pvt., Ltd., New Delhi
2. Michael L. Ray, Advertising and Communication Management (Upper Saddle Rivers NJ Prentice Hall 1982)
3. S.H.H Kazmi & Satis K. Batra, Advertising and Sales Promotion, (2004) Excell Books, New Delhi.
4. S.A. Chunawalla, Advertising, Sales and Promotion Managemetn (2005), Himalaya Publishing House, Mumbai.
5. J.F. Engel, Martin R. Warshaw and Thomas C. Kinnear (1987) Promotional Strategy Managing the Marketing Communication Process (6<sup>th</sup> Ed.) Irwon Homewood.
6. M.W. Delozier (1976) The Marketing Communication Process, Mc Graw Hill Book Company.

**- Dr.V. Tulasi Das**

**LESSON - 4****ADVERTISING PLANNING****4.0. Objectives:-**

After going through this lesson you should be able to

- Define the concept of advertising planning
- Explain the frame work for advertising planning and decision making
- Know the message & media strategy and tactics

**Structure :**

- 4.1 Introduction**
- 4.2 Frame work for advertising planning and Decision Making**
- 4.3 The communication and persuasion process**
- 4.4 The advertising plan**
- 4.5 Summary**
- 4.6 Self Assessment Questions**
- 4.7 Further Readings**

**4.1 Introduction :**

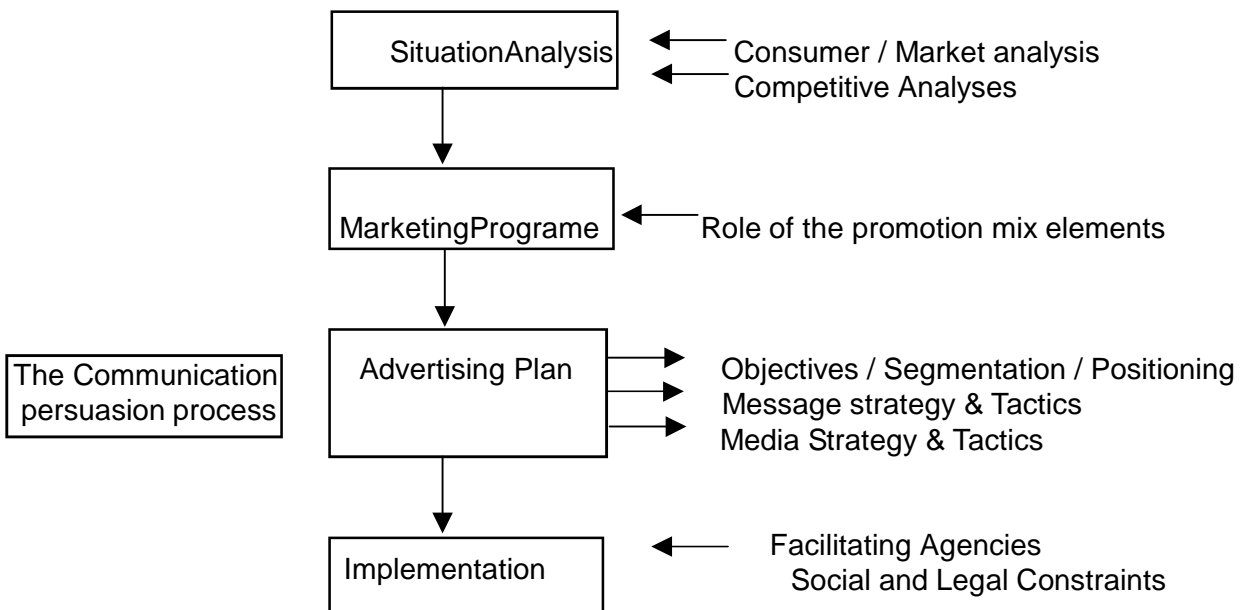
The major activities of advertising management are planning and decision making. In most instances, the advertising or brand manager will be involved in the development, implementation, and overall management of advertising plan. The development of ad plan essentially requires the generation and specification of alternatives. The alternatives can be various levels of expenditure, different kinds of objectives or strategy possibilities, and numerous kinds of options associated with copy creation and media choices. The essence of planning is thus, to find out what the feasible alternatives are and reduce them to set on which decision can be made. A complete advertising plan reflects the results of the planning and decision making process and the decisions that have been made in a particular product-market situation. This lesson presents a frame work for advertising planning and decision making.

**4.2 Framework for Advertising planning and Decision Making :**

The major internal and external factors involved in advertising planning and decision making are shown in fig. 4.1 internally situation analysis, the marketing program, and the advertising plan are key considerations. As suggested in the diagram, the three legs of adverting planning concern objectives setting and target market identification; message strategy and tactics and media strategy and tactics. The advertising plan (as like promotional plan) should flow from the overall marketing program. Any advertising plan is best thought of an part of as overall marketing plan and promotional plan which should be developed, following a situation analysis of the organisation particular situation. Once developed an advertising plan is implemented and become an advertising campaign, carried out in the context of Social, legal and global factors and with the aid of various types of facilitating agencies.



Figure 4:1 Frame work for advertising planning and decision making.



### **Situation Analysis :**

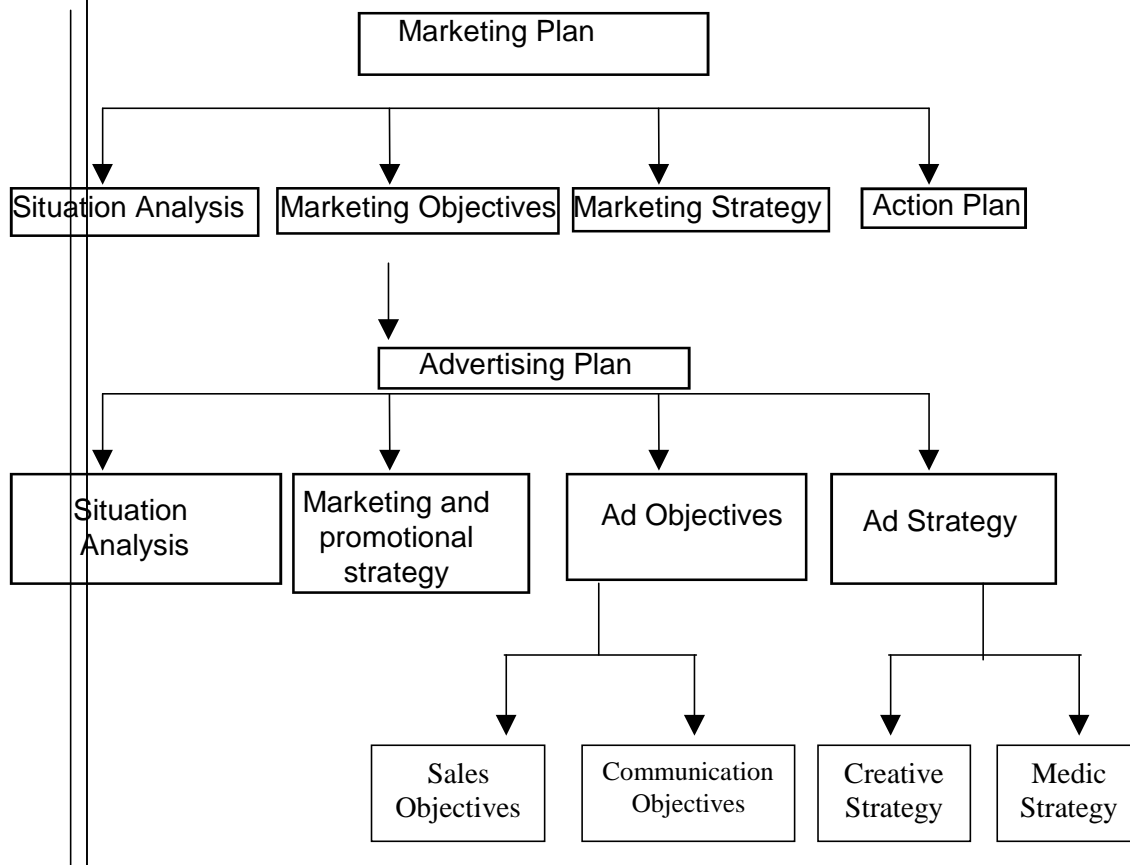
The planning and decision making process begins with a thorough analysis of the situation the advertiser faces and the development of marketing strategy. Marketing strategy includes the long run vision and objectives of the company as well as and articulation of the specific strategic position it will aim to occupy in the market place in the years ahead. The development of marketing strategy thus should begin with situation analysis and a comprehensive examination and analysis of all important external & internal factors operating in a particular situation.

Situation analysis invariably involves research of some kind. For advertising planning, the principal thrust of research efforts is on market analysis or more broadly, the analyses of consumer motivation and behaviour with respect to the product/ service, idea or object to be advertised. The situation analysis also covers competitive analysis.

### **The Marketing Plan :**

As like the promotional planning, advertising planning take place in the context of an overall marketing plan. Figure 4.2 shows the relationship between market plan and advertising planning. The marketing plan includes planning, implementation, and control function for the total cooperation or a particular division making until or product line. The marketing plan will include a statement of marketing objectives and will spell out particular strategies and tactics to reach those objectives

Figure : 4.2 Integration of advertising Plan &amp; Marketing Plan

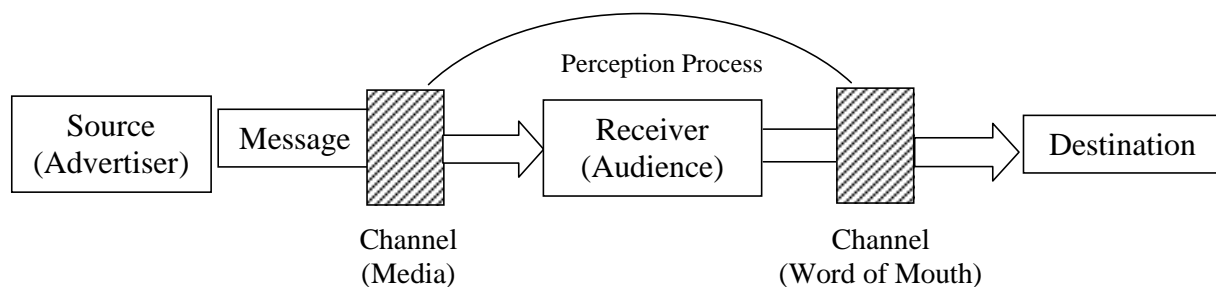


### 4.3 The Communication and persuasion process :

The most important factor to be considered in planning advertising in addition to the market plan, is an understanding of the communication and persuasion process. At though much had been researched and written about the effects of advertising and how it works, it is important to appreciate that this is a subject about which there are few definitive answers. There are perhaps as many theories about how advertising 'work' as there are people who work in advertising, and it is impossible to discuss them all here. Some of these theories have discussed in marketing communication process of the previous chapter, but we will present two well known ones here.

#### a) Advertising Communication System :

Figure – 4.3 : Shows one simple model of the advertising communication system. Advertising communication always involves a perception process and four of the clement shown as the model the source, a message, a communication channel and a receiver. In addition the receiver will sometimes become a source of information.

**Figure - 4.3: Model of the Advertising Communication System.**

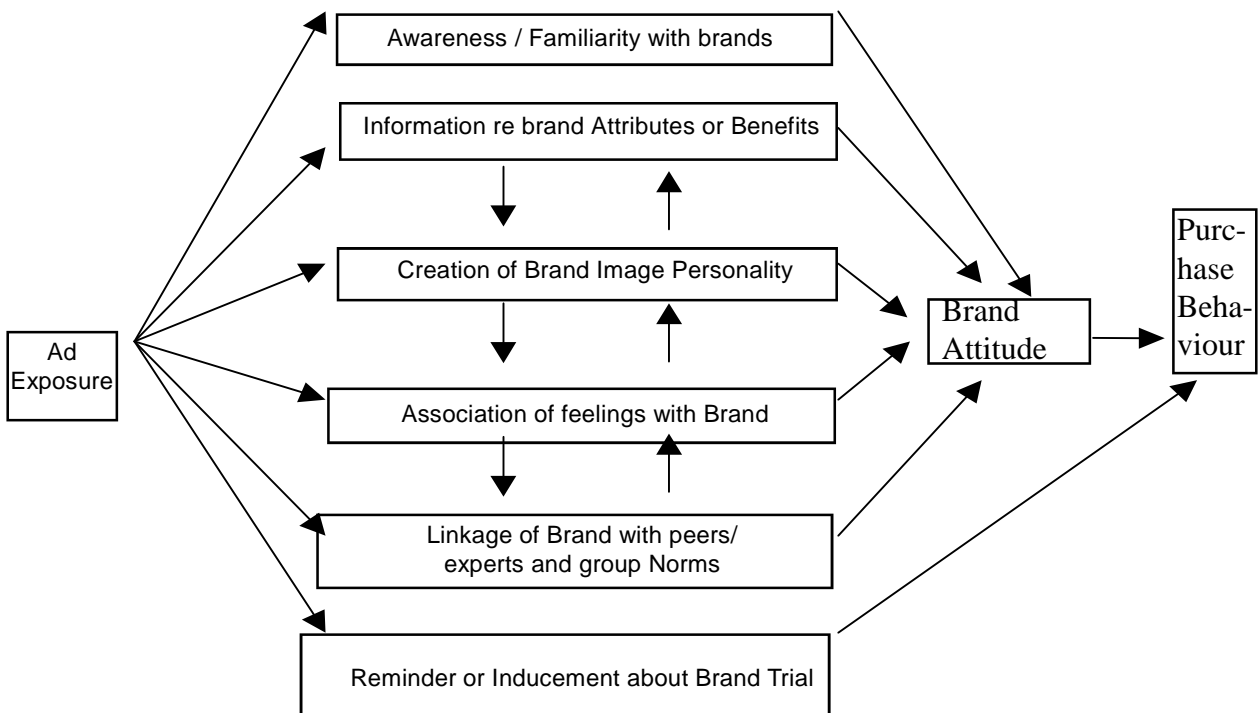
Note that an advertising message can have a variety of effects upon the receiver, It can

- Create Awareness
- Communicate information about attributes and benefits
- Develop or Change are Image or Personality
- Associate a brand with feelings and emotions
- Create group norms
- Precipitate behaviour

#### **b) Advertising Exposure Model :**

Figure – 4.4 Present another model of the communication and persuasion process, that shows the various processes that can occurs after consumers are exposed to an advertisements first, exposure to the ad can create awareness about the brand, leading to a feeling of familiarity with it. Second, information about the brand's benefits and the attributes on which the benefits are based can register with the consumer can also result from exposure to the ad. Third, ad's can also generate feelings in an audience that they begin to associate with the brand or its consumption. Fourth, through the choice of the spokesperson and various executional devices, the ad can lead to the creation of an image for the brand, often called brand personality. Fifth, the ad can create the impression that the brand is favoured by the consumer's, peer's or experts individuals and groups the consumer likes to emulate. These five effects can create a favourable liking, or attitude toward the brand which in turn should lead to purchasing action.

Figure – 4.4. A model of the communication/ persuasion Process



These two models help us to understand how and why consumers acquire, process, and use advertising information. It is also important at the planning stage to develop a good understanding of where ad fits into the total pool of information and influence sources to which a consumer is exposed.

#### 4.4 The Advertising plan :

Advertising planning and decision making focus on three crucial tasks : objectives and target selection, message strategy and tactics, and media strategy and tactics. Every advertising plan will, at a minimum, reflect planning, divisions and commitments concerning each of these three major components. The broad purpose of advertising management is to develop, implement, and control an advertising plan. Planning as a process involves the generation and specification of alternatives. Decision making concerns the choice of the best alternative.

##### Advertising Objectives Target Selection :

The pivotal aspect of any management plan is the development of operational objectives. An operational objective is one that provides useful criteria for decision making, generate standards to measure performance, and serve as a meaningful communication device. Objectives in advertising can be couched in many ways and still fulfil the functions of an operational objective. It is sometimes possible to develop objectives in terms of sales goals. Such goals are desirable because they appear to provide a readily accessible and absolute indication of ad performance. However, because other marketing variables and competitor's actions can have an important impact on sales, it is often necessary to establish objectives in terms of intervening variables. Such as brand awareness, image and attitudes.

As sales objectives cannot reasonably be assigned to advertising in most cases, we express ad objectives in terms of communication goals. Most advertising seeks to inform, persuade or remind its desired audience over a period of time about the organization and its offerings.

Foot, cone, belding (FCB) model guides us how advertising works and how to set the communication objectives.

It is felt that the task of measuring ad effectiveness will not be daunting if we clearly spell out the advertising goals. Russel H. Colley (1961) pioneered an approach known by the acronym DAGMAR-Defining Advertising Goals for Measuring Advertising Results, where to establish an explicit link between ad goals and ad results. Colley distinguished 52 advertising goals that might be used with respect a single advertisement, a year's campaign for a product or a company's entire advertising philosophy. These goals may pertain to Sales, Image, attitude, and awareness. According to this approach, the communication task of the brand is to gain awareness, comprehension, conviction, image and action. Thus DAGMAR treats an ad goal as a communication task to be achieved among a defined audience in a given period of time.

### **Message Strategy and Tactics :**

Advertising objectives, mostly communication objective as we have seen, spell out our position with reference to hierarchy of effects like awareness, attitude and preference. The next logical step is to develop advertising strategy. Ad strategy had two components-a creative strategy that describe what we are going to say (content) and how we are going to say it (Style), and a media strategy Ad Strategy basically is a blend of the ad message and the communication media. While doing so, it also consider the target audience and the product concept together, this makes up the creative mix.

Advertising message spells out where the company plans to say it. It is a combination of the copy and visual and production elements. We can combine these elements in a wide variety of ways. It is called creative execution.

### **Media Strategy and Tactics :**

Where as message strategy generally concerns divisions about how much to allocate to create and testing advertising copy media strategy concerns decision on how many media dollars to spend on an ad campaign. Media tactics comprise the divisions about which specific media or media vehicles to use. The ad budget decision is closely tied in with the objectives and target selection decisions.

Although these are many rules of thumb often used to how much money to spend on advertising, the soundest rules involve beginning with a detailed specification with what a corporation is attempting to accomplish with advertising and the resources necessary. A number of approaches are used to determine how much to spend on ad. some of them are affordability, percentage of sales, competitive parity, objective and task, not empirical research and computer modals.

The decisions made in the media area and in the other areas of objectives and copy constitute the final advertising plan. What we want to stress is that ad plans must all take these above said three major factors into consideration and that as plans will differ according to the decisions made in each area.

Implementation of advertising plans is done with the assistance of many different kinds of external organisation called as facilitating agencies success production houses, brad cast & print media, ad agencies and research supplier companies. Also implementation takes place in an environmental of major social, economic, legal and global forces.

#### **4.5 Summary :**

The predominant perspective of advertising management is that of the advertiser or brand manager in the advertiser component of the overall system. The broad purpose of the manager is to develop, implement, and control an advertising plan. The ad plan is developed in the context of the companies total marketing program (as like the promotional planning) which flow from situation analysis, and an assessment of consumer/ market and competitive situation the company is in. There are three areas of major importance in as plan; objectives and target selection, message strategy & tactics, and medic strategy and tactics. Planning and division making are required from each perspective, and the final ad plan will reflect the various decision made in each area.

#### **4.6 Self Assessment Questions :**

1. Outline the major components and considerations of advertising planning
2. "Advertising plan rest on three central planning and decision making considerations". Explain with examples.
3. Explain message strategy, give an example of three alternative message strategies that might be adopted for a brand of DIGJAM suitings

#### **4.7 Further Readings :**

1. David A.Aker, Managing Brand Equity, New York the Free Press, 1991
2. Rajeev Batra, John G. Myers, and david A. Aakar, Advertising Management, 5<sup>th</sup>ed, Prentice Hall of India Pvt.Ltd., New Delhi 1998.
3. Chunawalla. S.A., Advertising, Sales and Promotion Management, Himalaya Publishing House, Mumbai - 2005

**- Dr. V. Tulasi Das**

**LESSON –5**

# Advertising Campaign

**5.0. Objectives:-**

After reading this lesson you should be able to understand

- How to plan an Advertising Campaign
- The essential steps in campaign planning.

**Structure :**

- 5.1 Introduction
- 5.2 Planning an Advertising Campaign
- 5.3 Appraisal of Advertising Opportunities
- 5.4 Analysing and defining the target markets
- 5.5 Setting Advertising Campaign Objectives and Determine Budget
- 5.6 Deciding Media and Creative Strategy
- 5.7 Creating Ads: Pre-test and Post Testing
- 5.8 Summary
- 5.9 Self Assessment Questions
- 5.10 Further Readings

**5.1 Introduction**

The term 'Campaign' is used to describe many different systematic efforts such as a political election campaign, or a campaign to raise money for some social or charitable cause, or a systematic effort to promote a product or service. A campaign is a systematic effort to accomplish some predetermined objective (s).

According to Dunn and Barban

*"An advertising campaign includes a series of ads, placed in various media, that are designed to meet objectives and are based on an analysis of marketing and communication situation".*

S Watson Dunn and Arnold M Barban, Advertising : Its Role in Modern Marketing.  
7<sup>th</sup> ed. New York : Bryden Press, 1989, p.232.

The ad campaign is guided by the promotion and advertising plans which evolve from marketing objectives and strategy. The ad campaign is normally a commitment to a creative strategy that usually lasts for one year. Some firms create one ad at a time and keep on changing the core message or theme. Such ads are not considered as a campaign. In this lesson, an attempt has been made to give you an overview of ad campaign planning.

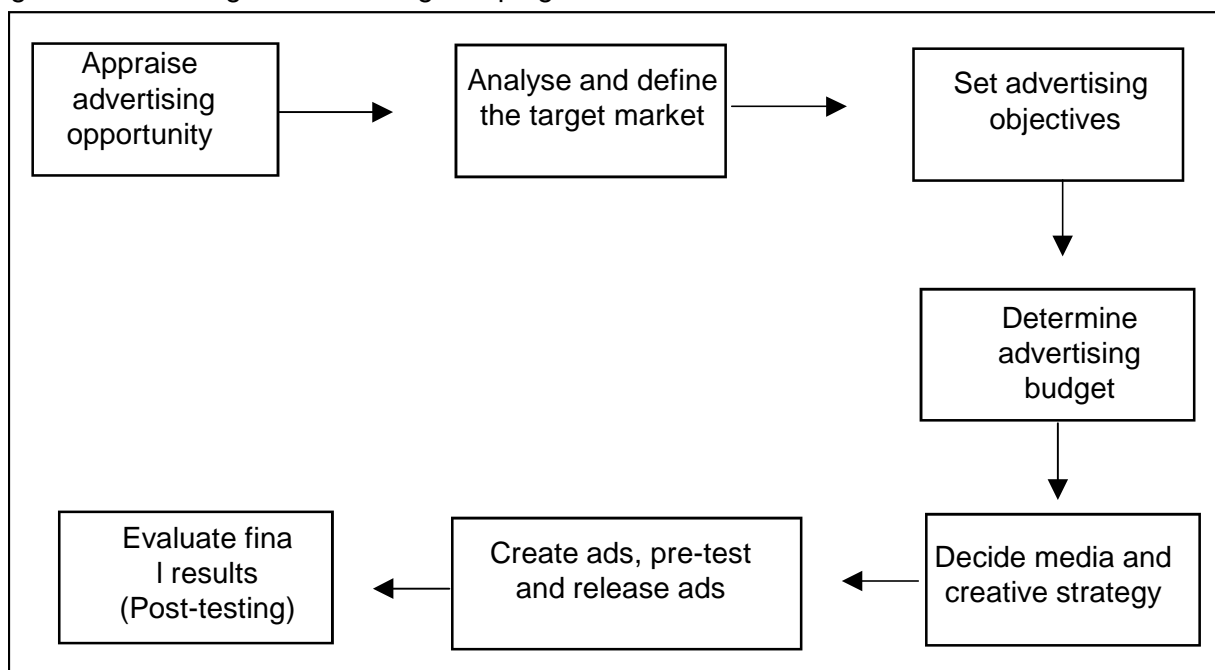
## 5.2 Planning an ad. Campaign :

An advertising campaign includes seven essential steps

- Appraisal of advertising opportunity
- Market analysis
- Setting advertising objectives
- Setting budget and necessary control system
- Determining media and creative strategy
- Create ads, pretest and release ads
- Evaluate final results (Post-testing)

These steps are not necessarily sequential and are individual activities; in practice, advertisers undertake two or more of them simultaneously. For example, the size of ad budget may influence media choice, while the message can also influence media selection. Due to this reason some of these activities are often undertaken simultaneously. Advertising also needs to be coordinated with other promotion mix elements.

Figure 5.1 Planning an advertising campaign



## 5.3 Appraisal of Advertising Opportunity :

Just because advertising is a powerful promotional tool, there is no reason for every marketer to advertise. The marketer must determine whether advertising is suitable in his particular marketing situation. According to Neil H Borden (The Economic Effects of Advertising, Richard D Irwin, 1942), five conditions govern the advertising opportunity. If these conditions are present, effective advertising may help in achieving the marketing objectives of the company, however, if the conditions are weak or absent, advertising is unlikely to make any positive contribution.



- **Presence of positive primary demand** : When there is enough consumer demand for the product category, as happens during the growth stage of a product's life cycle, the advertiser of the brand in this product category is more likely to be successful. When a product has reached declining maturity in its life cycle, or has entered the decline stage, advertising is very unlikely to succeed. It is nearly impossible for advertising to reverse the adverse trend of primary demand. For instance in most countries now, including India, it seems nearly impossible to increase the demand of big cars as the trend now is for compacts. Similarly, advertising is unlikely to help reverse the demand for radios, or cigars.
- **Good chances of product differentiation** : Many products, which are viewed by consumers as commodities or similar in all respects, do not lend themselves to advertising. Meaningful and persuasive product differentiation is the key to create a strong positioning and influence consumers to prefer a particular brand by showing its unique attributes or benefits. For example, it is difficult to differentiate between different brands of sugar, or salt, because consumers are most unlikely to have any involvement in such purchases. On the other hand, there are personal care products, or automobiles, which can be successfully differentiated.
- **Products have hidden or not readily noticeable qualities** : If the product qualities are easily noticeable, and considered not really important, probably there isn't much to advertise successfully. However, if the product's virtues are hidden, or complex to understand, advertising can successfully create strong mental associations about the product's economy, reliability, ruggedness, etc. It is difficult, or almost impossible, to ascertain the quality of a computer, TV set, microwave oven, or washing machine by just looking at it in a showroom, though it might be a strong factor in influencing the consumer's purchase decision. Advertising can be very successful in communicating these hidden qualities to consumers in a manner that can favourably influence their buying decision.
- **Presence of powerful emotional buying motives** : Appeals that successfully address emotional motives can prove to be very powerful in case of ego intensive or "feel" category products. Cosmetics, Perfumes, ready to wear garments, wrist watches, beauty clinics alcoholic beverages soft drinks, etc; are good examples where powerful emotional motives are involved in product or service purchased and advertise can be very success full.
- **Availability of sufficient funds** : The first condition relates to the nature of the market and the remaining three conditions relate to the product or service and the consumers' perceptions about such offers. Even if all the above-mentioned four aspects are favourable, much depends on the availability of sufficient funds required for advertising. People in the advertising business believe that 'the greatest waste in advertising is to advertise too little,' If the firm lacks enough funds to commit to advertising at some minimal level to create noticeable impact, it does not make sense to advertise. It is hard to imagine that in a highly competitive market environment one or two ads would even be noticed with so much of advertising clutter. What Apple computer could achieve with just one ad by paying half a million dollars for a 60 second commercial is not likely to happen with most advertising. Successful advertising needs the support of adequate funds.

The Prospective advertiser should make a deliberate and careful assessment of the above mentioned conditions. It is likely that advertising may not be a suitable option for the company for any of the reasons discussed. The advantage might lie in allocating a larger portion of the promotion

money for sales promotion, for example, a sample drop in selected market areas. The role of advertising may appear to be only marginal in a company's marketing programme.

#### **5.4 Analysing and defining the target market :**

Market analysis in case of an established brand will involve a retrospective look at what has been done in the past. In case of a new product situation, more in-depth analysis of various aspects of the market would be needed and involve research of some kind. Good advertising starts with a clear understanding of marketing goals based on a thorough market analysis and the aim is to explore the answers to the two basic questions : where are we today? And, how did we get here? Marketing plan provides the details pertaining to brand share, anticipated market conditions, competitors' share and past moves and any legal constraints concerning the product category.

A critical decision is to define the target market for the product or service. This would involve finding and precisely defining those variables that indicate who and where the best prospects are in respect of demographic characteristics, geographic location, psycho-graphic variable and behavioural patterns. It will also be necessary to fine out the accessibility of the target audiences. Obviously how the target markets are defined would influence the message and media strategies. Consumer research may be needed to find out

Who buys the product?

What do they really buy?

When do they buy?

How do they use the product?

Knowing the target audiences' life-style, motivations and behavioural patterns, etc., helps in deciding whom the advertiser wants to reach and also helps creative people to write messages to real audiences and communicate more effectively.

#### **5.5 Setting Advertising Objectives and Determine Budget :**

##### **a) Setting ad objectives :**

Promotion or brand manager should set objectives for an advertising campaign and also for each ad in each medium used. In setting the campaign objectives, most managers use hierarchy of effects model so that the components of a campaign support each other and thereby stand a better chance of creating positive synergy in influencing the consumer choice. The path leads from communication objectives to sales objectives often refer to this sequence as 'awareness advertising to direct-action advertising'.

A good ad campaign was that of "Maggi hot and Sweet Tomato Chilli Sauce." The product category was not new; a number of tomato ketchup brands were already available. The campaign objective was to establish the brand as different than other brands in the product category and create consumer preference for it. Throughout the campaign period, individual commercials

showed a different humorous setting but the campaign theme “It is different” was communicate very powerfully.

There may be many ads within an advertising campaign; each with its own objectives, so setting objectives may be fairly complex. There is no rule with a specific set of guidelines that all advertising must follow to achieve certain objectives. Some times an individual ad may be repeated after some other ads have been used at an interval of one year with very different objectives because of the changes in consumer needs, the extent of product or brand reputation, or changes in economic scenario. The advertiser must closely monitor changes that take place in the marketing environment, which may warrant a change in objectives and advertising.

#### **b. Determining the Advertising Budget :**

The objectives determine what is expected of a advertising campaign in a defined period of time. The budget controls all proposed expenditures by fixing a limit. There are various approaches to determining the budget, however, there is much disagreement on this issue and different companies use different approaches to determine the proper allocation. This is a critical decision as it often involves large sums of money and, in most marketing situations, if it difficult to measure what advertising does to profits or the sales volume. In an increasing number of companies, the top management has been showing an increasing concern towards accountability of these funds.

Top management is usually involved in budget decisions and brand or promotion managers may not be in a position to influence the decision. This “top down” practice often stops campaigns which excellent potential, however, brand managers must provide all the possible input in budgeting decisions.

The advertising budget is basically a plan to allocate financial resources to advertising for future operations and should be reviewed constantly keeping in view the changing market conditions. For example, it may become necessary to match the advertising effort of a close competitor to the one that advertises more gets the edge. For example, if Coca-Cola increases its advertising blitz, then pepsi cannot simply sit and watch.

#### **5.6 Deciding Media and Creative Strategy :**

Advertising strategy involves decisions about media and creation of advertisements. Media plan is developed simultaneously with creative plan. Often the Promotion manager first makes up her/ his mind to use a particular medium and the ad is designed accordingly.

Media planning is quite complex because of the nature of different kinds of media. Media plan determines the best way to reach the audience with the advertiser’s message. The goal is to find a particular combination of media that enables the advertiser to communicate the message most effectively to the largest number of target audience at the lowest cost. Initially, the general approach and the role of media in the finished campaign is determined. Media planning focuses on clearly defining the targeted audience’s media habits and what specific media are most suitable for them in terms of reach and frequency. The major portion of ad budget is spent on media buying and a critical decision concerns how much media money to spend on an advertising

campaign. The tactics relate to decisions about which media vehicles to use, such as *India Today*, *Femina*, *Star Movies* channel, or *Vividh Bharti*. Except for direct mail, all other media operate on their own schedule and are not under the control of the advertisers. The advertiser must consider the timing, media closing dates, campaign length and number of exposures desired. It becomes necessary that media and creative teams accommodate each other and allow the maximum creative execution and effective efficiency in reaching the targeted audience.

An excellent advertising message is estimated to be ten times or more effective than an average message in influencing consumer attitudes, preferences and purchase decision for the product.

Creative strategy concerns what message to deliver to the audience for accomplishing the objectives. Determining the central theme, idea, image, or position is a critical part of the creative process which becomes the cornerstone of all individual ads that constitute the campaign. “Marlboro Country” Campaign, Nike’s “just do it,” and Hallmark cards campaign “When you care enough to send the very best” are examples of some successful campaign themes. “Intel Inside” campaign is a more recent example, and readers can assess how successfully the company has been using it.

“Yeh Dil Manage More” by pepsi and “Coca-Cola Enjoy” remained the themes of the two soft drink giants in India. A critical look would reveal that both these campaign themes are a point of view of those who want to achieve more, and those who look for a fuller life with excitement and joy, no matter what the age. Typically, these themes symbolise a positive attitude toward life, a zest for living. Great words and great strategy make up great campaigns.

More finished ads are the result of effort, persistence and creativity. Ken Roman Jane Mass have emphasised (‘The New How to Advertise’ St. martin’s press, New marthin’s press, New York : 1992) that similarity or continuity between different ads is essential in developing successfully campaigns.

Similarity or continuity could be visual, verbal, aural, or attitudinal. In case of print ads, same typeface or almost the same layout format is used so that the target audience will identify the advertiser just by looking at the ad. Another way to accomplish similarity or continuity is to use the same spokesperson or character in ad after ad. For example, Videocon have shown a lion in their campaigns for their different product lines in print ads as well as TV Commercials and the theme is “Bring Home the Leader”.

To accomplish verbal similarity, it is not unusual for campaigns to use certain phrases or words in all the ads. The purpose is to make the ad distinct, convey the product benefit, and can be related to one brand only. For example, Visa Card campaign “It’s every where you want to be”. American Express “Don’t leave home without it,” Maggi’s “Two minutes,” Coke’s “Thunda Mutlab Coca Cola” and BMW’s “The ultimate driving machine”, etc. The repetition of key copy points, benefits, or theme in all media brings continuity.

For aural similarity, in case of broadcast, the advertiser can use the same music, jingle, or announcer’s voice to build continuity. A well-known jingle is “Washing powder Nirma”. Some other popular jingles in India advertising have been “Yahi Hai Right Choice” of Lehar pepsi,

“Videocon Washing Machine”, Sona Sona Naya Rexona”, “Tandurasti Ki Raksha Karata Hai Lifebuoy, Lifebuoy Hai Jahan Tandurasti Hai whan.”

Ads can communicate a consistent attitude towards the brand and the people who use it. It communicates the brand's personality. The Pepsi campaign “Yeh Dil Mange More” and that of Coca-Cola “Coca-Cola Enjoy” are more than just words. They communicate an attitude to young and old consumers.

## **5.7 Creating ads Pretest and Post Testing :**

### **a. Creating ads, pre-test and Release Ads :**

Advertising companies cannot afford to neglect pre-testing of the ad campaign. Rising costs of media, thousands of advertising messages competing to get noticed and audience apathy, and often dislike of ads, make it essential for companies to be reasonably sure that the campaign message is attended to and comprehended. Most authorities agree that advertising should be pretested before actual execution to avoid any costly mistakes and increase its efficiency. For pretesting advertising strategy and execution, various techniques such as market tests, focus groups, surveys, computer simulation tests, etc., are used before the ads are placed in the media.

### **b. Evaluating the final Result (Post –testing):**

Post-testing is done to evaluate the final results of the ad campaign. These results are concerned with measuring the campaigns effectiveness. Pre-testing is evaluative research conducted before the campaign is launched. Ongoing testing evaluates the campaign while it is running in the market place. It allows the advertiser to assess to what extent the message is reaching the target audience and whether it is being interpreted as intended. This may allow the advertiser to make any timely adjustments. Post-testing is done at the end of the campaign to determine to what extent the advertising campaign objectives have been accomplished. It provides feedback to promotion managers and help future planning.

## **5.8 Summary :**

Most ads are a series of messages that make an ad campaign and centre on a single theme or idea that appears in different media across a specified period. The ad campaign is normally a commitment to a creative strategy and usually lasts for one year. For some companies ads are often created one at a time and the central message keeps on changing. This type of advertising is not considered as a campaign.

There are at least seven essential steps in planning an ad campaign. These steps are not necessarily sequential and in actual practice two or more activities are often undertaken simultaneously.

First of all the marketer has to ascertain by considering certain factors whether advertising will be suitable in a marketing situation. If the conditions are favourable, that the target market has to be defined, advertising objectives are to be set, the budget is determined, media and creative strategy are finalised, ads are created, pretested, released in the media, and finally the results of the campaign are evaluated.

**5.9 Self Assessment Questions :**

1. What is an ad campaign ? Why is it important to appraise the advertising opportunity for a marketer ?
2. You have been assigned to work on an ad campaign for a new soft drink. What steps would you take in developing the campaign ? Discuss.
3. There is hardly any opportunity to differentiate packaged wheat flour. Would it be advisable to advertise in this situation ? Discuss.

**5.10 Further Readings :**

1. Watson S.Dunn and Arnold M Barban, Advertising its role in Modern Marketing, Dry den press, New York
2. Neil H. Border, The Economic Effects of Advertising, Richard D. Irwin
3. Kazmi S.H.H. and Satis K. Batra, Advertising and Sales Promotion, Excel Books, New Delhi

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**LESSON –6**

# Message Design and Development

**Objectives:-**

After having gone through this lesson, you will be able to:

- Explain the importance and relevance of message design in communication frame work.
- Discuss the tools used to create message
- Comment upon the order of presentation.
- Describe the principles underlying message development.

**Structure :**

- 6.1 Introduction**
- 6.2 Message Design and Positioning**
- 6.3 Message Design and Marketing Objectives**
- 6.4 Message Presentation**
- 6.5 Message Sidedness**
- 6.6 Message Development Meaning and Tools**
- 6.7 Advertising Copy**
- 6.8 Headline**
- 6.9 Illustration**
- 6.10. Body Copy**
- 6.11 Colour**
- 6.12 Composition (Layout)**
- 6.13 Summary**
- 6.14 Keywords**
- 6.15 Self Assessment Question**
- 6.16 Further Readings.**

**6.1 Introduction :-**

In addition to media planning and selection, every advertiser is closely concerned with formation and presentation of his advertising message. The advertising message formulation involves designing of advertising copy and structuring the layout so that the firms USP (Unique Selling Proposition) may be effectively presented to the target audience for appropriate product position. Before an advertisement appears in public, two activities must be undertaken. First message design and second message development including message execution. This lesson deals with these two important aspects of communication,

**6.2 Message Design and Positioning:-**

The message is often considered as the most vital component in the communication process. The message is the thought, idea, attitude, image, or other information that the advertiser wishes to convey to the target audience emphasising the importance of message design. How an advertising message is presented is critically important in determining its effectiveness. Promotion

managers must focus on what will be the message content, how this information will be structured for communication and what kind of message appeal will be appropriate. Ogilvy. David said “ My original magic lantern started with the assertion that positioning and promise were more than half the battle”. True, but spotting the uniqueness or association of the product that will help the advertiser, win a place in the consumer’s mind isn’t easy. An excellent example of brand positioning is Maggi Instant noodles.

The above example helps us in understanding positioning, the key word to modern day advertising. Position of a product is what the consumer think about it. And not what the marketer feels about his product. Identifying and applying consumer’s true mental perceptions of the product in your communication is what message design in all about. While Designing the message for a certain product we must consider the nature of the product, Identify generic product category, target audience and the segment, special attributes of the product, consumer expected benefits with the product, competitors, frequency and occasion of product usage, prospect requirements, product peculiarities, expected positioning etc., The message designers have come to know the above said all through well conduct market research.

“Through consumer research the company (food specialist limited) feel that the most profitable position (for maggi) would be as a tasty, instant snack, made at home and initially aimed at children. The target market was the in-home segment of the very substantial snack category. This positioning decision automatically determined the competition which included all snack products in general. These would range from ready to eat snacks – biscuits, wafers, and peanuts- to ready prepared snacks such as samosas. All were bought out items.”

### 6.3 Message Design and Marketing Objectives:-

The message is the thought, idea, attitude, image, or other information that the sender wishes to convey to the intended audience. The marketer’s objectives tend to vary with audience. Objectives in communicating with consumers, for example, may be one or all of the following : Informing them what is for sale, creating brand awareness getting them to buy the product, reducing their dissonance after the purchase is made. The marketer’s objectives with intermediary customers is to get them to stock the product; with other manufacturers, to get them to buy the product and use it to make their own.

Senders must also know their audience characteristics in terms of education, interests, needs and realms of experience. They must then endeavour to encode or phrase their message in such a way that they will fall within the consumers zones of understanding and familiarity. To attract the attention and interest of their target audiences, marketer’s starts their advertisements with an appeal to the needs and interests of audience, and end with an appeal relevant to their own needs (with an effective sales closing). Advertisements that do not conclude with an action closing tend to provoke much less action on the part of the consumer than those that do. The following techniques summarized to make messages more memorable and persuasive.

- Get the audience aroused
- Give the audience reasons for listening
- Use Questions to generate Involvement
- Cast the message in terms of familiar to audience and build on point of interest.



- Use thematic Organization the message material together by a theme and present in a logical, irreversible sequence.
- Use simple category words more concrete, specific terms
- Repeat key points
- Use rhythm and rhyme
- Leave the audience with an incomplete message, something to ponder. So that they have to make an effort to achieve closure.
- Ask audience for conclusion
- Tell the audience the implications of their conclusions.

#### **6.4 Message Presentation :-**

Marketing is all about satisfying consumer needs and wants at a profit and, at the same time, protecting the larger and longrun interests of the society. Through the use of a variety of appeals, advertising attempts to communicate and influence the purchase and consumption behaviour of existing and potential consumers. One of the most critical decisions about creative strategy in advertising involves the choice of an appropriate appeal. Some ads are designed with the intent of appealing to the rational and logical aspects of the consumer's decision making process, and other attempt to stimulate consumer's feelings with the intent of evoking some designed emotional response. Many advertising professional believe that effective advertising is created by combining practical reasons for purchasing a product or service with emotional values of the audience.

Advertising appeals are often classified as rational appeals 'emotional appeals' and 'moral appeals'. Rational appeals are those that focus on the audience's self interest and are directed at the thinking aspect of the decision making process. Such appeals attempts to show that the product or service will produce the desired benefits. Examples are ad messages that promise economy, assurance of resale value, quality, durability, reliability, ease of use etc., Rational appeals are particularly relevant for industrial buyers who chose products according to some of the mentioned criteria. In case of general consumers, they confidently rationalise most of their purchases even when the purchase decisions are based on emotional grounds.

Emotional appeals are put under two categories : positive and negative emotional appeals, depend on what kind of emotions are to be triggered. Love, affection, Joy, prides humour, prestige, status etc., are some examples of positive emotional appears. Fear, shame, guilt, embarrassment, rejection etc., are negative emotional appeals. Such appeals motivate the audience to do things that they should do, such as cleaning teeth (Colgate Commercial) or to stop doing things they should not, such as smoking and using other tobacco products.

Moral appeals attempts to draw audience attention to what is 'right'. Moral appeals are generally used to urge people to support social causes such as environmental concern population exposition, donating money to help victims of some natural calamity, or equal status for women etc.,

#### **6.5 Message Sidedness:-**

A message can be either one-sided or two-sided. A one sided message mentions only benefits or positive attributes of the product or service. For ex. Advertisements of 'Maruti 800'

only address its advantages and don't mention any possible weaknesses. If the audience is favourably predisposed, or if it is not likely to hear an opposing argument, then a one-sided message is most effective. A two-sided message presents not only the strong points of the products or service, but also admits to any weaknesses. If audience is critical, unfriendly or hostile, well educated, or if it is likely to hear opposing claim about the product or service, then a two-sided message is most likely to be more effective. Two-sided advertising messages are especially useful in a highly competitive marketing environment. Where every competing brand claims superiority over others. Ex Khaitan Mara than fan ad claims superiority about its features but admits that it is expensive than other fans. This strategy actually helps provide consumers with counter arguments to dilute any attacks by competing brands.

Two-sided messages are often seen in the case of comparative advertising where the name of one or more competitors are openly mentioned for the purpose of claiming overall superiority or superiority on selective attributes basis. Recent examples seen in Indian Media are Rin and Tide, Cannon & Rodi Xerox.

Although comparative advertising is widely used, it is not without critics. Researchers dispute its effectiveness in aiding message recall. Some maintain the message recall effectiveness of comparative ads is somewhat higher than that of ads which do not explicitly name the competition.

## 6.6 Message Development – Meaning and Tools:-

Basically an advertisement is an expression of an idea and the success of the advertisement rests on the strength of the idea, the total message picture and the words intruded to express. Any advertisement we come across is the outcome of visualization or creative visualization. Creative visualization is the starting point of message development. Prof Mawerice I. Mandell has emphasized that the term creative visualization, refers to "Seeing in the mind's eye the form of the idea as it would appear in the advertisement". It is a creative process dealing with visioning or imagining the units, or masses or elements that go into the advertisements that is to be presented to the audience. Still we find many creative persons follow certain steps to find innovative ideas. Mr. Aleso Osborn- The founder of creative Education foundation in USA has done a lot of work on a creative process. He spells out seven-step model of creative process. The seven steps are orientation (Familiar with the company product - its markets – company history, philosophy, policies and peculiarities), preparation (Gathering all types of information both relevant and irrelevant), Analysis (The collected information is to be manipulated-thoroughly examined, studied, weeded, screened, and arranged in unusual combinations and synthesized), Ideation (Creative spark or concrete shape to the brain waves), Incubation : (ideas into the subconscious), synthesis: (process of organizing ideas) evaluation, and verification. So, creativity is the quality of being able to produce original work or ideas by human intelligence and imagination in any field. A new creation can win praise of people only if it is completely new. Something that had never existed before.

For creating a good ad there are few tools that are normally used. These are like chisel and mallet, for transforming ideas into meaningful shapes. These are the means towards achieving the goal.

## 6.7 Advertising Copy :-

One of the most important functions in advertising is writing copy. An ad copy is all the written or spoken matters in an advertisement expressed in words or sentences and figures

designed to convey the desired message to the target audience/consumers. In a print media an advertisement copy is made-up of head-line, sub-headlines, both of the copy, illustration, logo-type, slogan and brand name. Strictly speaking, written content of ad is called as copy and visual part is called as illustration an advertisement copy is the product of the collective efforts of copy writers, and artists and the layoutman. The ad copy is drafted with certain objectives to be achieved. These objectives are 'Direct Action' and 'Indirect Action'. Direct Action objective of a copy is to cause immediate direct action on the part of the consumer, eg., coupons for soliciting inquiries. Indirect action objective of a copy is to create indirect action on the part of prospects.

Good ad copy is not the result of a sudden flash of inspiration. Rather, it is built or put together according to a definite plan to produce a definite results. Before any copy is written, the copy writer should have pre-thinking a prelude to successful copy writing. He should have designed background information a stuff for his copy. It relates to buyers, products, channels, promotion and legalities. However, a good or effective ad copy is one that succeeds in reaching the target consumers to create a favourable attitude towards the product and the producer impelling an action. To perform these functions, an effective copy should be brief, clear, apt, personal, honest, and conforming are called as the essentials or attributes.

In print media, the ad copy is made-up of the components like,

Head line

Sub-Head lines

Body of the copy

Illustration

slogan

Identification mark or logo type

Colours and

Composition

These elements are used to design and develop the message in a way that the basic objectives of communication is fulfilled. Be it informing the consumers about the sales, or persuading him to buy the merchandise or simply creating an awareness about the brand.

## 6.8 Copy Head Line :-

Research shows that most advertisements are not read beyond the headline. If the headline arouses curiosity only then the reader proceeds further. Naturally the headline deserve more attention and imagination than other parts of the advertisement. It is the name given to the display line which appears at the top or near top of the ad and acts as a sign post in stopping the reader and impelling him to read the message. It is a word or a phrase or a sentence printed in large sized letters and implying the message underlying the advertisement Head line is the essence boiled down from the substance of advertising message. It is so important that it makes clear distinction between the success or failure of an ad. The important functions of head line are (i) To attract the attention of readers, (ii) To induce the readers to read the text, and (iii) to give concised selling message.

Copy head lines are classified in a number of ways by experts in the field of advertising. According to C.M. Edwards and W.H. Howards, head lines can be of four types namely, Informative, Provocative, Selective and label.

**(i) Informative Headline :**

Informative (or) News(or) message head line features the most important selling point of the product/services, provides new information to the readers. Eg. Innovations in electronics an advertisement of “National”, “Look your loveliest with LACTOCALAMINE” Dulphar Interform Ltd.,

**(ii) Provocative Head Line:**

Bait the readers curiosity in order to complete the reading of a copy. Eg. “Don’t gun mosquitoes –use TORTOISE MOSQUITO COIL – Bombay Chemical Ltd., Growing children need COMPLAN- Glindia Ltd.,

**(iii) Selective Head Lines :**

Seek their clientele by directing their appeals to those for whom the product holds a special interest Eg. “You need not be a millionaire to look a Multi-Millionaire” – Raymond’s, “To all collegian CLEARASIL for pimples” Halen Curtis Ltd.

**(iv) Label Headlines :**

Identify and name the product with its price., eg : Peter England shirts ranging from Rs. 399. “Moccasins-Rs.195 per pair”- Bata India Ltd.

Headlines to be effective can be supported visually. Both together involves the readers with ad.

**Sub headline:-** While many ads have only one headline, it is also common to see print ads containing the main head and one or more secondary heads, or sub-heads. Sub-heads are usually smaller than the main headline but large than the body copy. They may appear above or below the main headline or within the body copy. These are often used to enhance the readability of the message by breaking up large amounts of body copy and highlighting key sales points. Their content reinforces the headline and advertising slogan or theme.

Eg: ONLY BRYL CREAM

- \* Grooms your hair perfectly without making it oily or messy
- \*\* It is so economical – one application keeps your hair naturally in the place all the day
- \*\*\* It has unique formula that nourishes the scalp, encourage healthy hair growth
- \*\*\*\* It brings out natural colour to your hair change to BRYL CREAM !

Used by millions of well groomed men through out the world – H.M.M., Ltd., India.

**Slogans:-** A slogan is any word or a group of words used regularly by the advertiser to impress the readers of the basic idea about his product/ service. It is brief, general and unchanging that widens horizons of publicity. It signs of the qualities of product or producer.

- Eg: 1. Diamonds are forever - DeBeers  
2. Just do it - Nike

- |    |                          |   |            |
|----|--------------------------|---|------------|
| 3. | Let's make things Bother | - | Philips    |
| 4. | The coolest one          | - | Kelvinater |
| 5. | We know India Better     | - | L.I.C      |

### **Seals, Logos, and Signatures:-**

A seal is awarded when a product meets the standards established by a particular agency or institute such as ISI, ISO 9002, or Energy Star, etc... These seals provide an independent, valued endorsement to the advertised product.

Logotypes and signature are special design of the advertiser's company or the product name. They appear in all the company ads, are immediately recognised and give the product individuality at the point of sale, such as Kellogg, Intel Inside, HP, etc.

### **6.9 Illustration :-**

The illustration is often a dominant part of a print ad and plays an important role in determining its effectiveness. The visual portion of an ad must attract attention, communicate an idea, or image, and work in a synergistic fashion with the headline and body copy to produce an effective message. In some print ads, the visual part of an ad is essentially the message and thus must convey a strong and meaningful image. The visuals capture a mood and evoke a feeling, a context for the consumer's perception of product or service. Selecting the focus of ad visuals often determines how well the big idea is executed. The art director has to make many decisions regarding the visual portion of the ad, such as identification mark (Company Name, Trade Marks, Logos, etc.) photos hand-drawn illustrations, black and white or colour etc.,

### **6.10 Body Copy:**

The main text portion included in the advertisement is called the body copy. The body copy contains the complete sales story and is the logical continuation of the headline and subheads. It covers the attributes, benefits and the utility of the product or service, but getting the audience to read the body copy is often difficult. It is estimated that just about ten readers actually read the body copy which must be long enough to accommodate the complete message and short enough to retain the reader's interest. The copywriter must speak to the prospect's self-interest, explain how the product or service will satisfy the consumer need.

### **6.11 Colour:**

Colour is another physical element of an ad copy and can be used with impact only if its dimensions are understood. The decisions to use colour, and how much of it, can influence the development of copy and art and the production of finished print advertisement. The use of colour directly influences the cost of advertisement but also offers significant advantages.

- It adds attention – Capturing value to the advertisements.
- Help in imparting emphasis to important elements in an ad
- Add a sense of realism or atmosphere
- Help in easy identification of brand name, package and trademark
- Imparts a feeling of quality and prestige to the advertisement.

Print advertising had the potential to compete with television. It had a ability to generate astonishing, eye –catching colour in ad's. Use of colours suits many product categories such as food items, fabrics, fashion item, etc., national origin or culture can play a role in colour preferences. Colours have a symbolism of their own that can influence the communication process. Greens and blues are perhaps associated with grass, trees, sea, and sky, they are cool and restrained colours. At the other end of the spectrum are red and orange. These are warm colours, suggesting fire stimulation, passion, action and excitement. Yellow is viewed as a bright and cheerful colour and suggests warmth without heat.

### 6.12 Composition (Layout) :

A layout is an orderly physical arrangement of headline, subheads, body copy, slogan, seal, logo, signature and the visual elements into a finished advertisement. It shows where each component of the ad will be placed and gives guidelines to people working on the ad creation. The comprehensive layout is a highly refined exact copy of finished ad. It is quite detailed, with photos, the final type styles and font sizes, and sub visual, and a glossy spray coat.

Rules of composition are followed in every art form ever created by man. One can safely say that there can be no beauty unless the rules of proportion are followed. A poor idea remains poor no matter how well laid out it is, but a good idea had a chance of success only if it is presented clearly on the page. The manner of arranging components on the page has a lot to do with attracting and controlling the readers attention. The subject has also been investigated by scientists who have arrived at conclusion about eye movement and attention fatigue. There are not set formulae that can assure effective layout. However, there will be a great opportunity for successful layouts if the following factors taken into consideration.

**1) Sequence or eye movement :** The ad should be arranged in an orderly manner so that consumers can read it from left to right and top to bottom. Arrangement of elements in a sequence helps direct the readers eye in a structural motion. The elements should be placed in a manner that the eye starts where the advertiser wants it to start and traverses its course through out the ad.

**2) Balance:** There is a belief among many designers that balance is a fundamental law of nature. Balance means controlling the size, tone, weight and position of the elements in the ad. It occurs when equal weights or forces are equidistant from a reference point, which is the imaginary vertical line drawn from the centre of the ad. One can test the balance by examine the relationship between the right and left halves of the ad. When the weights of all elements on both sides of the vertical centre line is equal the layout had formal balance. Such symmetrical ads give an impressions of stability and conservation.

3) **Contrast**: An effective way of drawing attention to a particular element is with the use of contrast. It imparts life to a layout and adds emphasis to selected elements. Variations in the size, shape and colour of layout elements creates contrast. Altering type to bold or italic brings attention to a word or phrase and create contrast between type elements.

4) **Emphasis or proportion** : Elements in an advertisement are accorded space based on their importance to the complete advertisement. For best appearance, elements frequently use varying amounts of space in some proportion.

5) **Unity** : Unity is considered as most important design principle. All creative advertising had a unified design. The complete layout (Copy, Visual, Headline, Logo, etc.) should appear as a simple unified composition. Unity contributes order lines to the elements.

6) **Continuity** : Continuity refers to the relationship of one advertisement to the rest of the campaign. This is achieved by using the same design format, style and tone for all advertisements.

7) **Clarity and Simplicity**: Any element that can be eliminated without damaging the effect the advertiser is trying to achieve should be eliminated. Too many different type styles, type that is too small and unnecessary copy make the layout complex too busy. It makes the ad, hard to read and hurt the overall effect desired.

### 6.13 Summary :

The lesson message design and development, discusses the basic tools used in message design and development. Message is the central theme on which the communication to the audience depends. Making use of its elements like headline body copy, colour, shape, size, order of presentation and direct/peripheral approach to presentation, a message seeks to fulfill the communication objectives effectively.

### 6.14 Key Words :

- 1) **Advertising campaign** : A comprehensive advertising plan that consists of a series of messages in a variety of media that centre on a single theme or idea.
- 2) **Advertising Creativity** : The ability to generate fresh, unique and appropriate ideas that can be used in solution to communication problems.
- 3) **Body copy** : The main text portion of a print ad.
- 4) **Creativity** : A quality possessed by persons that enables them to generate novel approaches, generally reflected in new and improved solutions to problem.
- 5) **Emotional Appeal** : Advertising message that appeal to consumers feelings and emotions.
- 6) **Sub heads** : Secondary headline in the print ad.
- 7) **Unique selling proposition** : An advertising strategy that focuses on a product/ service attributes that is distinctive to a particular brand and offers an important benefit to the customer.

**6.15 Self Assessment Question :**

1. Discuss the steps involved in the design process of a print ad, what is the role of headline and visual ?
2. Select two advertising campaign and develop what you think are the objectives of the ad's. How has a message design attempted to achieve these objectives.
3. Suggest what message strategies and order of presentation should be used for the following products and services and why?  
a) Detegenis b) Cigaretts c) Fire Insurance d) Housing Loans.
4. How do colour and size affect the response to an ad : illustrate with examples.

**6.16 Further Readings:**

1. Philip Kotler, Marketing Management, Prentice Hall of India Pvt., Ltd., New Delhi.
2. George E. Besch & Michael A. Belch, Advertising and Promotion. Tata McGraw-Hill, New Delhi.
3. Schiffman & Kanuk, Consumer Behaviour, Prentice Hall of India Ltd., New Delhi.
4. S.H.H. Kazmi & Satish K. Batra, Advertising and sales Promotion, Excel Books, New Delhi.

**- Dr.V. Tulasi Das**



**LESSON - 7****MEDIA SELECTION, PLANNING & SCHEDULING****7.0. Objectives :**

After reading this lesson you should be able to :

- Explain the concept of media planning and role of media in overall marketing and advertising plan.
- Discuss the strategies relevant to media selection .
- Explain the dominant factors in scheduling.

**Structure :**

- 7.1 Introduction.**
- 7.2 Meaning and Types of Media**
- 7.3 Media Planning : A Process**
- 7.4 Media Selection : A Process**
- 7.5 Developing and Implementing Media Strategies**
- 7.6 Media Scheduling**
- 7.7 Summary**
- 7.8 Key Words**
- 7.9 Self Assessment Questions**
- 7.10 Further Readings**

**7.1 Introduction :**

Media management involves one of the most crucial decisions for an advertiser in its objectives to reach effectively the target markets. The decisions assume further critical importance with the wide availability of media vehicles and changing in buying public. Media planners must know consider new options as well as recognize the changes that are occurring in traditional sources. New and evolving media contribute to the already difficult task of media planning. Planning when, where, and how the advertising message will be delivered is a complex and involved process. The primary objective of the media plan is to develop a frame work that will deliver the message to the target audience in the most efficient, cost effective manner possible that will communicate. What the product, brand, and / or service can do. This unit presents the various methods of message delivery available to marketers, examine some key considerations in making media decisions and discusses the development of media strategies, plans and media scheduling.

**7.2 Meaning and Types of Media :**

Media as a term can be defined both from the users and the suppliers perspectives. To the users of media i.e. advertisers and audiences, it is the mix of medium that carry the advertisers

message and constitute as the vital link between the company that manufactures and serve the product and the customer who buy or might wish to buy it. Media suppliers on the other hand, includes the institutions that offer media. To them it is a “mix of service organization which aim to fulfill the needs of listeners, viewers and readers for information and entertainment”. Note that the media are not primarily and purely for carrying the marketing messages. They render a far more meaningful and comprehensive set of beneficial services in which besides entertainment and information, marketing messages are carried to the audiences. Naturally therefore, each medium will do its best for making it more attractive and closer to its audience.

**Types of Media :** Advertisers face virtually an ocean full media choices, though many of them may be summarily rejected as being irrelevant either to the product type or to consumer types. The following are the major types of Media.

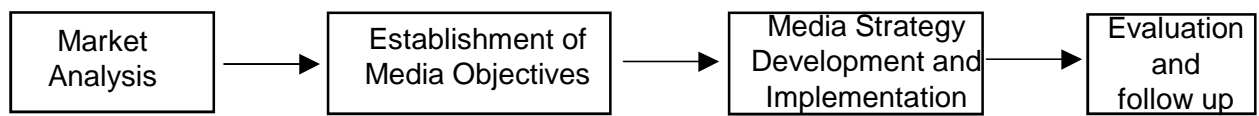
- Direct Mail Media
- Radio Advertising
- Outdoor Media
- Magazine
- Screen Media
- Specialty Media etc.,
- Directory Media
- Point of Purchase Media
- News Paper Media
- Transit Media
- Television

### 7.3 Media Planning : A Process :

The media plan determines the best way to get the advertiser’s message to the market. In a basic sense, the goal of the media plan is to find that combination of media that enables the marketers to communicate the message in the most effective manner to the largest number of potential customers at the lowest cost.

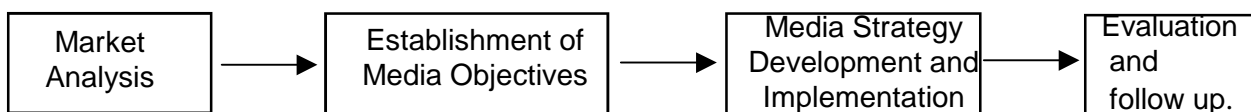
Like any other planning, media planning is done by specialists who have necessary amount of training and experiences. Media planning is a process of designing a course of action that shows how advertising time and space will be used to contribute to the achievement of marketing objectives. In this process the media planner takes into consideration factors like media strategy, media tactics, media planning models and the cumulative effect of advertising along with procedures for buying media.

The activities involved in developing the media plan and purpose of each are presented in figure 7.1. As you can see, a number of decisions must be made throughout this process. As the plan evolves, events may occur that necessitate changes. Many advertisers find it necessary to alter and update their objectives and strategies frequently.



At each stage of the planning process you would recognise the importance of facts and figures, and ways to study them in order to take the subdivisions. So, the relevance of information analysis base begins right at the first stage and stays right through till the evaluation stage. What information is required at each stage will be studied as we go along. Let us study the important stages in the planning process. (See Fig. 7.2).

**Figure 7.2 Developing the Media Plan**

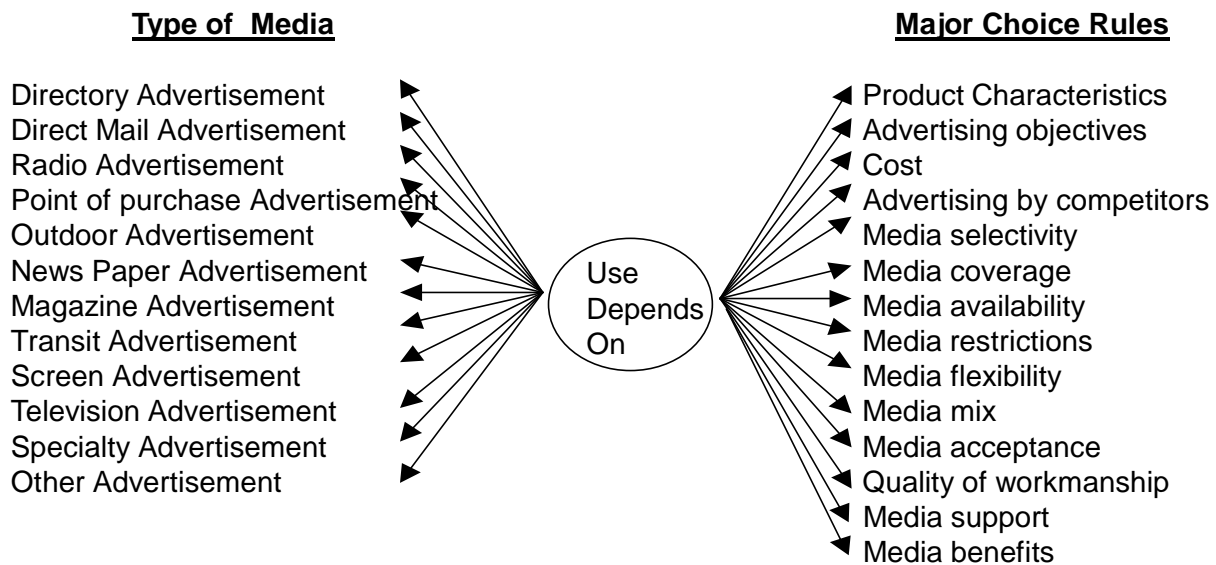


Media plan is derived from advertising plan. Advertising plan itself, in its turn, is derived from marketing plan. Marketing plan considers the total marketing environment and sets the marketing objectives. To realise these objectives, we formulate marketing strategies. Advertising plan is derived from marketing plan, and lays down the promotional strategy as part of marketing strategy. Our media plan is derived from the advertising plan. It sets media objectives. These objectives are realised through media strategy.

Setting media objectives is the first step in media planning. Media objectives are in harmony with the advertising and the marketing plans. There are broadly five elements in a media objective statement. Target audience, Geographic concentration, Timing consideration, reach / frequency and creative requirements.

#### **7.4 Media Selection : A Process :**

Media selection is a highly involved task for a marketer. The major reasons for this involvement is that there could be no single best media strategy that would apply to different situations. The attempt is, therefore, to identify a fit between media choice and market preferences. Differences in these choice approaches necessitate a change in media mixes. Further, media selection differs continuously on account of an imperfect state of knowledge that exists about the media scene. The pattern of advertisement expenditure on media vehicles keep on changing with the passage of time. Thus, advertisers and marketers in the same industry may be found spending different amounts on various media instruments even though the products and markets are the same. Figure 7.3. Outlines the major media considerations in media selection.

**Fig-7.3 : Major Consideration in Media Selection.**

Source : Advertising : W.H. Bolen P.191.

In view of the complexities and involvement in media selection, a managerial framework is quite helpful. The following selection process deals with a series of considerations in the pursuit of media selection. Target audience; creative requirements (Nature of message delivered); Seasonal and Geographic concentration; cost; reach / frequency; Degree of synergy between message content and media.

## 7.5 Developing and Implementing Media Strategies :

Having determined what is to be accomplished, media planners consider how to active these objectives. That is they develop and implement media strategies, which evolve directly from the actions required to meet objectives and involve the criteria considered is the development of media plans.

- .. The media mix
- .. Target market coverage
- .. Geographic Coverage
- .. Scheduling
- .. Reach Vs. Frequency
- .. Creative aspects and mood
- .. Flexibility
- .. Budget consideration

Let us examine each of the above criteria in developing and implementing media strategies.

**a. The Media Mix :** A wide variety of media and media vehicles are available to advertisers. While it is possible that only one medium and / or vehicle might be employed, it is much more likely that a number of alternatives will be used. The objectives sought, the characteristics of the product or service, the size of the budget, and individual preferences are just some of the factors

that determine what combination of media will be used. As an example, consider a promotional situation in which a product requires a visual demonstration to be communicated effectively. In this case, TV may be the most effective medium. If the promotional strategy calls for coupons to stimulate trial, print media may be necessary. For in-depth information, the Internet may be the best.

By employing a media mix, advertisers can add more versatility to their media strategies, since each medium contributes its own distinct advantages. The combination of media, help the marketers to increase coverage, reach and frequency levels.

**(b) Target Market Coverage :** The media planner determines which target markets should receive the most media emphasis. Developing media strategies involves matching the most appropriate media to this market by asking “Though which media and media vehicles can I best get my message to prospective buyers”? The goal of the media planner is to extend media coverage to as many of the members of the target audience as possible which minimizing the amount of waste coverage.

**(c) Geographic Coverage :** In view of the market priorities and the differential media objectives set for such market, how the media mix is to be used in order to allocate the advertising effort is explained in strategic terms.

**(d) Scheduling :** Obviously, companies would like to keep their advertising in front of consumers at all times as a constant reminder of the product and/or brand name. In reality, this is not possible for a variety of reasons. Nor is it necessary. The prime objective of scheduling is to time promotional efforts so that they will coincide with the highest potential buying times. For some products these times are not easy to identify; for others they are very obvious. Three scheduling methods are available to media planners to decide - continuity fighting and pulsing.

Continuity refers to a continuous pattern of advertising, which may mean everyday, every week or every month-used for advertising for food products, detergents, cosmetics, etc., consumed on an on going basis without regarded ad seasonality. Fighting method employees a less regular schedule with intermittent periods - seasonal products. Pulsing is actually a combination of the first two methods. In a pulsing strategy, continuity is maintained, but at certain times promotional efforts are stepped up – Garments ads in festival seasons. Educational institute ads in admission time etc.,

**(e) Reach Vs. Frequency :** Based on the marketing adjectives, it is always important to quantify the actual number of target audience desired to be covered and the number of time the target person is to be exposed to the advertising in order to effect the desired response. These are the physical dimensions of the achievement of any plan. The actual number of target persons covered in known as reach, and the number of exposures they are to receive is the frequency.

Since advertisers have a variety of objectives and face budget constraints, they usually must trade off reach and frequency. They must decide whether to have the message be seen or heard by more people or by fewer people more often. To determine effective frequency, one must consider marketing factors, message factors and media factors. (See Exhibit – 7.1).

The Reach Vs. Frequency decision, while critical, is very difficult to make. A number of factors must be considered, and concrete rules do not always apply. The decision is often more of an art than a science.

### **Exhibit 7.1 : Determinant Factors of Effective Frequency**

#### **Marketing Factors**

- “ **Brand History** : Is the brand new or established ? New brands generally require higher frequency levels.
- “ **Brand share** : An inverse relationship exists between brand share and frequency. The higher the brand share, the lower the frequency level required.
- “ **Brand loyalty** : An inverse relationship exists between loyalty and frequency. The higher the loyalty, the lower the frequency level required.
- “ **Purchase cycles** : Shorter purchasing cycles require higher frequency levels to maintain top-of-mind awareness.
- “ **Usage cycle** : products used daily or more often need to be replaced quickly, so a higher level of frequency is desired.
- “ **Competitive share of voice** : Higher frequency levels are required when a lot of competitive noise exists and when the goal is to meet or beat competitors.
- “ **Target group** : The ability of the target group to learn and to retain messages has a direct effect on frequency.

#### **Message or Creative Factors**

- “ **Message complexity** : The simpler the message, the less frequency required.
- “ **Message uniqueness** : The more unique the message, the lower the frequency level required.
- “ **New versus continuing campaigns** : New campaigns require higher levels of frequency to register the message.
- “ **Image versus product sell** : Creating an image requires higher levels of frequency than does a specific product sell.
- “ **Message variation** : A single message requires less frequency, a variety of messages requires more.
- “ **Wear out** : Higher frequency may lead to wear out. This effect must be tracked and used to evaluate frequency levels.
- “ **Advertising units** : Larger units of advertising require less frequency than smaller ones to get the message across.

### Media Factors

- .. **Clutter** : The more advertising that appears in the media used, the more frequency is needed to break through the clutter.
- .. **Editorial environment** : The more consistent the ad is with the editorial environment, the less frequency is needed.
- .. **Attentiveness** : The higher the level of attention achieved by the
- .. **Scheduling** : Continuous scheduling requires less frequency than does flighting or pulsing.
- .. **Number of media used** : The fewer media used, the lower the level of frequency required.
- .. **Repeat exposures** : Media that allow for more repeat exposures (for example, monthly magazines) require less frequency.

**(f) Creative aspects and Mood** : The context of the medium in which the ad is placed may also affect viewers, perception. A specific creative strategy may require certain media. Because TV provides both sight and sound, it may be more effective in generating emotions than other media magazines may create different perception from newspapers. In developing a media strategy marketers must consider both creativity and mood factors.

**(g) Flexibility** : An effective media strategy requires a degree of flexibility. Because of rapid changing marketing environment, strategies may need to be modified. If the plan has not built in some flexibility, opportunities may be lost and/or the company may not be able to address new threats. Flexibility may be needed to address the Market opportunities, Market threats, availability of media, changes in media or media vehicles etc., Fluctuation in these factors mean the media strategy must be developed with enough flexibility to allow the manager to adopt to specific market situation.

**(h) Budget Consideration** : One of the more important decisions in the development of media strategy is cost estimating. The value of any strategy can be determined by how well it delivers the message to the audience with the lowest cost and the least waste. The marketer tries to arrive at the optimal delivery by balancing cost with reach, frequency, and availability.

Advertising and promotional costs can be categories into two ways. The “absolute cost” of the medium or vehicle is the actual total cost required to place the message. “Relative cost” refers to the relationship between the price paid for advertising time or space and the size of the audience delivered; it is used to compare media vehicles. Relative costs are important because the manager must try to optimise audience delivery within the budget constraints. Since a number of alternatives are available for delivering the message, the advertiser must evaluate the relative costs associated with these choice. Unfortunately the broad cost, print and out of home media do not always provide the same cost break down, nor necessarily do vehicle within the print media. The following are the cost based methods used.

**1. Cost per thousand (CPM)** : For years the magazine industry has provided cost break downs on the basis of cost per thousand people reached. The formula for this computation is



$$\text{CPM} = \frac{\text{Cost of Ad Space ( Absolute Cost )}}{\text{Circulation}} \times 1000$$

2. **Cost per rating point (CPRP)** : The broad cost media provides a different comparative cost figure, referred to as cost per rating point or cost per point (CPP) based on the following formula.

$$\text{CPRP} = \text{Programme Rating} / \text{Cost of Commercial Time}$$

3. **Daily inch rate** : For newspapers cost effectiveness is based on the daily inch rate, which is the cost per column inch of the paper. As you can see, it is difficult to make comparisons across various media. What is the broad cost equivalent for cost per thousand or the column inch rate ? Thus.

$$\text{Television} = \frac{\text{Cost of 1 unit of time x 1000}}{\text{Programme Rating}}$$

$$\text{Newspaper} = \frac{\text{Cost of ad space x 1000}}{\text{Circulation}}$$

## 7.6 Media Scheduling :

Once the media planning and selection is accomplished to the satisfaction of both advertisers and agencies, the attention is diverted to the task of deciding the scheduling. It concerns answering such questions as how many of each media vehicles space and time units be bought? Over what and time units, this will be bought ? Over what period, should such buying be ? Do we want a steady schedule or do we want a pulsed campaign, concentrating heavily in the beginning and later slowing down ?

Normally media scheduling is considered for a four week period. Thus, to an advertiser, the following six types of schedules are available.

1. **Steady Pulse** : It is the easiest types of schedules to prepare. For instance one ad per week for 52 weeks or one ad per month for 12 months may be prepared.

2. **Seasonal Pulse** : Seasonal nature of products dictate the use of seasonal pulse in advertising examples. Pears Glycerin Soap, Ceiling Fans; air conditions refrigerators etc., in the months of winter and summer respectively.

3. **Periodic Pulse** : Scheduling of media at regular intervals but not related to the seasons of the year is called the periodic pulse.

Ex. Media scheduling of consumer durables and non-durables.

4. **Erratic Pulse** : When advertising is spaced at irregular intervals, it is called erratic pulse. Erratic pulse be itself is not to ignored. It is quite likely that the advertiser is trying to cause changes in typical purchase cycles. For instance, ceiling fans, soft drinks, etc.,

advertising in months other than the summer months could attempt to even out purchases throughout year.

**5. Start up pulse :** It is quite common to see a heavily concentrated media scheduling to open their a new product or a new campaign. This is called start up pulse.

**6. Promotional Pulse :** This scheduling pattern suits only a particular promotional theme of a company. Thus, it will be more in the nature of one time only and advertising will be heavily concentrated during a particular time. Ex. Reliance Mutual Fund, RIL Mobile, LIC on Bheema Gold Policy in 2006 etc.,

Even though several scheduling patterns are available with their unique characteristics, it would be wise to remember that scheduling is a part of media strategy. Hence, a regular review of the scheduling pattern is beneficial to the advertiser. Any thoughts on media scheduling will be directed by a careful analysis of three factors of media. They are Reach, Frequency and continuity (RFC). Several researchers have been conducted on analysing the data related to RFC. The major findings are.

- \* Continuity assumes importance because advertising is often forgotten if not reinforced by continual exposure.
- \* Repeated exposures are needed to impress a message on the memories of a large promotion of consumers.
- \* As number of exposures increases, the number of person who remember it increase. Not only this the length of time for which they remember also increases.
- \* An intensive 'burst' of advertising is more likely to cause a large number of people to remember it at least for a short time than spreading the campaign uniformly.
- \* In many cases reaching as many people as possible may be as important as the task of reaching a fewer number of people but more frequently.
- \* It goes without emphasizing that media planning is more an art than a science because not many credible and universally applied scientific methods have been evolved yet.

## 7.7 Summary :

This unit has presented an over view of the determination of media objectives, development of the media strategy, selections of media, and form allocation of objectives and strategy in the form of media plan. The media strategy must be designed to supplement and support the overall marketing and communication objectives. The objective of this plan are designed to deliver the message the programme has developed.

The basic task involved in the development of media strategy is to determine the best matching of media to the target market, given the constraints of the budget. The media planner attempts to balance reach and frequency and to deliver the message to the intended audience with a minimum of waste coverage. At the same time, a number of additional factors affect the media decision. The media strategy development influenced by many factors, including media mix, determining target audience and Geographic coverage, scheduling, and balancing reach and frequency. Creative aspects, budget considerations and the need for the flexibility in the schedule were also considered.

## 7.8 Key Words :

**Media planning** : M.P. is the series of decisions involved in delivering the promotional message to the prospective purchasers and/or user of the product or brand.

**Medium** : Medium is the General category of available delivery system which includes TV, Radio, Print, Direct mail, Out door advertising and other support media.

**Media Vehicle** : Media vehicle is the specific carrier within a medium category.

**Reach** : Reach is a measure of the number of different audience members exposed atleast once to a media vehicle in a given period of time.

**Coverage** : Coverage Refers to the potential audience that might receive the message through a vehicle.

**Frequency** : Frequency refers to the number of times the receiver is exposed to the media vehicle in a specified period.

## 7.9 Self Assessment Question :

1. What major issues must media planner consider before they begin ?
2. Media planning involves a trade off between reach and frequency. Explain what this means and give examples of when reach should be emphasised over frequency and vice versa.
3. Discuss the principal methods of media scheduling. What factors should be taken into account ?
4. Explain the Criteria considered in developing and implementing media strategy.
5. "The biggest waste in advertising is to advertise too little" Discuss.

## 7.10 Further Readings :

1. George E. Belch & Michael, A. Belch (2004), Advertising and Promotion. An Integrated Marketing Communication Perspective, Tata MC Graw-Hill Publishing Company Pvt., Ltd., New Delhi.
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**LESSON –8****SALES PROMOTION MEANING AND ROLE****8.0. Objectives:-**

After reading this lesson you should be able to:

- Define Sales Promotion and how it differs from Advertising
- The reasons for the increasing importance of Sales Promotion
- Advantages & Drawbacks of Sales Promotion
- The role of Sales Promotion in a company's integrated marketing communications program.

**Structure :**

- 8.1 Introduction**
- 8.2 Definition & Meaning of Sales Promotion**
- 8.3 Factors influencing Sales Promotion Growth**
- 8.4 Advantages & Drawbacks of Sales Promotion**
- 8.5 Pull & Push Strategies**
- 8.6 Scope and Role of Sales Promotion**
- 8.7 Summary**
- 8.8 Key Words**
- 8.9 Self Assessment Questions**
- 8.10 Further Readings**

**8.1 Introduction**

Promotion is a key part of the marketing programme and is concerned with efficiently and effectively communicating the decisions of marketing strategy to target audiences with the intent to facilitate exchange between the marketer and the customer, which may satisfy the objectives of both the customers and the organisation. Promotion is also 'Goal Oriented' and the objectives may be create brand awareness, to educate the consumers, to create a positive image, to build preference and the ultimate goal is to sell the product or service to consumers. Organisations choose one or more of the following methods to promote their products, services or ideas. These methods of promotion referred to as 'marketing Communication – mix' (or) 'Promotion-mix'.

Advertising  
Personal Selling  
Sales Promotion  
Publicity  
Direct marketing

**1. Advertising :** Most glamorous elements of promotion mix. It is a tool of marketing for communication of ideas & information about goods/ Services to the customer by an identified sponsorer with non-personal presentation.

**2. Personal selling :** Personal selling is the face to face presentation of a product, service or idea to the customer by a representative of the company or organisation.

**3. Publicity** : This is an important promotional element of public relations and plays a significant role in marketing and promotion – mix. By definition publicity is placing of new stories in the media without a charged media fee and it is presented as news and audiences often consider it as more credible.

**4. Direct Marketing** : Direct marketing makes use of mail, Telephone fax, email and other non personal contact tools to communicate directly with or solicit a direct response from specific customers and prospects.

## 8.2 Definition and Meaning of Sales Promotion

It is difficult to define Sales Promotion in a precise manner because it includes an extremely wide variety of activities and techniques. There is a wide spectrum of views and different experts have defined Sales Promotion in different ways some of the selected definitions are.

“In a specific sense, sales promotion includes those sales activities that supplement both personal selling and advertising and coordinate them and help to make them effective, such as displays, shows and expositions, demonstrations and other non-recurrent selling efforts not in the ordinary routine”-A.M.A.

“Sales Promotions are short – terms incentives to encourage purchase or sale of a product or Service” – Roger A Strang.

“Sales Promotion is the direct inducement or incentive to the sales force, the distributor, or the consumer, with the primary objective of creating an immediate sale”. - Don Eschultg and William A Robinson

Sales Promotion consists of a drivers collection of incentive tools mostly short-terms, designed to stimulate quicker and / or greater purchase of particular products/ services by consumers or the trade – Philip Kotler

Sales Promotion offers a direct inducement to act by providing extra worth over and above what is built into the product at its normal price. These temporary inducements are offered usually at a time and place where the buying decision is made Sales Promotion is often referred to by the names of extra-purchase value (EPV) and “below-the-line-selling”

Sales Promotion means offering an extra value or incentive to the product/ services with various Promotional tools for generating the sales.

## 8.3 Factors Influencing Sales Promotion Growth

There are so many reasons that are favourable to the growth of Sales Promotion. As mentioned Cartier that most of budgeted is allocated to Sales Promotion prior than the advertising. Some of the major reasons contributing to the growth of sales promotion are discussed below.

### 1. Increasing Competition :

Looking at the list of product groups which are using Sales Promotion, and the observation of trends in the market it is becoming increasingly clear that the air of change has gained momentum

after the introduction of economic liberalisation. Now things are rapidly becoming different and because of this macro-environmental change. Markets are trying to gain customers attention with their confidence and retains them by providing value and service for their money.

**2. Customers have become more price-sensitive :**

Customers in general have become more conscious about prices. This increased price sensitivity is a direct result of rampant inflation. Some researchers feel that this increased price sensitivity of customers is a result of frequent sales promotions because consumer become conditioned to promotion. One thing is very clear that economic revision is likely to fuel this trend further as consumers & dealers become more sensitive towards prices.

**3. Sales promotions generally create an immediate positive impact on sales :**

Advertising, personal selling and other methods of promotion produce a slower sales response as compared to sales promotion. Since sales promotions are mostly for a short duration or a specified period. This leads to a sense of urgencies is consumers to buy now. Thus, creating an immediate positive impact on sales.

**4. Products have become more standardised :**

In most consumer product categories, there is a proliferation of brands, many of them are line extensions and one – too brands. Most brands are being perceived by consumers to be more or less similar within a give price range because of the inability of manufacturer to develop truly differentiated products. Under these circumstances advertising unable to influence the consumer but compete on the basis of extra benefit offered through sales promotion.

**5. Consumer acceptance :**

As competition intensifies and promotions proliferate, consumers have learnt to each the rewards of being “Smart Shopper” over a period of time consumers have also learnt that brands on promotion are not necessarily of lower quality and extended to many product categories.

**6. Expectation of Price decrease :**

With entry of many different brands of consumer durable product is the same product category consumers anticipate that the prices of durable goods will comedown. Consumers evaluate the incentives associated with their purchase decision and are motivated to act now, rather than wait for the anticipated decrease in the price.

**7. Emphasis on Sales Volume :**

Compared to any other promotional method, sales promotion is a more effective method to generate short-term sales volume and more acceptable by the top management.

**8. Sales Promotion Maximize Profits :**

A number of economic theories conclude that a company can maximize profits by using Sales promotion. Such promotions can permit price discriminations by allowing the brand to compete in two or different market segments.

**9. Excess Stocks :**

Because of increasing number of brands, it is becoming difficult for manufacturers & dealers to anticipation sales in the future. This at times , leads to excess inventories and the quickest way to clear the filled up inventories is to go for sales promotion

#### **8.4. Advantages & Drawbacks of Sales Promotion :-**

**Advantages :** Sales Promotions have a significant effect on the behaviour of consumer and resellers (trade members).

##### **1. Price Discrimination :**

Producers can introduce price discrimination through the use of sales promotions. They can charge different prices from different consumer and trade segments varying in their price sensitivity often such price discrimination or price concession are offered in specific cities in the country and enable consumers and traders to pay less in certain market areas. They also help in adjusting to fluctuation in demand & supply situation without affecting any change in list price.

##### **2. Effect on Consumer Behaviour :**

As sales promotions are mostly announced for a short period, customers may feel a sense of urgency and stop comparing the alternatives. They are persuaded to act now rather than later. By using promotions, marketers can reach the deal-prone customers and encourage brand switching. Consumers who buy on promotional deals, consider themselves as intelligent and smart shoppers.

##### **3. Effect on trade behaviour :**

Short-term promotions present an opportunity and encourage dealers to forward-buy. This forward buying ensures that retailers won't go out of stocks. More customers exposed faster to new product introductions and point-of-purchase displays and retailers perceive less risk.

##### **Drawback :**

There are certain limitations of sales promotion which may also produce negative effects.

##### **1. Decrease in brand loyalty :**

The major objective of many sales promotions is to encourage brand switching. This is especially true in case of low involvement category products, or where there is little or no significant differentiation among brands and the unit value is low. Sales promotion expenditures have a decreasing effect on brand – image and this leads to decreasing brand loyalty.

##### **2. Increased Price- sensitivity :**

Frequently promoted brands in a product category, especially on the basis of price, make consumers and traders more price sensitive not only for the promoted brand but also for other brands as well in the same product category even for brands where brand loyalty exists.

##### **3. Quality Image may become Tarnished :**

If the promotions in a product category have been rare, or the product happens to be of high-involvement category, the promotions could have a negative effect on its quality image.

##### **4. Dealers forward – buy and divert stocks :**

Many dealers forward buy in excess of inventory requirements which happens if a product is low bulk, much in demand, low in holding cost. This leads to diversion of stocks in non-deal areas less than the list price keeping some reasonable margins.

### 5. Merchandising Support from dealer is doubtful :

One of the trade promotion tools is to offer promotional allowances to trade people to motivate them to provide merchandising support and to pass on some benefit to consumers. In many cases the dealers do not co-operate merchandising support nor they pas any benefit to consumers.

### 6. Short Term Orientation :

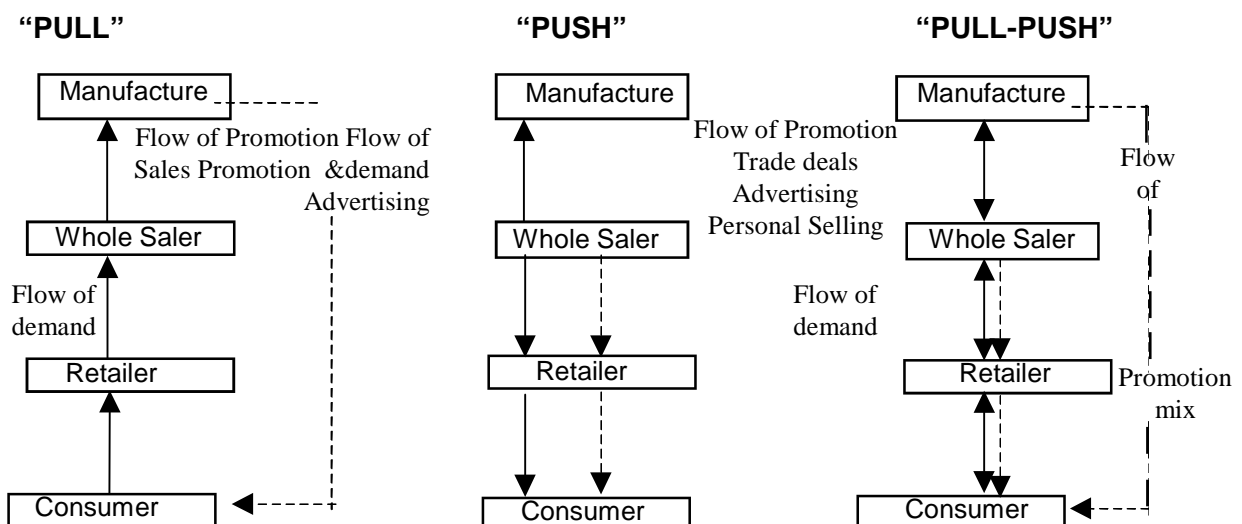
Sales promotion are generally to boost sales for a short period may sometime have negative effect on the long term future of the organization. Heavy use of Sales Promotion causes brand – quality-image dilutes.

## 8.5 Pull and Push Strategies:-

Sales Promotion decisions are significantly effected by whether, the company decides to use a 'Pull' or a 'Push' strategy to accomplish its objectives. Such a decision may required a little or a lot of cooperation from the retailers & resellers.

A Pull strategy is appropriate when the product demand is high and it is possible to differentiate the product on the basis of real or emotional features, or consumers show high degree of involvement is the product purchase or there is reasonably high brand loyalty and consumers make brand choice decision before going to the store.

Push promotions go through the resellers to the end-users. In push strategy efforts are directed at resellers and the manufacture becomes very dependent on their personal selling abilities and efforts. It is appropriate for product categories where there is low brand loyalty and many acceptable substitutes are available in the market





## 8.6 Scope and Role of Sales Promotion:-

- Sales promotion involves some type of inducements that provides an extra incentive to buy. This incentive is usually the key element in a promotional program and also provide inducement to marketing intermediaries such as whole salers & Retailers
- Sales promotion is essentially an acceleration tool, designed to speed up to selling process and maximize sales volume. Sales promotion techniques can motivate consumers to purchase a larger quantity of a brand or shorter the purchase cycle of the trade.
- Companies also use limited time offers such as price off deals to retailer or a coupon with an expiration data to accelerate the purchase process.
- Finally regarding sales promotion activities is that they can be targeted to different parties in the marketing channel. Sales promotion can be broken into two major categories
  - Consumer oriented Promotions
  - Trade Oriented Promotions

Consumer oriented Promotion : These promotions are directed at consumers. The end purchasers of goods & services and they are part of promotional pull strategy. Consumer promotions are also used by retailers to encourage consumers to shop in their particular stores. This includes couponing, premiums, sampling, contests, refunds, rebates, price offs, bonus packs etc.,

Trade – Oriented promotion : These promotions are designed to motivate distributors and retailers to carry a product and make an extra effort to push it to their customers. This includes dealer contests and incentives, trade allowances, point of purchase displays trade shows, cooperative advertising etc.

## 8.7 Summary:-

Sales Promotion has become an important promotional elements is modern marketing. It is the only promotional method that can make use of “Pull” & “Push” strategy to motivate consumers, traders and sales force simultaneously on creating sales. Defining sales promotion precisely is difficult as it includes a wide variety of activities and techniques. These activities and techniques are generally related to stimulating short-term sales by offering some kind of incentives. Sales promotions add value to the product or service that is extra and not built into the product or service and have a direct effect on the behaviour of consumers and the trade.

There are several reasons that have fulfilled the growth of promotions. Some of the more important factors include increasing intensity of competition, consumers, sensitivity to price, standardised products, expensive advertising which in less effective, and also promotions produce quick sales response as compared to any other element of the promotion mix. Marketers also fine themselves in a promotional trap and there seems to be no easy way to get out of this “Prisoner’s dilemma” some experts believe that promotions adversely affect a brand’s equity. A Marketers decisions to use “Pull” or “Push” strategy to achieve its objectives affects sales promotion decisions. In case of pull strategy promotions are directed at the ultimate consumer, while push

promotions are directed at resellers. In many situations a combination of Pull & Push is used and the resulting effect of promotion is more pronounced.

### 8.8 Key Words:-

- Sales Promotion
- Consumer oriented Sales Promotion
- Trade Oriented Sales Promotion
- Consumer franchise building (CFB)
- Sampling
- Premium
- Contest refund
- Bonus packs
- Price off deals
- Cooperative advertising
- Trade Show forward buying
- Sales promotion trap push many

### 8.9 Self Assessments Questions :-

1. What is sales promotion ? How does it differ from advertising
2. Discuss the advantages and drawbacks of sales promotion?
3. What factors are responsible for the growth of sales promotions
4. "Promotions make consumers price sensitive encourage only brand switching and discourage brand loyalty". Discuss with examples
5. "Sales Promotion is the only promotional tool that can make use of 'Pull' and 'Push' Strategy simultaneously' Discuss with examples.
6. Suggest two pull promotions for a brand of toilet soap. What are the advantages & Disadvantages of these techniques ?
7. "Money spent on sales promotions is a waste promotion adversely affect the brand equity". Discuss.

### 8.10 Further Readings

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**LESSON 9****RETAILER SALES PROMOTION****9.0. Objectives:**

After studying this lesson you should be able to:

- To examine the types of trade-oriented sales promotion tools and the factors to consider in using them.
- To consider potential problems and abuse by companies in their use of sales promotion.

**Structure:****9.1: Introduction****9.2: Objectives of Trade-Oriented Sales Promotion Techniques****9.3: Different types of Trade-Oriented Sales Promotion Techniques****9.4: Trade Coupons****9.5: Displays****9.6: Trade Fairs / Trade Shows****9.7: Event Sponsorship****9.8: Contests and incentives****9.9 : Trade Allowance****9.10: Sales Training Programmes****9.11: Co-operative Advertising****9.12 : Summary****9.13 : Keywords****9.14 : Self Assessment Questions****9.15: Further Readings****9.1: INTRODUCTION**

Trade sales promotions, as the name suggests, are directed at resellers. The term trade includes distributors, dealers, wholesalers and retailers who are involved in distributing the company's products. Trade sales promotions are part of 'push strategy' of the manufacturers. It is estimated that out of the total sales promotion budget, a higher percentage of funds are spent on trade sales promotions than on consumer sales promotions by the manufacturers. By offering incentives to resellers, manufacturers hope to derive various benefits.

Trade sales promotion objectives are quite different from consumer sales promotions. The manufacturers realize the importance of retailer support because they are the final contact with customers seek retailer's suggestions before making a purchase and the concerned retailer in many cases can influence the choice of the product. Retail support can also be in the form of arranging displays, feature advertising and better placing of the products in the shelves.

## 9.2: OBJECTIVES OF TRADE - ORIENTED SALES PROMOTION

Like consumer-oriented promotions, sales promotion programmes targeted to the trade should be based on well-defined objectives and measurable goals and a consideration of what the marketer wants to accomplish. Typical objectives for promotions targeted to marketing intermediaries such as wholesalers and retailers include obtaining distribution and support for new products, maintaining support for established brands, encouraging retailers to display established brand, and building retail inventories.

**Obtain Distribution for New Products:** Trade promotions are often used to encourage retailers to give shelf space to new products. Manufacturers recognize that only a limited amount of shelf space is available in supermarkets, drugstores, and other major retail outlets. Thus, they provide retailers with financial incentives to stock new products. For example Lever Brothers used heavy sampling and high-value coupons in the successful introduction of lever 2000 bar soap. However, in addition to these consumer promotions, the company used discounts to the trade to encourage retailers to stock and promote the new brand.

While trade discounts or other special price deals are used to encourage retailers and wholesalers to stock a new brand, marketers may use other types of promotions to get them to push the brand. Merchandising allowances can get retailers to display a new product in high traffic areas of stores, while incentive programmes or contests can encourage wholesale or retail store personnel to push a new brand.

**Maintain Trade Support for Established Brands:** Trade promotions are often designed to maintain distribution and trade support for established brands. Brands that are in the mature phase of their product life cycle are vulnerable to losing wholesale and/or retail distribution, particularly if they are not differentiated or face competition from new products. Trade deals induce wholesalers and retailers to continue to carry weaker products because the discounts increase their profit margins. Brands with a smaller market share often rely heavily on trade promotions, since they lack the funds required to differentiate themselves from competitors through media advertising.

**Encourage Retailers to Display Established Brands:** Another objective of trade-oriented promotions is to encourage retailers to display and promote an established brand. Marketers recognize that many purchase decisions are made in the store and promotional displays are an excellent way of generating sales. An important goal is to obtain retail store displays of a product away from its regular shelf location. A typical supermarket has approximately 50 display areas at the ends of aisles, near checkout counters, and elsewhere. Marketers want to have their products displayed in these areas to increase the probability shoppers will come into contact with them. Even a single display can increase a brand's sales significantly during a promotion.

Manufacturers often use multifaceted promotional programs to encourage retailers to promote their products at the retail level. The company used a variety of promotional tools to support the brands and increase retailer participation. These included advertising in magazines, local newspapers, FSI and checkout coupons, in-store displays, premium offers, recipe handouts, Web support, contests, and a continuity program.

**Build Retail Inventories:** Manufacturers often use trade promotions to build the inventory levels of retailers or other channel members. There are several reasons manufacturer want to load retailers with their products. L first, wholesalers and retailers are more likely to push a product when they have high inventory levels rather than storing in their warehouses or back rooms. Building channel members' inventories also ensures they will not run out of stock and thus miss sales opportunities.

Some manufacturers of seasonal products offer large promotional discounts so that retailers will stock up on their products before the peak selling season begins. This enables the manufacturer to smooth out seasonal fluctuations in its production schedule and passes on some of the inventory carrying costs to retailers or wholesalers. When retailers stock up on a product before the peak selling season, they often run special promotions and offer discounts to consumers to reduce excess inventories.

### 9.3: TYPES OF TRADE-ORIENTED PROMOTIONS

Trade sales promotions can help in clearing or increasing the inventory level with trade. Building inventories is particularly important when introducing a new product and reduces the chances of the product not being available or retailers running out of stock. Decreasing the trade inventory may be desirable at the end of season for seasonal products or when the product is to be discontinued.

The manufacturer's objective may be to increase distribution and trade promotions are quite helpful in this respect. Manufacturers offer volume allowances or price deals to sell more than what would otherwise be bough by the trade. This helps in shifting the inventories to trade, who are believed to work harder under such circumstance.

Manufacturers probably would not want to spend on trade promotion as much as they are spending. It is because of the increasing power of the trade that they demand various benefits from the manufactures who seem to be at the receiving end. Generally, a manufacturer cannot stop offering such incentives to the trade without losing some support from the.

Manufacturers often face certain difficulties with trade promotions. Forward buying and diversion of stocks to non-deal areas are fairly common practices. Retailers do not pass on the incentive to consumers, do not arrange displays even after receiving the display allowances, or provide the agree shelf-space. To handle such problems, manufacturers often insist on proof-of-performance and this often results in strained relations. All said and done trade deals have come to stay.

Manufacturers use a variety of trade promotion tools as inducements for wholesalers and retailers. Next we examine some of the most often used types of trade promotions and some factors marketers must consider in using them. These promotions include Trade coupons, Displays, Trade Fairs/ Trade shows, Event Sponsorship, contests and incentives, trade allowance, sales training programs, and co-operative advertising.

### 9.4: TRADE COUPONS

Incase of trade coupons, the area of distribution is limited but it is a very effective way to action at the retail level. It is a manufacturer initiated sales promotion; however, the coupon

distribution is undertaken by retailers, either through local print medium or in some other manner. The important thing about such coupons is that it can be redeemed only at the distributing store. There is an agreement between the manufacturer and the retailer that some agreed allowance will be paid to the retailer. Generally this is in the form of reimbursement of some amount of money to the retailer for each coupon redeemed. The distributing retailer gets the double benefit due to the increase in store traffic and the incentive of reimbursement from the manufacturer. This is a strong incentive to the retailer to arrange displays and promote the coupon offer.

Such trade coupons ensure that the price reduction is passed on to the consumers and that the manufacturer will be reimbursing only actual sales for a limited period of time. The retailer also gets the benefits of creating favorable image among consumers who may become regular customers.

Trade coupons can be helpful in introducing a new product or entering new territories. As the area of distribution is limited (for instance, a city only), the face value of the coupon can be made attractive, retailers readily cooperate and arrange displays on their own. Such coupons can be arranged quickly and can increase short-term sales because the period for which such a coupon would be valid is short (usually, a week or less). The marketer can make arrangements with more retailers and increase the distribution. If the product inventories are high in certain markets, the manufacturer can be selective about the offer to retailers. In markets where inventories are low with retailers, trade coupon offer can be used to build inventories with retailers.

Coupon printing, their distribution and redemption take place at the retail level. It is a setback that the manufacturer has no control on this. Wrong redemption is also a problem. The estimation of promotional cost may become a problem unless the manufacturer and the retailer agree on some number that would be redeemed. This would require a written agreement to avoid confusion or conflict with the retailer. The agreement would facilitate mutual understanding of responsibilities and limits.

**Advantages:** Trade coupons can be helpful in introducing a new product or entering new territories. As the area of distribution is limited (for instance, a city only), the face value of the coupon can be made attractive. Retailers readily cooperate and arrange displays on their own. Such coupons can be arranged quickly and can increase short-term sales because the period for which such a coupon would be valid is short (usually, a week or less). The marketer can make arrangements with more retailers and increase the distribution. If the product inventories are high in certain markets, the manufacturer can be selective about this offer to retailers. In markets where inventories are low with retailers, a trade coupon offer can be used to build inventories with retailers.

**Disadvantages:** Coupon printing, their distribution and redemption take place at the retail level. It is a setback that the manufacturer has no control on this. Wrong redemption is also a problem. The estimation of promotional cost may become a problem unless the manufacturer and the retailer agree on some number that would be redeemed. This would require a written agreement to avoid confusion or conflict with the retailer. The agreement would facilitate mutual understanding of responsibilities and limits.

## 9.5: DISPLAYS

In store presentations and exhibitions of products along with the relevant information are called displays. Retailers seem to make an attempt to communicate to consumers through product



displays, “come and get it, we have it.” As has already been mentioned, manufacturers and retailers realize the importance of making products visible to consumers, believing in the Hindi saying, “jo dikhta hai who bikta hai.” Displays are also referred to as “shelf-talkers.”

The ability of attractive displays to grab the consumers’ attention and stimulate purchase is well-known. Manufacturers and retailers use some kind of mass communication to precondition the consumers and subsequently depend on displays to lead the consumers to purchase behaviour. An attractive display must possess four **characteristics** such as, 1) Impact, 2) Identification, 3) Information, 4) Imagery.

These four characteristics are often referred to as “the four I’s” of display. The impact of the display on the consumer must be immediate to attract his attention and interest in the product. It must shout very loudly in the consumer’s mind about its presence and its relationship with consumer’s need.

The identification created by display must be bold and clear. Without such an identification the brand or corporate name would become obscure and no meaningful association would be created.

The information communicated to the consumer about the product must be meaningful. Why should a consumer buy a product? Information is vital to answer this question effectively to elicit the desired response.

The imagery creates the overall impression on the consumer about the relevance of the product. It motivates the consumer to buy the product.

Effective displays stimulate the consumers interest in displayed products and increase store traffic, unplanned purchases, and sales in general. These displays are used to attract three types of customers. 1) Those who know exactly what they are looking for and where they can find it. 2) Those who have interest in a particular product but want to shop around before they buy. 3) Those who are in the shopping area casually walking and passing by the stores. Displays are used to maximize product exposure, enhance product appearance, stimulate consumer interest, encourage unplanned purchase and remind consumers of planned purchases.

A balanced combination of design principles, creativity and artistic talent of designers results in effective displays. Some important **principles of design displays** are: 1) Unity principle, 2) Balance Principle, 3) Proportion principle, 4) Dominance principle.

**Types of Displays:** Creation of a display requires considering the nature of the product, consumer behaviour and blending creativity with design principles. In general, there are short-term displays and long-term displays. Short-term displays are those which are removed after a specified period of time and are generally seasonal. For example, woollens remain on display mostly during winters and are removed at the end of the season. Such displays are designed or arranged for quick installation in show windows, shop floor, counter, or hung on store walls. There is much use of vibrant colours and lights to attract consumers’ attention and the purpose is to remind and encourage purchase.

Long-term displays are relatively permanent (more than six months). These are filled with fresh stock as and when required but stay in one place. For instance, many shoe retailers have

permanent show window, which are restocked from time to time. Display racks are also a form of permanent display which is fairly common sight in case of greeting cards, magazines, casual wears, etc.

**Displays and Point-of-Purchase Materials:** The next time you are in a store, take a moment to examine the various promotional materials used to display and sell products. Point-of-purchase (POP) displays are an important promotional tool because they can help a manufacturer obtain more effective in-store merchandising of products. Companies in the United States spend more than \$ 15 billion a year on point of-purchase materials, including end-of-aisle displays, banners, posters, shelf cards, motion pictures, and stand-up racks, among others. Point-of-purchase displays are very important to marketers since many consumers make their purchase decisions in the store. In fact, some studies estimate that nearly two-thirds of a consumer's buying decisions are made in a retail store. Thus, it is very important for marketers to get the attention of consumers, as well as to communicate a sales or promotional message, through POP displays.

Marketers recognize that point-of-purchase displays are an important part of their promotional programs, many continue to develop innovative methods to display their products efficiently, make them stand out in the retail environment, and communicate a sales message to consumers, it should be noted that the importance of creative POP displays is not limited to grocery or convenience stores. Point-of-purchase displays are also important to companies that distribute their products through other types of retail outlets, such as home improvement, consumer electronic, and sporting goods stores.

Many manufacturers help retailers use shelf space more efficiently through **planograms**, which are configurations of products that occupy a shelf section in a store. Some manufacturers are developing computer-based programs that allow retailers to input information from their scanner data and determine the best shelf layouts by experimenting with product movement, space utilization, profit yields, and other factors.

**Advantages:** The last point to influence the consumer is the retail store. Point-of-purchase materials serve a very useful purpose of attracting the consumer's attention toward the product or service at the point-of-purchase- when the consumer is in a buying mood. The point-of-purchase encourages unplanned or impulse purchase.

**Disadvantages:** The point-of-purchase materials produced by the manufacturer but not used by the retailers are a waste of money. Sometimes too many the point-of-purchase in a retail store becomes a source of confusion to the consumer.

## 9.6: TRADE FAIRS / TRADE SHOWS

A trade fair/ trade show or exhibition is a temporary exhibit, generally held at some interval in a major city. A typical example is Pragati Maidan in New Delhi. Quite a good number of such events are organized round the year. Sometimes these events are industry specific and are organized by industry associations. Marketers selling products and services to a particular industry buy the required space to set up their booths and stalls to arrange displays and demonstrations, etc., to show their products more than 5,600 trade fairs are arranged every year worldwide and are visited by an estimated 80 million people.

Such trade shows and exhibitions are also organized on a smaller scale in different cities. "Pustak Mela" (book fair), ready-to-wear garment exhibition - cum -sale, computer shows car melas, etc., are fairly common and are arranged round the year.

The modern trade show is an important promotional element in industrial marketing. The advantages of such trade fairs are many. The marketers meet many potential customers, build prospect lists, create good will among present customers, introduces new products, discover new applications of a product, demonstrate non-portable equipment and attract new dealers, etc.,

When marketers of consumer products also participate in such fairs and shows, they are able to sell many of their products to consumers because of special prices and increase their sales. Customers have a curiosity to learn more about new products most of these trade shows acquire a festive look and for this reason large crowds are attracted who are exposed to different products in a shorter time.

Almost all companies are attempting to provide a clear picture of their products to potential customers and related information is available to all competitors. Consequently, prices, feature, quality and technology can be compared easily. Visitors often come to trade fairs with a specific problem in mind and visit many stalls looking for a product that would solve it. The possible application of a product to new type of need may not be known to the manufacturer until pointed out by the customer. When a new industrial product is developed, such trade fairs provide an excellent opportunity to present the product along with the relevant information within a day or two to a large audience. Qualified and competent personnel of the participating companies are available at the stalls or booths to answer any queries. Free samples of certain types of products are also given to prospects (for example, dyes and chemicals). Some participating companies also distribute advertising specialties (these are small gift items having company/brand name printed on them), which serve to build good will and act as reminders to customers about the company and the products.

### **9.7: EVENT SPONSORSHIP**

Major international and national sports events, such as Olympics, world cups, Asian games, European League, Motor Sport, etc., are occasions which are sponsored by many large companies which spend huge sums of money annually to associate their products with different games and sports.

There are powerful reasons that explain why many companies have started sponsoring these events. Such events tend to attract a relatively homogenous audience which appreciates the sponsors of the event. The employees and the trade enthusiastically support such efforts. It becomes a memorable occasion when the person managing the event presents a cheque of Rs.5000,00 to the winner, or the keys of an expensive car. Generally, the audiences develop a mental association of the product / company with the event.

Event sponsors develop exciting contests and sweepstakes for the audience. This leads to an enhanced interest in the event and helps in developing a favourable opinion about the sponsor. The contests and sweepstakes could be as uncomplicated as making a guess as to who would be the winner, or it may be to test the creative skills of the participants who are asked to write an appropriate slogan about the event or the brand/company sponsoring the event. Some examples of sponsored events are Coca-Cola, Wills Trophy, Benson & Hedges, Trophy, etc.

There are pitfalls in event sponsorship. The first is the poor match between the event and the company brand. For example, it is not advantageous for a cigarette company to sponsor an event associated with high physical fitness like race or other field track events. Such events are considered to have a better fit for a sports shoe manufacturer, energy drink, or health food. There are instances when interested groups have protested the involvement of a company producing cigarettes, in sports.

### **9.8: CONTESTS**

Manufacturers may develop contests or special incentive programs to stimulate greater selling effort and support from reseller management or sales personnel. Contests or incentive programs can be directed toward managers who work for a wholesaler or distributor as well as toward store or department managers at the retail level. Manufacturers often sponsor contests for resellers and use prizes such as trips or valuable merchandise as rewards for meeting sales quotas or other goals. Contests or special incentives are often targeted at the sales personnel of the wholesalers, distributors/dealers, or retailers. These salespeople are an important link in the distribution chain because they are likely to be very familiar with the market, more frequently in touch with the customer (whether it be another reseller of the ultimate consumer), and more numerous than the manufacturer's own sales organization. Manufacturers often disincentive or contest for these sales personnel. These programs may involve cash payments made directly to the retailer's or wholesaler's sales staff to encourage them to promote and sell a manufacturer's product. These payments are known as push money (pm) or spiffs. For example, an appliance manufacturer may pay a \$25 spiff to retail sales personnel for selling a certain model or size. In sales contests, salespeople can win trips or valuable merchandise for meeting certain goals established by the manufacturer.

While contest and incentive programs can generate reseller support, they can also be a source of conflict between retail sales personnel and management. Some retailers want to maintain control over the selling activities of their sales staff. They don't want their salespeople devoting an undue amount of effort to trying to win a contest or receive incentives offered by manufacturer. Nor do they want their people becoming too aggressive in pushing products that serve their own interest instead of the product or model that is best for the customer.

### **9.9: TRADE ALLOWANCES**

Probably the most common trade promotion is some form of trade allowance, a discount or deal offered to retailers or wholesalers to encourage them to stock, promote, or display the manufacturer's products. Types of allowances offered to retailers include buying allowances, promotional or display allowances, and slotting allowances.

**Buying Allowance:** A buying allowance is a deal or discount offered to resellers in the form of a price reduction on merchandise ordered during a fixed period. These discounts are often in the form of an off-invoice allowance can also take the form of free goods; the reseller gets extra cases with the purchase of specific amounts (for example, 1 free case with every 10 cases purchased).

Buying allowances are used for several reasons. They are easy to implement and are well accepted, and sometimes expected, by the trade. They are also an effective way to encourage resellers to buy the manufacturer's product, since they will want to take advantage of the discounts

being offered during the allowance period. Manufacturers offer trade discounts expecting wholesalers and retailers to pass the price reduction through to consumers, resulting in greater sales. However as discussed shortly, this is often not the case.

**Promotional Allowances:** Manufacturers often give retailers allowances or discounts for performing certain promotional or merchandising activities in support of their brands. This merchandising allowance can be given for providing special displays away from the product's regular shelf position, running in-store promotional programs, or including the product in an ad. The manufacturer generally has guidelines or a contract specifying the activity to be performed to qualify for the promotional allowance. The allowance is usually a fixed amount per case or a percentage deduction from the list price for merchandise ordered during the promotional period.

**Slotting Allowances:** In recent years, retailers have been demanding a special allowance for agreeing to handle a new product. Retailers justify these fees by pointing out the costs associated with taking on so many new products each year, such as redesigning store shelves, entering the product into their computers, finding warehouse space, and briefing store employees on the new product. They also note they are assuming some risk, since so many new product introductions fail.

Slotting fees can range from a few hundred dollars per store to \$50,000 or more for an entire retail chain. Manufacturers that want to get their products on the shelves nationally can face several million dollars in slotting fees. Many marketers believe slotting allowances are a form of blackmail or bribery and say some 70 percent of these fees go directly to retailer's' bottom lines.

Retailers can continue charging slotting fees because of their power and the limited availability of shelf space in supermarkets relative to the large numbers of products introduced each year. Some retailers have even been demanding failure fees if a new product does not hit a minimum sales level within a certain time. The fee is charged to cover the costs associated with stocking, maintaining inventories, and then pulling the product. Large manufacturers with popular brands are less likely to pay slotting fees than smaller companies that lack leverage in negotiating with retailers.

In late 1999 the Senate Committee on Small Business began taking action against the practice of using slotting fees in the grocery, drugstore, and computer software industries because of the fees' negative impact on small business.. the committee recommended that the Federal trade Commission and Small Business Administration take steps to limit the use of slotting fees because they are anticompetitive. A recent study by Paul Bloom, Gregory Gundlach, and Joseph Cannon examined the views of manufacturers, wholesalers, and grocery retailers regarding the use of slotting fees. Their finding suggest that slotting fees shift the risk of new product introductions from retailers to manufacturers and help apportion the supply and demand of new products. They also found that slotting fees lead to higher retailer prices, are applied in discriminatory fashion, and place small marketers at a disadvantage.

## 9.10: SALES TRAINING PROGRAMS

Another form of manufacturer-sponsored promotional assistance is sales training programs for reseller personnel. Many products sold at the retail level require knowledgeable salespeople who can provide consumers with information about the features, benefits, and advantages of various brands and models. Cosmetics, appliances, computers, consumer electronics, and sporting

equipment are examples of products for which consumers often rely on well-informed retail sales personnel for assistance.

Manufacturers provide sales training assistance to retail salespeople in a number of ways. They may conduct classes or training sessions that retail personnel can attend to increase their knowledge of a product or a product line. These training sessions present information and ideas on how to sell the manufacturer's product and may also include motivational components. Sales training classes for retail personnel are often sponsored by companies' selling high-ticket items of complex products such as personal computers, cars, or ski equipment.

Another way manufacturers provide sales training assistance to retail employees is through their own sales force. Sales reps educate retail personnel about their product line and provide selling tips and other relevant information. The reps can provide ongoing sales training as they come into contact with retail sales staff on a regular basis and can update them on changes in the product line, market developments, competitive information, and the like.

Manufacturers also give resellers detailed sales manuals, product brochures, reference manuals, and other material. Many companies provide videocassettes for retail sales personnel that include product information, product-use demonstrations, and ideas on how to sell their product. These selling aids can often be used to provide information to customers as well.

### **9.11: CO-OPERATIVE ADVERTISING**

The final form of trade-oriented promotion we examine is cooperative advertising, where the cost of advertising is shared by more than one party. There are three types of cooperative advertising. Although the first two are not trade-oriented promotion, we should recognize their objectives and purpose.

Horizontal cooperative advertising is advertising sponsored in common by a group of retailers or other organizations providing products or services to the market. For example, automobile dealer who are located near one another in an auto park or along the same street often allocate some of their ad budgets to a cooperative advertising fund. Ads are run promoting the location of the dealerships and encouraging car buyers to take advantage of their close proximity when shopping for a new automobile.

Ingredient-sponsored cooperative advertising is supported by raw materials manufacturers; its objective is to help establish end products that include the company's materials and/or ingredients.

The most common form of cooperative advertising is the trade-oriented form, vertical cooperative advertising, in which a manufacturer pays for apportion of the advertising a retailer runs to promote the manufacturer's product and this availability in the retailer's place of business. Manufacturers generally share the cost of advertising run by the retailer on a percentage basis (usually 50/50) up to a certain limit.

The amount of cooperative advertising the manufacturer pays for is usually based on a percentage of dollar purchases. If a retailer purchases \$100,000 of product from a manufacturer, it may receive 3 percent, or \$3,000, in cooperative advertising money. Large retail chains often combine their co-op budgets across all of their stores, which give them a larger sum to work with and more media options.

Cooperative advertising can take on several forms. Retailers may advertise a manufacturer's product in, say a newspaper ad featuring a number of different products, and the individual manufacturers reimburse the retailer for their portion of the ad. Or the ad may be prepared by the manufacturer and placed in the local media by the retailer. Exhibit 16-29 shows a cooperative ad format for New Balance athletic shoes that retailers in various market areas can use by simply inserting their store name and location.

Once a cooperative ad is run, the retailer requests reimbursement from the manufacturer for this percentage of the media costs. Manufacturers usually have specific requirements the ad must meet to qualify for co-op reimbursement, such as size, use of trademarks, content, and format. Verification that the ad was run is also required, in the form of a tear sheet (print) or an affidavit from the radio or TV station (broadcast) and an invoice.

As with other types of trade promotions, manufacturers have been increasing their cooperative advertising expenditures in recent years. Some companies have been moving money out of national advertising into cooperative advertising because they believe they can have greater impact with ad campaigns in local markets. There is also a trend toward more cooperative advertising programs initiated by retailers, which approach manufacturers with catalogs, promotional events they are planning, or advertising programs they have developed in conjunction with local media and ask them to pay a percentage of the cost. Manufacturers often go along with these requests, particularly when the retailers are large and powerful.

## 9.12: SUMMARY

Trade sales promotion objectives are quite different from consumer sales promotions. The manufacturers realize the importance of retailer support because they are the final contact with customers. They seek the retailer's suggestions before making a purchase and the concerned retailer in many cases can influence the choice of the product. Retail support can also be in the form of arranging displays, feature advertising and better placing of the products on the shelves.

Like consumer-oriented promotions, sales promotion programmes targeted to the trade should be based on well-defined objectives and measurable goals and a consideration of what the marketer wants to accomplish. Typical objectives for promotions targeted to marketing intermediaries such as wholesalers and retailers include obtaining distribution and support for new products, maintaining support for established brands, encouraging retailers to display established brands, and building retail inventories.

Manufacturers use a variety of trade promotion tools as inducements for wholesalers and retailers. Next we examine some of the most often used types of trade promotions and some factors marketers must consider in using them. These promotions include Trade coupons, Displays, Trade Fairs/ Trade shows, Event Sponsorship, contests and incentives, trade allowance, sales training programs, and co-operative advertising.

Trade coupons ensure that the price reduction is passed on to the consumers and that the manufacturer will be reimbursing only actual sales for a limited period of time. The retailer also gets the benefits of creating a favorable image among consumers who may become regular customers.

In-store presentations and exhibitions of products along with the relevant information are called displays. Retailers seem to make an attempt to communicate to consumers through product

displays, “come and get it, we have it.” As has already been mentioned, manufacturers and retailers realize the importance of making products visible to consumers, believing in the Hindi saying, “jo dikhta hai who bikta hai.” Displays are also referred to as “shelf-talkers.”

### 9.13: KEYWORDS

**Off – Invoice Allowance:** Which means a certain per-case amount or percentage is deducted from the invoice.

**Event Marketing:** Event Marketing is type of promotion where a company or brand is linked to an event or where a themed activity is developed for the purpose of creating experiences for consumers and promoting a product or service.

**Event Sponsorship:** Event Sponsorship is an integrated marketing communications activity where a company develops actual sponsorship relations with a particular event and provides financial support in return for the right to display a brand name, logo, or advertising message and be identified as a supporter of the event.

**Trade Show:** Trade show is a forum where manufacturers display their products to current as well as prospective buyers.

**Trade Allowance:** Trade Allowance is a discount or deal offered to retailers or wholesalers to encourage them to stock, promote, or display the manufacturer’s products.

### 9.14: SELF ASSESSMENT QUESTIONS

1. What are the objectives of Trade-Oriented Sales Promotion Techniques?
2. What are the methods of Trade-Oriented Sales Promotion Techniques?
3. What is meant by Trade-Oriented Sales Promotion? Discuss various types of Trade Promotions and reasons why marketers use them.
4. Describe the various forms of co-operative advertising and the reasons they are used by marketers.
5. What is meant by a slotting allowance or fee? Evaluate the arguments for and against retailers charging slotting fees to manufacturers.

### 9.15: FURTHER READINGS

1. George E. Belch & Michael A. Belch: Advertising and Promotion, Tata McGraw-Hill, New Delhi.
2. S H H Kazmi – Satish K Batra : Advertising & Sales Promotion, Excel Books Publications, New Delhi

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**LESSON 10****CONSUMER SALES PROMOTION****10.0. Objectives:**

After studying this lesson you should be able to:

- To understand the role of sales promotion in a company's integrated marketing communications program and to examine why it is increasingly important.
- To examine the various characteristics of sales promotion programs.
- To examine the various objectives of consumer oriented sales promotion programs
- To examine the types of consumer oriented sales promotion tools and the factors to consider in using them.

**Structure:**

**10.1: Definition of sales promotion**

**10.2: Characteristics of sales promotion programme**

**10.3: Objectives of consumer - oriented sales promotion techniques**

**10.4: Different types of consumer oriented sales promotion techniques**

**10.5: Summary**

**10.6: Keywords**

**10.7: Self Assessment Questions**

**10.8: Further Readings**

**10.1: DEFINITION OF SALES PROMOTION**

Sales promotion has been defined as "a direct inducement that offers an extra value or incentive for the product to the sales force, distributors, or the ultimate consumer with the primary objective of creating an immediate sale". Keep in mind several important aspects of sales promotion as you read this chapter.

First, sales promotion involves some type of inducement that provides an extra incentive to buy. This incentive is usually the key element in a promotional program, it may be a coupon or price reduction, the opportunity to enter a contest or sweepstakes, a money-back refund or rebate, or an extra amount of a product. The incentive may also be a free sample of the product, given

in hopes of generating a future purchase, or a premium that serves as a reminder of the brand and reinforces its image.

A second point is that sales promotion is essentially an acceleration tool, designed to speed up the selling process and maximize sales volume. By providing an extra incentive, sales promotion techniques can motivate consumers to purchase cycle of the trade or consumers by encouraging them to take more immediate action.

A final point regarding sales promotion activities is that they can be targeted to different parties in the marketing channel. Sales promotion can be broken into two major categories such as consumer-oriented and trade-oriented promotions. Activities involved in consumer-oriented sales promotion include sampling, coupons, premiums, contests and sweepstakes, refunds and rebates, bonus packs, price-offs, frequency programs, and event marketing. These promotions are directed at consumers, the end purchasers of goods and services, and are designed to induce them to purchase the marketer's brand.

Trade-oriented sales promotion includes dealer contests and incentives, trade allowances, point-of-purchase, sales training programmes, trade shows, cooperative advertising and other programs designed to motivate distributors and retailers to carry a product and make an extra effort to push it to their customers. Many marketing programs include both trade and consumer-oriented promotions, since motivating both groups maximizes the effectiveness of the promotional program.

## 10.2: CHARACTERISTICS OF SUCCESSFUL SALES PROMOTION

We have seen that sales promotion is a powerful tool that can be used to achieve a variety of promotional objectives. Some aspects that are important to consider in making sales promotions successful are as follows.

- **Maximum effect at minimum cost.** When the nature of promotion objective is such that it can best be achieved by sales promotion rather than advertising alone and the objective is achieved at minimum cost.
- **Motivates consumers to buy now.** Successful sales promotions induce a sense of urgency to buy now and avoid postponing purchase; the consumer is moved to take immediate action and gets involved in the transaction.
- **Offers what the consumers want.** Sales promotion must not attempt to push any offer that is not regarded as desirable by target consumers. They cannot attract consumer toward offers that are not perceived as interesting exciting and valuable to them.
- **The promotion should be clear and uncomplicated.** It offers a single but powerful incentive to engage in transaction. Any subsidiary offer stems from or is closely related to the main offer. In a simple and clear language it communicates how consumers can take advantage of the promotional offer. Too many hurdles discourage consumers to participate.
- **Promotion should benefit all concerned.** Usually promotions involve cooperation of sales force and the channel members. They need to be motivated to make the efforts successful.

- **Promotion must be legal.** The marketers must check the legality of promotion before announcing it.
- **Promotion must be implemented efficiently.** In some types of promotions, handling houses and premium suppliers are involved. Proper arrangements must be made with these outside parties to avoid any complication.

### 10.3: OBJECTIVES OF CONSUMER-ORIENTED SALES PROMOTIONS

The basic goal of consumer-oriented sales promotion programs is to induce purchase of a brand, the marketer may have a number of different objectives for both new and established brands such as obtaining trial and repurchase, increasing consumption of an established brand, defending current customers, targeting a specific market segment, or enhancing advertising and marketing efforts.

**1. Obtaining Trial and Repurchase:-** One of the most important users of sales promotion techniques is to encourage consumers to try a new product or service many new brands are merely new versions of an existing product without unique benefits, so advertising alone cannot induce trial. Sales promotion tools have become an important part of new brand introduction strategies, the level of initial trial can be increased through techniques such as sampling, coupons, and refund offers.

The success of a new brand depends not only on getting initial trial but also on inducing a reasonable percentage of people who try the brand to repurchase it and establish ongoing purchase patterns. Promotional incentives such as coupons or refund offers are often included with a sample to encourage repeat purchase after trial.

**2. Increasing Consumption of an Established Brand:-** Many marketing managers are responsible for established brands competing in mature markets, against established competitors, where consumer purchase patterns are often well set. Awareness of an established brand is generally high as a result of cumulative advertising effects, and many consumers have probably tried the brand. These factors can create a challenging situation for the brand manager. Sales promotion can generate some new interest in an established brand to help increase sales or defend market share against competitors.

**3. Defending Current Customers:-** With more new brands entering the market every day and competitors attempting to take away their customers through aggressive advertising and sales promotion efforts, many companies are turning to sales promotion programs to hold present customers and defend their market share. A company can use sales promotion techniques in several ways to retain its current customer's base. One way is to load them with the product, taking them out of the market for a certain time. Special price promotions, coupons, or bonus packs can encourage consumers to stock up on the brand. This is not only keeps them using the company's brand but also reduces the likelihood they will switch brands in response to a competitor's promotion.

**4. Targeting a Specific Market Segment:-** Most companies focus their marketing efforts on specific market segments and are always looking for ways to reach their target audiences. Many marketers are finding that sales promotion tools such as contests and sweepstakes, events, coupons, and samplings are very effective ways to reach specific geographic, demographic,

psychographic, and ethnic markets. Sales promotion programs can also be targeted to specific user – status groups such as nonusers or light versus heavy users. Contests have become a popular sales promotion tool for targeting specific market segments.

**5. Enhancing Integrated Marketing Communications and Building Brand Equity:-** A final objective for consumer oriented promotions is to enhance or support the integrated marketing communications effort for a brand or company. Building brand equity and image has traditionally been done through advertising. However, sales promotion techniques such as contests or sweepstakes and premium offers are often used to draw attention to an ad, increase involvement with the message and product/service, and help build relationships with consumers.

#### **10.4: CONSUMER-ORIENTED SALES PROMOTION TECHNIQUES**

Marketers use various sales promotion techniques to meet the objectives just discussed. Sales promotions to consumers are generally more effective when combined with advertising and point-of-purchase display. Some important consumer sales promotions techniques are: 1) Samples, 2) Coupons, 3) Price-off, 4) Bonus pack, 5) Contests and Sweepstakes

**1) Sampling:** Sampling involves a variety of procedures where by consumers are given some quantity of a product for no charge to induce trial. Sampling is generally considered the most effective way to generate trial, although it is also the most expensive. The sweet-shop man offers a small piece of a particular sweet to the consumer to taste it, the fruit-seller selling oranges, grapes or other fruits asks the consumer to taste a grape or some other fruit. They are applying the time tested theory that if the consumer gains a favorable opinion or impression of the product, the likelihood of purchase increases.

Manufacturers of packaged goods products such as food, health care items, cosmetics, and toiletries are heavy users of sampling since their products meet the three criteria for an effective sampling program.

- 1) The products are of relatively low unit value, so samples do not cost too much.
- 2) The products are divisible, which means they can be broken into small sample sizes that are adequate for demonstrating the brand's features and benefits to the user.
- 3) The purchase cycle is relatively short, so the consumer will consider an immediate purchase or will not forget about the brand before the next purchase occasion.

##### **Objective of Sampling:**

- To induce initial product trial
- To encourage the consumer with repurchase
- To increasing the satisfaction of the consumers
- To demonstrate the trying product that it is more effective or beneficial

**Benefits of Sampling:**

- i. Samples are an excellent way to induce trial as they provide consumers with a risk-free way to try new products.
- ii. The Marketer can be quite selective in choosing the market segment.
- iii. The sampling could be contained in smaller areas or could be a massive programme to cover the entire country.
- iv. For small budget companies, a sample along with a coupon in selected market areas can prove to be more effective than advertising, which requires many exposures to inform and persuade the consumers to buy the product.
- v. Samples, particularly distributed through retail stores, encourage retailers to arrange displays of the product and increase store traffic.

**Limitations of Sampling:-**

1. Sampling could prove to be a very expensive technique of sales promotion to induce trial so the cost against benefit must be considered carefully.
2. A sample distribution always faces the problem of theft and pilferage, no matter which method of distribution is used.
3. If the product is faulty, then the marketer may lose not only the money but to establish the product after improvement may prove to be very difficult.
4. The company may also face some loss of reputation and the fallout effect may extend to other existing brands.

**Sampling Methods:** One basic decision the sales promotion or brand manager must make is how the sample will be distributed. The sample method chosen is important not only in terms of costs but also because it influences the type of consumer who receives the sample. The best sampling method gets the product to the best. Prospects for trial and subsequent repurchase. Some basic distribution methods include door-to-door, direct-mail, in store and on-package approaches.

**i) Door-to-Door Sampling:-** This method is particularly attractive because it permits selective sample distribution. The marketers can choose markets, cities, towns, localities, or even selected people. The sample may be delivered face-to-face or may be left at the doorstep. This method is very effective but also probably the most expensive of all sampling techniques. It is more appropriate for urban areas with high population density.

**ii) Direct Mail:-** Sampling through the mail is common for small, light weight, non-perishable products. A major advantage of this method is that the marketer has control over where and when the product will be distributed and can target the sample to specific market areas. Many marketers are using information from geodemographic target marketing programs. The main drawbacks to mail sampling are postal restrictions and increasing postal rates.

**iii) In-Store Sampling:** This sample pack is not given free. A trial size sample pack is available in retail stores at some nominal price. In-store sampling is increasingly popular, especially for food products. Demonstrators may also give consumers a cents-off coupon for the sampled item to encourage immediate trial purchase. While this sampling method can be very effective, it can also be expensive and requires a great deal of planning, as well as the cooperation of retailers.

**iv) In-Pack or on-package sampling:-** The sample may be packed inside the product package or attached to it. The vehicle product package or attached to it. The vehicle product may be some popular product of the same company or, in some instances, arrangements can be made with some other non-competing company. A free sample in these cases is used as a premium by the product carrying the sample. This method is appropriate in reaching the present consumers only.

**v) Retail Shopping Centre:-** Product samples can be directly distributed through retail stores. A popular display unit can be put and consumer who pass by it are offered a free sample. This also helps in building the good will of the retailers. This also helps in building the good will of the retailer. This method can be very effective if, along with the sample a discount coupon for the purchase of the product is also given.

**vi) Trade fairs and exhibitions:-** These occasions provide good opportunity to distribute samples to interested visitors. Most people visit those stalls where the products of their interest are displayed. The samples are more likely to reach the target group.

**2. Coupons:** Coupons are certificates entitling the bearer to a stated saving on the purchase of a specific product. Coupons bear a date of expiry and cannot be redeemed after the cut off date. Coupons are used by both the manufacturer and the dealers for sales promotion. The main objectives of coupons distributed are to encourage product trial, build loyalty, trade-up regular users, stimulate repurchase rate, and solicit inquires.

Coupons are particularly attractive to consumers who are price sensitive coupons can be mailed, enclosed in other products or attached to them, or inserted in magazine and newspaper ads. The redemption rate varies with the mode of distribution.

Manufacturers distribute their coupons by using print media, direct mail, product packages or through retailers. Some manufacturers and service providers also distribute coupons during trade fairs. Distribution through newspaper free standing inserts (FSIs) is by far the most popular method for delivering coupons to consumers.

There are a number of reasons why free standing inserts (FSIs) are the most popular way of delivering coupons, including their high-quality four-colour graphics, competitive distribution costs, national same-day circulation, market selectivity, and the fact that they can be competition free due to category exclusivity.

Each type of coupon, irrespective of its face value or distribution method, can offer some specific advantages. In India, the use of coupons as a tool of sales promotion is growing at a rapid pace. Coupons can be used to achieve diverse consumer and trade sales promotion objectives.

#### **Objectives of Coupons:**

- To encourage product trial
- To reward customer loyalty
- To encourage continued usage

- To introduce new product
- To solicit enquiries

**Advantages:** Coupons are considered as a very versatile promotion tool. They can help in inducing trial of an existing or new product. A marketer can use coupons to encourage those who have tried a brand to become regular users. It is fairly convenient to reach a large number of prospects with coupons in a short time. Coupons can help to load-up the consumers and this may help in blocking the moves of competitors when there is reliable information. Line extension products can be introduced easily by enclosing or banding the coupon with the vehicle product.

**Disadvantages:** One major disadvantage of coupons is wrong redemption. This happens when the retailer, by mistake or with intent, pays the consumer the face value of the coupon even though the product for which the coupon is meant is not purchased ( the consumer, in connivance with the retailer, buys some other products of the coupon's value). This type of redemption leads to wasted costs and adversely affects the achievement of objectives. Response to coupon promotion may be unpredictable because of factors such as media, timing, value, brand share and competitive moves, etc., in pack or on-pack coupons generally do not attract new triers. Coupons for products, whose value is unknown, generally are not quite as effective as for known and established brands.

**3. Price – off Deals:-** Price deals are probably the most commonly used promotional techniques. A price deal for customers means a reduction in the price of the promoted product and the customer saves money on purchase. such a deal is designed to stimulate customers to try a new product, to encourage new users to try an existing product, or to encourage customers to continue product patronage, increase purchase quantity, purchase multiple units and accelerate usage rate, etc. such deals are suitable when brand loyalty is low, product category is considered a commodity, and price is the primary consideration by the customers.

Another consumer-oriented promotion technique is the direct **price-off deal**, which reduces the price of the brand. Price-off reductions are typically offered right on the package through specially marked price packs. Typically, price-offs range from 10 to 25 percent off the regular price, with the reduction coming out of the manufacturers' profit margin, not the retailer's. Keeping the retailer's margin during a price-off promotion maintains its support and cooperation.

Marketers use price-off promotions for several reasons. First, since price-offs are controlled by the manufacturer, it can make sure the promotional discount reaches the consumer rather than being kept by the trade. Like bonus packs, price-off deals usually present a readily apparent value to shoppers, especially when they have a reference price point for the brand and thus recognize the value of the discount. So price-offs can be a strong influence at the point of purchase when price comparisons are being made. Price-off promotions can also encourage consumers to purchase larger quantities, preempting competitors' promotions and leading to greater trade support.

Price-off promotions may not be favourable received by retailers, since they can create pricing and inventory problems. Most retailers will not accept packages with a specific price shown, so the familiar amount off the regular price must be used. Also, like bonus packs, price-off deals appeal primarily to regular users instead of attracting nonusers. Finally, the Federal Trade

Commission has regulations regarding the conditions that price-off labels must meet and the frequency and timing of their use.

#### **Objectives of Price Deals:**

- To stimulate consumers to try a new product
- To encourage immediate sales
- To build up inventory at trade level
- To invitational clearance of trade level

To counter competitive moves

**Advantages:** Price offers are extremely flexible in the sense that the producer has total control on the number of units being promoted and the market area in which the offer will be given. If different packs of the same brand are available, the marketer can choose the one size that is not selling well. A price discount can be helpful in blocking the competitor's move to introduce a similar new product by loading the trade and consumers. A discount coupled with display, arouses attention and its effect on consumer decision making can be significant. Experts estimate that smoothing like 30% to 60% purchase decisions are unplanned in certain product categories leading to impulse purchase.

**Disadvantages:** a discount offer may rapidly lose its advantage if competitors announce a similar offer. In fact, competitors are very likely to retaliate, leading to the danger of triggering a promotion war in which no one benefits except the consumer (prisoner's dilemma). Such discounts are short-term and are unlikely to produce any long-term gains because the incentive is to purchase now by creating a sense of urgency. When the discount is withdrawn, the sales may fall below the level of the pre-promotion period and in the long run the sales would return to pre-promotion period level. The consumers are encouraged to switch brands and this poses problems in sales forecasting.

**4) Bonus Packs:-** Price-packs are also called value-packs. This may take any of the two forms, bonus pack and banded pack. In case of bonus pack offer, an additional quantity of the same product is offered free when the standard pack size of the product is purchased at the regular price. This type of deal is often seen in case of laundry products, food products and personal care products, etc. This is a way to reward the present consumers and may not have any impact on the users of competitive brands. A variation of this offer, and more commonly observed, is when the marketer develops special packs of the product containing more quantity but the price is proportionately low. For example, the regular price of a standard pack of a product is Rs.50 and the quantity contained in the pack is 100 gms. For the purpose of sales promotion the company offers a special pack containing 150 gms, and the price is Rs.62 only. This is a method to "load" the consumer up with the product. This technique is often used to introduce a new large size of the product, or to encourage continued usage and also to increase consumption. Many offers of this type are seen in consumer nondurable products consumed on a daily basis.

The offer is termed as banded pack when two or more units of a product are sold at a reduced price compared to the regular price (couple of months ago, Lux International offered a



similar deal. The pack contained four cakes of soap at the price of three). The products are generally banded together physically, or put together in a blister pack, such as razor and blade, toothpaste and toothbrush, or a smaller size of the same product may be attached to the regular size.

Another variation of this techniques is “buy-one-take-one-free”, or some similar offer (it could be” same for less” or more for the same). This is fairly popular technique in cases of footwear, shirts, jeans, towels and many other verities of products. Akai offered a 14” colour television on the purchase of a 21” colour television.

Bonus packs are generally limited to low bulk, low-price products,. However, of late exception, such as the Akai offer have been observed. Additional quantity of the same product or additional unit of the products is appreciated as a reward by the consumer. This also offers consumers the satisfaction of being “smart shoppers.”

Banded Packs are also called Price Packs as well as value-packs. This may take any of the two forms, bonus pack and banded pack. In case of bonus pack offer, an additional quantity of the same product is offered when the standard pack size of the product is purchased at the regular price. The offer is termed as banded pack when two or more units of a product are sold at a reduced price compared to the regular price (couple of months ago, Lux International offered a similar deal. The pack contained four cakes of soap at he price of three). The products are generally banded together physically, or put together in a blister pack, such as razor and blade, toothpaste and toothbrush or a smaller size of the same product may be attached to the regular size.

#### **Objectives of Bonus Packs:**

- To encourage prolonged consumption period
- To trade up consumers to purchase larger quantity packs
- To purchase larger quantity packs
- To Move larger quantity from factory

**Advantages:** Such offers are generally effective in converting product triers into users. Extra product may encourage increased usage and help sustain the habit. Among other similar brands, a bonus pack stands out at the point-of-sale. Extra quantity is an incentive and a reward. In consumer durable products, as in the example of Akai colour television, and additional 14” television is a big incentive to the buyer and as the deal is for a short period, it may induce a sense of urgency. Consumers, who buy bonus packs of consumables, stay out of the market and are not exposed to competitors’ offers.

**Disadvantages:** The cost of additional product may be small; to the manufacturer but the cost<sup>5</sup> of larger new pack may make the offer expensive. When bonus packs are banded together, in certain instances, retailers break the banding and sell the bonus product at regular price if the product happens to enjoy franchise strength. In such a situation, the purpose of promotion is defeated as the offer does not reach the consumer. In case of consumer durables such a deal is quite likely to hurt the brand image and disrupt price-quality perceptions of customers.

### 5. Contests and Sweepstakes:

These are part of interest promotions because such sales promotions create not only interest but also produce excitement and enthusiasm in consumers. There seems to be quite a bit of confusion in understanding these terms. A contest requires the participants to perform some task. For example, the participants may be required to write a slogan, choose a name, or create design, etc. to decide which entries are first, second, or third, etc., an expert or a panel of experts examines the entries and judges the winning ones. The prizes, depending on the announced number of prizes, are declared. A contest is based on testing the skill or ability and may or may not involve the proof-of-purchase (this is called a "consideration").

A sweepstakes is a random drawing and is sometimes called chance contest. This too may not involve the purchase of any product or service.

A lottery prize is decided on the basis of chance and requires a "consideration" for entry that may be proof-of-purchase of a ticket or a product.

According to the American Association of Advertising Agencies, "A contest is an event that invites the customer to apply skill to solve or complete a special problem." The same agency says, "A sweepstakes does not call for the application of skill on the part of the consumer. Winners are determined by a drawing from all entry forms. In other words, prizes are awarded on the basis of chance."

Often a combination of contest and sweepstakes is employed in some promotions. The winners are decided in two stages. The first part involves a contest in terms of skill, or knowledge. If more correct entries are received, the second stage then involves a draw of chance to decide the winners. A well-known television programme in India, "Surabhi", is an example of this type of promotion. Anyone can send answers to the questions on a postcard. Generally correct entries, depending on the number of prizes to be given, some are picked up on random basis to declare the winners. In India, contests and sweepstakes are very popular promotional techniques and frequently used in diverse product categories and services. The range covers low as well as high involvement products. Low priced products such as "Paan Masala" as well as expensive products such as cars have also used contests and sweepstakes.

Among all the sales promotional devices, probably the most exciting and highly rewarding are the contests and sweepstakes. Every imaginable prize or reward is used to excite and attract customers to participate. The prizes may be gold or silver jewellery, hefty sums of money, cars, two-wheeler autos, colour televisions, computers, music systems, free air tickets, stay in five star hotels, 'holiday in health resorts and anything else depending on the imagination of the marketer. To add an element of extreme urgency and speed up the response, early bird prizes are announced for the first 25 to 50 or 100 entries. In certain case all those who furnish proof-of-purchase are given some specified premium.

Experience shows that everyone concerned consumers, trades people and sales force gets a share of excitement when the contest or sweepstakes is well planned and executed. The prizes seem to be much larger to contestants than the money spent by the sponsor. For instance, in case the manufacturer plans to distribute free samples of a product, it can cost far more than the total money spent by the manufacture for the prizes. Contests and sweepstakes generate considerable interest and awareness and can be used to gain large sales increases.

The success or otherwise of a contest or sweepstakes depends largely on the selection of prizes and prize structure. In most cases the structure represents a typical pyramid, that is, there is a bumper prize of very high value. For instance, a car worth Rs.3000,000 or more, or jewellery of the same value, then a number of prizes in the intermediate value range, a large number of prizes of small value, and a larger number of consolation prizes. To make the contest or sweepstakes more tempting, there may be more than one winner of first prize (such as 10 first prizes for ten lucky winners). Different combinations of prizes are evolving. The duration of contests and sweepstakes are various considerable, depending on the objectives set for sales promotion.

A producer of branded wheat flour, "Shakti Bhog Atta", announced an interesting promotion. Grocery stores owners informed the consumers regarding the possibility of prizes that consumers can win with continued use of the brand. There were no first or second prizes, the top prize was Santro car, besides many other prizes. Each pack of flour contained a coupon with a certain half-word or one-third word printed on it. For example, to win a Santro, the consumer was required to collect three coupons that would complete the name of the prize, that is, Santro. On one coupon would be 'SA' the other two coupons should have 'NT' and 'RO', thereby completing the word Santro and entitling the consumer to win a Santro car by submitting the three coupons. No final date of promotion closing was announced. Consumers kept on buying the same brand and collected many coupons, most not winning anything because in most cases the coupons that the same or different letters, not fit to complete the desired word. Letters on some coupons were part of either the brand of washing machine, television, or wristwatch, etc. Because of the nature of the product, consumers did not mind continued purchase of the brand and kept on collecting the coupons. This is an example of a very clever sales promoting of a product, which is considered a commodity. However, the technique proved to be extremely effective in retaining the customers and motivating them to continue using the same brand for an extended period of time.

In case of consumer durable products, Bajaj Auto announced a promotion to encourage the purchase of any Bajaj scooter. The promotion named "Crorepati Hungama" lasted one month (1<sup>st</sup> December 1999). The promotion said, "buy any scooter, scratch a card, and win a sure prize." The prizes were around 8000, the top prize being rupees ten million. Hundred prizes of Rs. 100,000 each, seven hundred prizes of Sansui music systems, seven thousand prizes of Kodak cameras, and many Timex watches. A very tempting promotion and simple too, just buy a scooter, scratch a card and win a sure prize. The factor of hence was limited only to what one gets-no losers, all winners.

These two examples present the use of the same method of sales promotion. The first example presents the use of chance in case of a consumer nondurable which is a low involvement category product and there is hardly anything like brand loyalty. In fact, in most household, flour comes from flourmills where people take their wheat to be converted into wheat flour. Such service providing flourmills are located in almost all localities. The same element of chance has been used in case of a consumer durable product of high involvement category. The promotion planning shows how effective the sweepstakes can be in increasing sales and blocking competition.

#### **Objectives of Consumer contest and Sweepstakes:**

- To create interest or excitement in customers
- To create brand awareness

- To build traffic of retail stores
- To encourage brand purchase
- To get consumer feedback
- To encourage multiple purchases
- To increase consumption
- To increase attention getting power of advertisements
- To attract new customers and induce trial

**Advantages:** Contests and sweepstakes can create a high level of awareness, build or reinforce the image of the product or service. Consumers may associate the impressive prizes with the product or service. These promotions are more successful in getting the print advertisement read, or the audio-visual ad seen. This is becoming an increasingly difficult task because of audience boredom, apathy, disinterest, or even irritation towards advertising in general. Contests and sweepstakes can help gain store displays, generate store traffic and encourage the trial of a product if the prizes are sufficiently attractive.

**Disadvantages:** Contests and sweepstakes generally are not effective in generating trial of a new product. Heavy media expenditure is often required to make these events successful. It is generally not possible to pre-test a contest or sweepstakes programme and could prove to be quite risky. The promoter has to check thoroughly the rules and regulations that may vary from state to state. Designing a contest or sweepstakes requires lengthy lead time. This may entail the risk that competitors may come to know about the event sufficiently in advance and may take steps to defeat the efforts.

## 10.5: SUMMARY

Sales promotion has been defined as “a direct inducement that offers an extra value or incentive for the product to the sales force, distributors, or the ultimate consumer with the primary objective of creating an immediate sale”. Keep in mind several important aspects of sales promotion as you read this chapter.

Sales promotion is a powerful tool that can be used to achieve a variety of promotional objectives. Some aspects that are important to consider in making sales promotions successful are as follows. 1) Maximum effect at minimum cost 2) motivates consumers to buy now, 3) Offers what the consumers want, 4) The promotion should be clear and uncomplicated, 5) Promotion should benefit all concerned, 6) Promotion must be legal, 7) Promotion must be implemented efficiently.

The basic goal of consumer-oriented sales promotion programs is to induce purchase of a brand, the marketer may have a number of different objectives for both new and established brands such as obtaining trial and repurchase, increasing consumption of an established brand, defending current customers, targeting a specific market segment, or enhancing advertising and marketing efforts.

There has been a steady increase in the use of sales promotion techniques to influence consumer's purchase behaviour. The growing power of retailers, erosion of brand loyalty, increase in consumers' sensitivity to promotions, increase in new product introductions, fragmentation of

the consumer market, short-term focus of marketing and brand managers, and increase in advertising clutter are some of the reasons for this increase.

Sales promotions can be characterized as either franchise building or no franchise building. The former contribute to the long-term development and reinforcement of brand identity and image; the latter are designed to accelerate the purchase process and generate immediate increases in sales. A number of consumer oriented sales promotion techniques were examined in this chapter, including sampling, coupons premiums, contests and sweepstakes, rebates and refunds, bonus packs, price-off deals, frequency programs, and event marketing. The characteristics of these promotional tools were examined, along with their advantages and limitations.

## 10.6: KEYWORDS

**Consumer- Oriented Sales Promotion:** Consumer- Oriented Sales Promotion includes sampling, couponing, premiums, contests and sweepstakes, refunds and rebates, bonus packs, price-offs frequency programs, and event marketing.

**In-Store Sampling:** In-Store Sampling is increasingly popular, especially for food products. The marketer hires temporary demonstrators who set up a table or booth, prepare small samples of the product, and pass them out to shoppers.

**On-Package Sampling:** On-Package Sampling, where a sample of a product is attached to another item, is another common sampling method.

**Bounce-Back Coupon:** An in /on – pack coupon that is redeemable for the next purchase of the same brand is known as Bounce-Back Coupon.

**Cross-Ruff Coupon:** Cross-Ruff Coupon is another type of in/on-pack coupon which is redeemable on the purchase of a different product, usually one made by the same company but occasionally through a tie-in with another manufacturer.

**Instant Coupon:** Instant Coupon is another pack of package coupon, which is attached to the outside of the package so the consumer can rip it off and redeem it immediately at the time of purchase.

**In-Store Couponing:** In-Store Couponing is another distribution method that has experienced strong growth over the past 10 year, which includes all co-op couponing programmes distributed in a retail store environment.

**Premium:** A premium is an offer of an item of merchandise or service either free or at a low price that is an extra incentive for purchasers.

**Contest:** A contest is a promotion where consumers compete for prizes or money on the basis of skills or ability.

**Sweepstakes:** A Sweepstakes is a promotion where winner are determined purely by chance, it can't require a proof purchase as a condition for entry.

**Bonus Packs:** Bonus Packs offer the consumer an extra amount of a product at the regular price by providing larger containers or extra units.

**Price-off Deals:** Price of Deals is another direct consumer- oriented promotion technique, which reduces the price of the brand.

**10.7: SELF ASSESSMENT QUESTIONS**

1. Discuss various sales promotion techniques that you recommend for industrial products.
2. What are the essential characteristics of sales promotion?
3. What are the objectives of consumer -oriented sales promotion techniques?
4. What are the merits and demerits of various consumer –oriented sales promotion methods?

**10.8: FURTHER READINGS**

1. George E. Belch & Michael A. Belch: Advertising and Promotion, Tata McGraw-Hill, New Delhi.
2. S H H Kazmi – Satish K Batra : Advertising & Sales Promotion, Excel Books Publications, New Delhi.

**- Dr. Krishna Banana**

**LESSON- 11****COUPONING****11.0. Objectives :**

After studying this lesson you will be able to :

- ☞ Explain the Meaning and importance of coupons in sales promotion.
- ☞ Discuss various objectives of coupons
- ☞ Describe coupon distribution in India

**Structure:**

- 11.1 Introduction**
- 11.2 Meaning**
- 11.3 Objectives of Coupons**
- 11.4 Advantages of Coupons**
- 11.5 Disadvantages of Coupons**
- 11.6 Suggestions**
- 11.7 Coupon Distribution**
- 11.8 Summary**
- 11.9 Kew Words**
- 11.10 Self Assessment Questions**
- 11.11 Further Readings**

**11.1 INTRODUCTION**

The oldest, most widely used, and most coupons have been around since 1895, when the C.W. Post Co. started using the penny-off coupon to sell its new Grape-Nuts cereal. In recent years, coupons have become increasingly popular with consumers, which may explain their explosive growth among manufactures and retailers that use them as sales promotion incentives. Coupons are the most popular sales promotion technique as they are used by nearly all the packaged-goods firms.

Coupon distribution rose dramatically over the past 30 years. The number of coupons distributed by consumer packaged-goods marketers increased from 16 billion in 1968 to a peak of 310 billion in 1994. Since 1994 coupon distribution has been declining, and it dropped to 239 billion in 2001. According to NCH promotional Services, a company that tracks coupon distribution and redemption patterns, nearly 80 percent of consumers in the United States use coupons and nearly 25 percent say they always use them when they shop. The average face value of coupons distributed increased from 21 cents in 1981 to 83 cents in 2001. The average face value of the 4 billion coupons that were redeemed in 2001 was 74 cents.

**11. 2 COUPONS-MEANING**

When the consumer is entitled to redeem a specific standard certificate for a product or article free or in part payment. Conforms are used by both the manufacturer and the dealers may distributed by mail, by media advertisements, door to door, inside product package or by dealers on purchase.

The retailer originated coupons generally have one objective-to encourage the customers to shop at a particular store. Their interest is not tied up with any brand or manufacturer, unless there has been an agreement with the marketers of some cooperative venture. In such a case, the objective would be to encourage shopping at a particular store and buy a certain manufacturers brand.

When coupons are offered by the manufactures all the costs associated with advertising and distributing and distributing the coupons, redeeming their fare values and paying retailers a fee for handling, are borne by the manufacturer. The retailers serve as the agents of manufacturer in accepting and redeeming the coupons and send the collected coupons to the concerned manufacturer along with their claims of reimbursement.

Coupons are particularly attractive to consumers who are price sensitive. Research has shown that the tendency to use coupons rises under certain conditions:

- 1) When consumers perceive that there is need to control budget.
- 2) Consumers are inclined to experiment with new products or services
- 3) Consumers use coupons for products which are consumed regularly, such as tea, coffee, lauding products, etc.,

### 11.3 OBJECTIVES OF COUPONS:

**1) To Encourage product or Service trail:-** A consumer who has not tried an existing product or service, or one who tries a new product or service can be considered as a trier. A coupon can enhance the chances that such a consumer will make as initial purchase of product, more so if such an offer is combined with a lucky draw.

Effective advertising, through a variety of emotional and rational appeals, tries to motivate consumers to purchase the product despite this, consumers face uncertainty and hesitate to purchase an untried brand. They may be uncertain as to how the branded will perform and the related consequences if the brand performs badly. A coupon can compensate the consumer in reducing the risk to some extent. If the consumer makes use of the coupon, it meets the objective of inducing trail and also helps in communicating the reference price to the consumer. A free sample, in contrast, fails to develop reference price in the consumers mind. Research shows that coupons help in inducing trial, particularly direct mail coupons. Heavy users of coupons are more likely to try new and different products.

**2) To Encourage Brand Switching :-** Coupons are a direct economic incentive to encourage brand switching, the consumer feels exclusive and important, a smart shopper, and these are important economic and psychological reasons to encourage a switch. A coupon is more tangible, believable proof of price cut as compared to just a "heavy discount on list prices" as this does not communicate anything tangible.

**3) To Encourage Repeat Purchase:-** coupons can serve to achieve long-term promotion objective by increasing repeat purchase of the brand by regular consumers, new triers, or infrequent users. It is believed that if the product category happens to be low-involvement, a coupon would encourage repeat purchase. For many consumers, coupons serve as a reward to keep on using the brand and as per the "instrumental conditioning" theory of learning a rewarded behaviour gets reinforced and is likely to be sustained in the long-term.



**4) To Defend Market Share:** - When the product category is fairly crowded with many existing brands, every brand is vulnerable to competitive moves most marketers are generally concerned with at least maintaining their market share of the brand. Coupons are a sure way to reward and retain the loyal consumers. They also serve as a preemptive promotional move to make it tough to snatch away the loyal users of the brand. Consumers who are brand switchers or heavy coupon users are particularly attracted. A firm's objective to defend its market share can be seen in the light of "prisoner's dilemma" market share of a company's brand can be affected when a coupon promotion is offered by competitors. This realization makes them to act in anticipation of competitor's move or in response to competitor's move. However, the result is that competing firms succeed only in protecting market share, but sacrifice part of their profits.

**5) To Supplement Print Media Advertising:** - Unless the ad is noticed and read, it does not serve any purpose. A Coupon included in a print advertisement increased the attention getting power of the advertisement. Research indicates that advertisements appearing in print including a coupon are more likely to be noticed and recalled by customers than the same ads without a coupon. Consumers are also more likely to read the headline and copy as a result of their attention and interest in the coupon. This is understandable because now a days there is too much advertising clutter. The consumer is bombarded by advertising messages at home, on road and in the market area. In fact, in almost any conceivable place, there is some ad waiting to be noticed. Insertion of a coupon in an ad stands a reasonably better chance to be noticed.

**6) Pre-empt Competition:-** Manufacturers of existing brands can make effective use of coupons to preempt competition. When a competitor introduces a new product in the market, it is backed with high powered advertising and, in some cases, sales promotion as well. To keep its brand loyal consumers out of the market for a period of time, the marketer of the existing brand can 'load up' the consumer on the brand by distributing coupons. The requirements for such a move to be successful are that the product should not be bulky, the unit cost should be low, the consumer should be fond of using coupons, and the interval between two purchases for the product should be long. For example, toilet soaps, tooth paste, and laundry products etc., can fit the bill. The marketer can make the decision to load up the consumer if there is reliable information about the timing of the competitors move. In case of some consumer products, such as razor blades or shaving cream, the inter-purchase interval would be fairly long, these products are not bulky, and the unit price is low depending on whether the product is seasonal or non-seasonal, some decision can be made about the timing of coupon distribution. Such an offer can motivate many consumers to purchase more than the immediate requirement and they would not be in the market to purchase similar products. This often proves to be a successful technique to dampen the competition.

**7) To Stimulate Trial for Another Product:-** The marketer can make use of the packages of a fast moving brand to carry the coupons of a related or unrelated product, or a less popular product. The major advantage is that consumers may form, a favourable impression about the new product because of its association with an important brand. Such coupons are called "Cross-ruff" and are distributed without incurring any expenses on distribution the coupons.

**8) To Reach Suitable Target Audience:-** Manufacturers can use direct mail coupons to reach selected geographical areas or professional groups coupons can be placed in magazines meant for ladies coupons computer enthusiasts, sports people, or other in special interest magazines. This can reduce waste to distribution and coupons would reach only the target group.

**9) To Take off the Attention From Price-** A price increase may often produce adverse effects for the concerned brand. A coupon distribution may weaken the negative effects of price increase, provided the programme is implemented intelligently. The new price may be much higher than the present reference price the consumers have and hence the product may be perceived as unjustifiably expensive. To avoid rejection of the product by the consumers, the marketer may issue a coupon of the value that would reduce the price to a level that is between the consumers current reference price and the new price. The consumers get adapted to the new price and when the coupon is withdrawn, the new price does not appear to be high relative to the new reference price of the consumers. The timing of coupons distribution should be such that the loyal consumers do not get enough time to switch to a different brand because of the price increase. The coupon should be of immediate value, preferably on-the package so that the consumers get an immediate reduction on the price.

**10) To Use Price Discrimination:-** Price discrimination produces a positive effect on total sales. The strategy is to charge different prices for the same product. Consumers who happen to be more price sensitive are motivated to use coupons and pay less. Another consumers, who do not make the efforts to redeem the coupon, pay a higher price for the same product. In another situation, where the coupons have been distributed selectively, only coupon owners have the advantage of buying the product at less than the list price and all others buy the product at the normal list price. Coupons can be used as a highly effective tool to use price discrimination.

#### 11.4 ADVANTAGES OF COUPONS:-

Coupons are certificates entitling the bearer to a stated saving on the purchase of a specific product. Coupons can be mailed, enclosed in other products or attached to them, or inserted in magazine and newspaper ads. The redemption rate varies with the mode of distribution; newspaper coupons are redeemed about 2% of the time, direct mail-distributed coupons about 8% of the time, and pack-distributed about 17% of the time. Coupons can be effective in stimulating sales of a mature brand and inducing early trial of a new brand.

Coupons have a number of advantages that make them popular sales promotion tools for both new and established products.

**1) Price Reduction:-**coupons make it possible to offer a price reduction only to those consumers who are price-sensitive. Such consumers generally purchase because of coupons, while those who are not as concerned about price buy the brand at full value. Coupons also make it possible to reduce the retail price of a product without relying on retailers for cooperation, which can often be a problem.

**2) Coupons can help in inducing trial of an existing or new product:-** Coupons are considered as a very versatile promotion tool. They can help in inducing trial of an existing or new product. A marketer can use coupons to encourage those who have tried a brand to become regular users. Coupons can encourage repurchase after initial trial. Many new products include a cents-off coupon inside the package to encourage repeat purchase.

**3) Load-up the consumers:-** It is fairly convenient to reach a large number of prospects with coupons in a short time. Coupons can help to load – up the consumers and this may help in blocking the moves of competitors when here is reliable information.

Coupons can also be useful promotional devices for established products. They can encourage nonusers to try a brand, encourage repeat purchase among current users, and get

users to try a new improved version of a brand. Coupons may also help coax users of a product to trade up to more expensive brands. The product category where coupons are used most is disposable diapers, followed by cereal, detergent, and deodorant. Some of the product categories where coupons are used the least are carbonated beverages, candy and gum.

### 11.5 DISADVANTAGES OF COUPONS

One major disadvantage of coupons is wrong redemption. This happens when the retailer by mistake or with intent, pays the consumer the face value of the coupon even though the product for which the coupon is meant is not purchased.

Coupon missed- redemption or wrong redemption or fraud occurs in a number of ways, including:

1. Redemption of coupons by consumers for a product or size not specified on the coupon.
2. Redemption of coupons by sales clerks in exchange for cash.
3. Gathering and redemption of coupons by store managers or owners without the accompanying sale of the product.
4. Gathering or printing of coupons by criminals who sell them to unethical merchants, who in turn redeem them.

### 11.6 SUGGESTIONS

Response to coupon promotion may be unpredictable. It can be difficult to estimate how many consumers will use a coupon and when. Response to a coupon is rarely immediate. It typically takes anywhere from two to six months to redeem one. Response to coupon promotion may not be estimate because of factors such as media, timing, value, brand share and competitive moves, etc., In – pack or on-pack coupons generally do not attract new triers. Coupons for products, whose value is unknown, generally are not quite as effective as for known and established brands.

Louis J. Hague, Advertising Age, 1979, has developed some suggestion:-

- 1) Treat Coupons as money
- 2) Discourage built redemptions through design, distribution, and handling.
- 3) Don't use excessive values in coupons keep them within reason
- 4) The coupon value should not exceed the cost of the media in which it is distributed or the value of the product if it is a solo coupon.
- 5) Keep the offer clear and uncomplicated cute and clever approaches make it more difficult for the retailer to understand the offer.
- 6) Have no less than 50% product distribution in the area in which the coupon will be distributed.
- 7) Make it easy to for the retailer to handle the coupon and to be repaid.
- 8) Set a policy and stick to it. Don't hesitate to refuse payment for redemptions that are clearly fraudulent
- 9) Test your programmes and methods to educate the consumer. Don't go national or even regional without some sort of test to make sure the coupon works.

- 10) Due care should be taken to make the coupon difficult to counter file.

### 11.7 COUPON DISTRIBUTION IN INDIA

Manufactures distribute their coupons by using print media, direct mail, product packages or through retailers. Some manufacturers and service providers also distribute coupons during trade fairs. Distribution through new paper freestanding inserts (FSI) is by far the most popular method for delivering coupons to consumers, accounting for 84 percent of all coupons distributed in 2001.

There are a number of reasons why free standing inserts (FSIs) are the most popular way of delivering coupons, including their high quality four-colour graphic, competitive distribution costs, national same-day circulation, market selectivity, and the fact that they be competition-free due to category exclusivity.

**Direct Mail Coupons:-** coupon can be delivered direct to consumers by hiring a team of promoters. They can also be distributed at a point where the product demonstration has been arranged, at retail stores, check out counters, passengers in an airline flight, in a club, in schools, exhibition or trade fair and by direct mail, etc.

Direct-mail coupons has several advantages

- 1) The mailing can be sent to a broad audience or targeted to specific geographic or demographic markets such as teenagers, senior citizens, and other market segments. Firms that mail own coupons can be quite selective about recipients.
- 2) Another important advantage of direct-mail coupons is a redemption rate of over 3 percent, much higher than FSIs. Direct-mail coupons can also be combined with a sample, which makes it a very effective way to gain the attention of consumers.

The major disadvantage of direct-mail coupons delivery is the expense relative to other distribution methods.

**Media Distributed:-** Coupons are included in ads appearing in new papers, magazines, FSI, etc., coupons that are distributed by a single advertise are called "solo" the use of news papers and magazines as coupons vehicles has declined dramatically since the introduction of FSIs, in 2001 only 1-3 percent of coupons were distributed via news papers. News paper distributed coupons cost much less to the marketer. The advantages of news papers as a coupons vehicle include market selectivity, shorter lead times with timing to the day, cooperative advertising opportunities than can lead to cost efficiencies and promotional tie-ins with retailers. Other advantages of news paper delivered coupon are the broad exposure and consumer receptivity.

In case of magazines, coupons appear along with the advertisement on a page, or in case the coupon relates to subscription of the same magazine, the size may be smaller than the page. For example, Reader's Digest, Indian Today, Business India, Femina, Chip, PC Quest and computer @ Home, and many others, distribute coupons to encourage subscription. The use of magazines as coupons vehicle has also declined steadily since the introduction of FSIs. Magazines now account for only about 2 percent of the total number of coupons distributed each year. Distribution of coupons through magazines can take advantage of the selectivity of the publication to reach specific target audiences, along with enhanced production capabilities and extended copy life in the home. However, the cost of distributing coupons through magazines is very high and redemption rates are low (just under 1 percent)

**Product Distributed:-** Product distributed coupons are delivered with the product. They can be “in-pack”, or “on-pack”. The in/on-package coupon has virtually no distribution costs and a much higher redemption rate than other coupons methods, averaging between 3 and nearly 14 percent. An in/on-pack coupon that is redeemable for the next purchase of the same brand is known as bounce-back coupon. This type of coupon gives consumers an inducement to repurchase the brand.

Another type of in/on-pack coupon is the cross-ruff coupon, which is redeemable on the purchase of a different product, usually one made by the same company but occasionally through a tie-in with another manufacturer. Cross-ruff coupons have a redemption rate of 4 to 8 percent and can be effective in encouraging consumers to try other products or brands. Companies with wide product lines, such as cereal manufacturers, often use these coupons.

Yet another type of package coupon is the instant coupon, which is attached to the outside of the package so the consumer can rip it off and redeem it immediately at the time of purchase. Instant coupons have the highest redemption levels of all types of coupons, averaging around 18 percent for grocery products and jumping to over 40 percent for health and beauty items. However, the redemption level is much lower for instant cross-ruff coupons, as it averages around 5 percent. Instant coupons give consumers an immediate point-of-purchase incentive, and can be selectively placed in terms of promotion timing and market region. Some companies because the latter require more cooperation from retailers and can be more expensive, since every package must be reduced in price.

Another package distribution method that has experienced strong growth over the past 10 or so is in-store coupons, which includes all co-op coupons programs distributed in a retail store environment. This medium now accounts for around 8 percent of total coupon distribution. Coupons are distributed to consumers in stores in several ways, including tear-off pads, hand outs in the store (some times as part of a sampling demonstration).

Each type of coupon, irrespective of its face value or distribution method, can offer some specific advantages. In India, the use of coupons as a tool of sales promotion is growing at a rapid pace. Coupons can be used to achieve diverse consumer and trade sales promotion objectives.

## 11.8 SUMMARY

Coupons are the most popular sales promotion technique as they are used by nearly all the packaged-goods firms. When the consumer is entitled to redeem a specific standard certificate for a product or article free or in part payment. Coupons are used by both the manufacturer and the dealers may be distributed by mail, by media advertisements, door to door, inside product package or by dealers on purchase.

Coupons can be used to serve many objectives, such as, 1) to encourage product or service trial, 2) to encourage brands switching, 3) to encourage repeat purchase, 4) to defend market share, 5) to supplement print media advertising, 6) pre-empt condition, 7) to stimulate trial for another, 8) to reach suitable target audience, 9) to take off the attention from price, 10) to use price discrimination.

Coupons have a number of advantages that make them popular sales promotion tools for both new and established products. 1) price reduction, 2) coupons can help in inducing trial an existing or new product, 3) load up the customers etc.,

One major disadvantage of coupons is wrong redemption. This happens when the retailer by mistake or with intent, pays the consumer the face value of the coupon even though the product for which the coupon is meant is not purchased.

Manufacturers distribute their coupons by using print media, direct mail, product packages or through retailers. Some manufacturers and service providers also distribute coupons during trade fairs. Distribution through newspaper free standing inserts (FSI) is by far the most popular method for delivering coupons to consumers, accounting for 84 percent of all coupons distributed in 2001.

### 11.9 KEY WORDS

**Coupon:** Coupon is a specific standard certificate, the consumer is entitled to redeem for a product or article free in part payment by the manufacturer or the retailer.

**Cross-ruff:** The marketer can make use of the packages of a fast moving brand to carry to coupons of a related or unrelated product or a less popular product is called cross-ruff coupons.

**FSIs:** Distribution through newspaper free standing inserts (FSIs) is by far the most popular method for delivering coupons to customers.

**Solo:** Coupons that are distributed by a single advertiser are called "solo".

**Instant Coupon:** Which is attached to the outside of the package so the consumer can rip it off and redeem it immediately at the time of purchase.

**In/on-pack coupon:** It is the cross-ruff coupon, which is redeemable on the purchase of a different product, usually one made by the same company but occasionally through a tie-in with another manufacturer.

### 11.10 SELF ASSESSMENT QUESTIONS

1. Define coupons. What is the meaning of coupon?
2. What are the objectives of coupons?
3. What are the advantages and disadvantages of coupons.
4. Describe various types of coupon distribution.

### 11.11 FURTHER READINGS

1. Advertising and Promotion: George E. Belch & Michael A. Belch, Tata McGraw-Hill Publishing Company Ltd., New Delhi.
2. Advertising and Sales Promotion : S.H.H. Kazmi and Satish K Batra,

**- Dr. Krishna Banana**  
M.Com., M.Phil., Ph.D., B.Ed.

**LESSON -12**

# **CONSUMER INVOLVEMENT IN COMPANY PROMOTIONS**

**12.0. Objectives:**

After studying this lesson you should be able to:

- To understand the role consumer behaviour plays in the development and implementation of advertising and promotional programs.
- To understand the consumer decision-making process and how it varies for different types of purchase.
- To understand various internal psychological processes, their influence on consumer decision making, and implications for advertising and promotion.
- To recognize the various approaches to studying the consumer learning process and their implications for advertising and promotion.
- To recognize external factors such as culture, social class, group influences, and situational determinants and how they affect consumer behaviour.
- To understand alternative approaches to studying consumer behaviour.

**Structure:**

- 12.1 Introduction**
- 12.2 Consumer Decision - Making Process**
- 12.3 Different Consumer Behavioural Theories**
- 12.4 Environmental Influences on Consumer Behaviour**
- 12.5 Alternative Approaches to Consumer Behaviour**
- 12.6 Deal Proneness**
- 12.7 Profiles of High and Low - Involvement Consumers**
- 12.8 Summary**
- 12.9 Keywords**
- 12.10 Self Assessment Questions**
- 12.11 Further Readings.**

**12.1: INTRODUCTION**

It is interesting to study and try to understand why consumers respond to sales promotion in certain ways. The implications for practitioners are clear. Those who better understand also to how and why consumers respond to different sales promotions in certain ways, are likely to have an edge and would be able to meticulously design more appropriate and effective promotions.

Consumer behaviour can be defined as the process and activities people engage in when searching for, selecting, purchasing, using, evaluating, and disposing of products and services so as to satisfy their needs and desires. For many products and services, purchase decisions are the result of a long, detailed process that may include an extensive information search, brand comparisons and evaluations, and other activities. Other purchase decisions are more incidental and may result from little more than seeing a product prominently displayed at a discount price in a store. Think of how many times you have made impulse purchases in stores.

This chapter introduced you to the field of consumer behaviour and examined its relevance to promotional strategy. Consumer behaviour is best viewed as the process and activities that people engage in when searching for, selecting, purchasing, using, evaluating, and disposing of products and services to satisfy their needs and desires. A five stage model of the consumer decision-making process consists of problem recognition, information search, alternative evaluation, purchase, and post purchase evaluation. Internal psychological processes that influence of the consumer decision making process include motivation, perception, attitude formation and change, and integration processes.

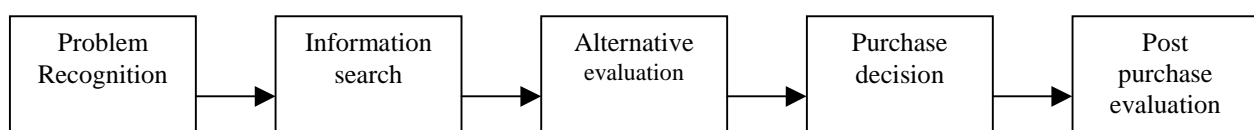
The decision process model views consumer behaviour primarily from a cognitive orientation. The chapter considered other perspectives by examining various approaches to consumer learning and their implications for advertising and promotion. Behavioural learning theories such as classical conditioning and operant (instrumental) conditioning were discussed. Problems with behavioural learning theories were noted, and the alternative perspective of cognitive learning was discussed.

The chapter also examined relevant external factors that influence consumer decision making. Culture, subculture, social class, reference groups, and situational determinants were discussed, along with their implications for the development of promotional strategies and promotional strategies and programs. The chapter concluded with an introduction to alternative perspectives on the study of consumer behaviour (also called interpretive, postmodern, or post positivist perspectives)

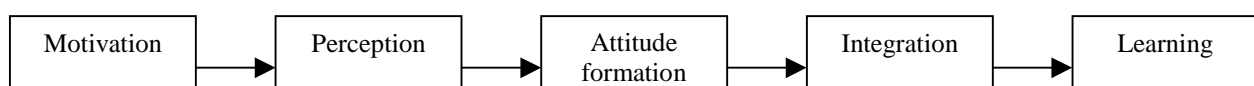
## 12.2: THE CONSUMER DECISION – MAKING PROCESS

The conceptual model will be used as a framework for analyzing the consumer decision process. We will discuss what occurs at the various stages of this model and how advertising and promotion can be used to influence decision making. We will also examine the influence of various psychological concepts, such as motivation, perception, attitudes, and integration processes. Variations in the consumer decision-making process will be explored, as will perspectives regarding consumer learning and external influences on the consumer decision process. The chapter concludes with a consideration of alternative means of studying consumer behaviour.

### A. Stages in the Consumer Decision-Making Process



### B. Relevant Internal Psychological



The consumer's purchase decision process is generally viewed as consisting of stages through which the buyer passes in purchasing a product or service. This model shows that decision making involves a number of internal psychological processes. Motivation, perception, attitude formation, integration, and learning are important to promotional planners, since they influence the general decision-making process of the consumer. We will examine each stage of



the purchase decision model and discuss how the various sub processes influence what occurs at this phase of the consumer behaviour process. We will also discuss how promotional planners can influence this process.

**a) Problem Recognition:** The first stage in the consumer decision-making process is problem recognition, which occurs when the consumer perceives a need and becomes motivated to solve the problem. The problem recognition stage initiates the subsequent decision process.

The causes of problem recognition may be very simple or very complex and may result from changes in the consumer's current and/or desire state. These causes may be influenced by both internal and external factors.

Problem recognition occurs when consumers use their existing supply of a product and must replenish their stock. The purchase decision is usually simple and routine and is often resolved by choosing a familiar brand or one to which the consumer feels loyal.

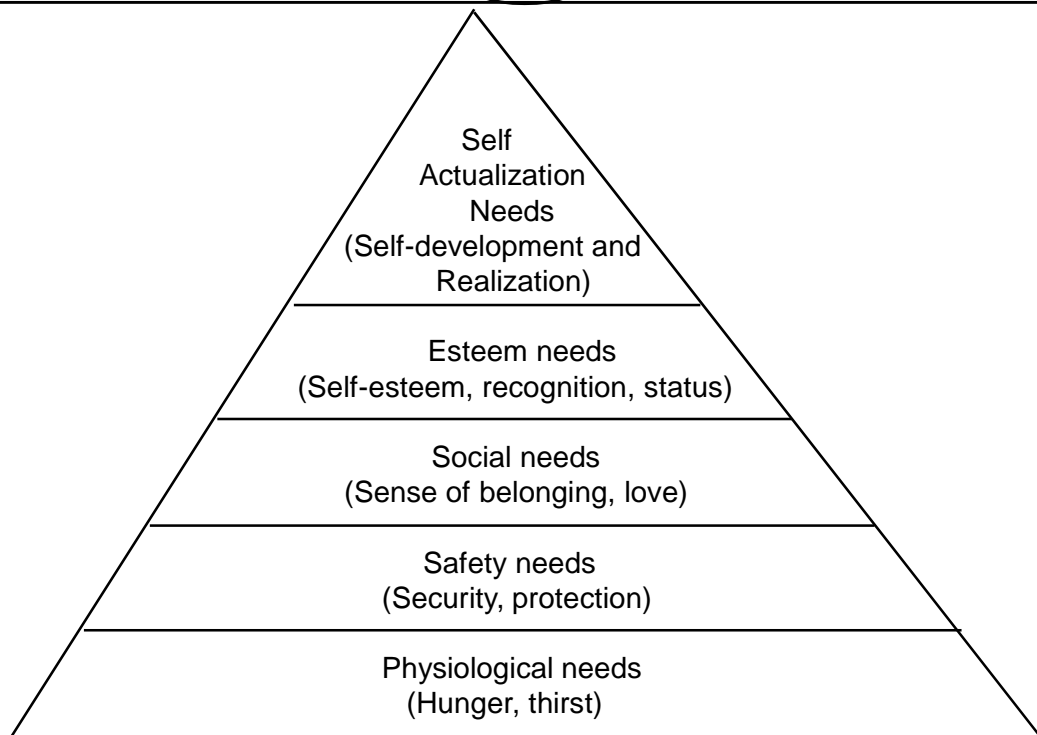
Problem recognition is created by the consumer's dissatisfaction with the current state of affairs and/or the product or service being used. For example, a consumer may think her ski boots are not longer comfortable or stylish enough. Advertising may be used to help consumers recognize when they have problem and/or need to make a purchase. The Rogaine ad shown in Exhibit 4 -2 helps women realize that hair thinning is not just a man's problem.

Problem recognition can also occur when innovative products are introduced and brought to the attention of consumers. Marketers are constantly introducing new products and services and telling consumers about the types of problems they solve. For example, the Hidden Mind ad shown in Exhibit 4-4 introduces a new mobile technology that allows the businessperson to continue working with or without a connection to a mobile network.

Marketers' attempts to create problem recognition among consumers are not always successful. Consumers may not see a problem or need for the product the marketer is selling. A main reason many consumers were initially reluctant to purchase personal computers was that they failed to see what problems owning one would solve. One way PC manufacturers successfully activated problem recognition was by stressing how a computer helps children improve their academic skills and do better in school.

**Examine Consumer Motivations:** Marketers recognize that while problem recognition is often a basic, simple process, the way a consumer perceives a problem and becomes motivated to solve it will influence the remainder of the decision process. For example, one consumer may perceive the need to purchase a new watch from a functional perspective and focus on reliable, low-priced alternatives. Another consumer may see the purchase of watch as more of a fashion statement and focus on the design and image of various brands. To better understand the reasons underlying consumer purchases, marketers devote considerable attention to examining motives – that is, those factors that compel a consumer to take a particular action.

According to Maslow's theory, the lower-level physiological and safety needs must be satisfied before the higher –order needs become meaningful. Once these basic needs are satisfied, the individual moves on to attempting satisfy higher –order needs such as self-esteem. In reality, it is unlikely that people move through the needs hierarchy in a stair step manner. Lower-level needs are an ongoing sources of motivation for consumer purchase behaviour.



**Figure :Maslow's hierarchy of needs**

**b) Information Search:** The second stage in the consumer decision-making process is information search. Once consumers perceive a problem or need that can be satisfied by the purchase of a product or service they begin to search for information needed to make a purchase decision. The initial search effort often consists of an attempt to scan information stored in memory to recall past experiences and/or knowledge regarding various purchase alternatives. This information retrieval is referred to as internal search. For many routine, repetitive purchases, previously acquired information that is stored in memory (such as past performance or outcomes from using a brand) is sufficient for comparing alternative and making a choice.

**Perception:** Knowledge of how consumers acquire and use information from external sources is important to marketers in formulating communication strategies. Marketers are particularly interested in (1) how consumers sense external information, (2) how they select and attend to various sources of information, and (3) how this information is interpreted and given meaning. These processes are all part of perception, the process by which an individual receives, selects, organizes, and interprets information to create a meaningful picture of the world. Perception is an individual process; it depends on internal factors such as a person's beliefs, experiences, needs, moods, and expectations. The perceptual process is also influenced by the characteristics of a stimulus (such as its size, color, and intensity) and the context in which it is seen or heard.

**c) Alternative Evaluation:** After acquiring information during the information search stage of the decision process, the consumer moves to alternative evaluation. In this stage, the consumer compares the various brands or products services he or she has identified as being capable of solving the consumption problem and satisfying the needs or moves that initiated the decision process. The various brands identified as purchase options to be considered during the alternative evaluation process are referred to as the consumer's evoked set.

**Attitudes:** Attitudes are one of the most heavily studied concepts in consumer behaviour. According to Gordon Allport's classic definition, "attitudes are learned predispositions to respond to an object." More recent perspectives view attitudes as a summary construct that represents an individual's overall feelings toward or evaluation of an object. Consumers hold attitudes toward a variety of objects that are important to marketers, including individuals (celebrity endorsers such as Tiger Woods or Andre Agassi), brands (Cheerios, Kix), companies (Intel, Microsoft), product categories (beef, pork, tuna), retail stores (Kmart, Sears), or even advertisements (Nike ads).

Multiattribute models help marketers understand and diagnose the underlying basis of consumer attitudes. By understanding the belief that underlies consumer evaluations of a brand and the importance of various attributes or consequences, the marketer is better able to develop communication strategies for creating, changing, or reinforcing brand attitudes. The multiattribute model provides insight into several ways marketers can influence consumer attitudes, including:

- Increasing or changing the strength or belief rating of a brand on an important attribute (Southwest Airlines has the most on-time arrivals).
- Changing consumers' perceptions of the importance or value of an attribute (demonstrating safety in Mercedes' ads)
- Adding a new attribute to the attitude formation process (American Airlines' increased leg room).
- Changing perceptions of belief ratings for a competing brand (Volvo's ads that show Volvo as stylish).

**Integration Processes and Decision Rules:** Another important aspect of the alternative evaluation stage is the way consumers combine information about the characteristics of brands to arrive at a purchase decision. Integration processes are the way product knowledge, meaning, and beliefs are combined to evaluate two or more alternatives. Analysis of the integration process focuses on the different types of decision rules or strategies consumers use to decide among purchase alternatives.

Consumers often make purchase selections by using formal integration strategies or decision rules that require examination and comparison of alternatives on specific attributes. This process involves a very deliberate evaluation of the alternatives, attribute by attribute. When consumers apply such formal decision rules, marketers need to know which attributes are being considered so as to provide the information the consumers require.

**d) Purchase Decision:** At some point in the buying process, the consumer must stop searching for and make a purchase decision, as an outcome of the alternative evaluation stage, the consumer may develop a purchase intention or predisposition to buy a certain brand. Purchase intentions are generally based on a matching of purchase motives with attributes or characteristics of brands under consideration. Their formation involves many of the personal sub processes discussed in this chapter, including motivation, perception, attitude formation, and integration.

A purchase decision is not the same as an actual purchase. Once a consumer chooses which brand to buy, he or she must still implement the decision and make the actual purchase. Additional decisions may be needed, such as when to buy, where to buy, and how much money to spend. Often, there is a time delay between the formation of a purchase such as automobiles, personal computers, and consumer durables.

**e) Post Purchase Evaluation:** The consumer decision process does not end with the purchase. After using the product or service, the consumer compares the level of performance with expectations and is either satisfied or dissatisfied. Satisfaction occurs when the consumer's expectations are either met or exceeded; dissatisfaction results when performance is below expectations. The post purchased evaluation process is important because the feedback acquired from actual use of product will influence the likelihood of future purchases. Positive performance means the brand is retained in the evoked set and increases the likelihood it will be purchased again unfavorable outcomes may lead the consumer to form negative attitudes toward the brand, lessening the likelihood it will be purchased again or even eliminating it from the consumer's evoked set.

### 12.3: DIFFERENT CONSUMER BEHAVIOUR THEORIES

Behavioral learning theories emphasize the role of external, environmental stimuli in causing behaviour, they minimize the significance of internal psychological processes. Behavioral learning theories are based on the stimulus-response orientation (S-R), the premise that learning occurs as the result of responses to external stimuli in the environment. Behavioral learning theorists believe learning occurs through the connection between a stimulus and response. We will examine the basic principles of two behavioural learning theory approaches: classical conditioning and operant conditioning.

#### Some examples of consumer behaviour concepts/theories applied to sales promotion

Concept/ Theory	Type of sales promotion	Type of effect on sales
Classical conditioning	Premiums, displays, contests	Brand switching, repeat purchases, unplanned purchase
Instrumental conditioning (Operant conditioning)	Rebates, coupons, discounts, sweepstakes	Repeat purchases, multiple purchase, purchase timing accelerated
Self perception	Price-cuts, premium, rebates, coupons, trying a sample	Repeat purchases, multiple purchases
Object perception	Discounts, rebates, premiums, end-of-season sale	Brand switching
Consumer decision making process	All types sales promotions	Brand switching, repeat purchasing, purchase acceleration

**1. Classical conditioning:** This is a very well-known theory described by Pavlov, who was Russian psychologist and conducted experiments with dogs. He demonstrated that hungry dogs would always salivate in the presence of food, after sufficient number of times, the sound of bell alone caused the dogs to salivate. The dogs associated the sound of bell (salivation) to the bell alone. A strongly conditioned stimulus can become unconditioned stimulus and can be used to 'condition' another stimulus.

Acharaya Nagarjuna University	12.7	Centre for Distance Education
Unconditioned stimulus	-	food
Conditioned stimulus	-	sound of bell
Response	-	salivation

Many sales promotion techniques make use of this classical conditioning in practice. For customers, a brand frequently associated with premiums and contests may serve as the unconditioned stimulus and the resulting response could be excitement in customers and the development of favourable brand attitudes and, hopefully, purchase behaviour. Displays also explain as to why they lead to increase in sales even when there is no price or any other kind of incentive. Over a period of time, customers learn that displays are often associated with price discounts and hence become conditioned stimulus. A display becomes the ringing bell in pavlov's experiment and customers respond as per the conditioning. Price cuts, coupons, premiums, etc., can serve as the unconditioned stimuli for consumers.

For the incentives associated with sales promotions, customers get conditioned by performing a certain type of behaviour repeatedly in ways which lead to reward. This reward becomes the unconditioned stimulus. Customers have learned to be smart shoppers because of this conditioning.

### Example of Classical Conditioning

	Unconditioned	Conditioned	Response
Classical conditioning	Food	Bell	Salivation
Sales promotions	Premium, prize, price discount	Product display, contest	Excitement, purchase

**2. Instrumental Conditioning:** Such conditioning is also called “operant conditioning.” The name most closely associated with instrumental conditioning is that of BF Skinner. The basic principle involved in this theory is best explained in one sentence-“behaviour is a function of its consequence.” If a behaviour is reinforced it is more likely to occur. In consumer behaviour terms, purchase behaviours that result in more favourable outcomes are likely to persist as the outcome becomes instrumental in encouraging the consumers to repeat the behaviour in future.

In a “Skinner Box” there is a small lever which can be pressed easily by a small animal such as a rat or a pigeon. If the experimental animal does press the lever, food is delivered as a reward to reinforce the behaviour which in this case is pressing the lever. When this response-reinforcement is repeated several times, there is more likelihood for the animal to press the lever in a reasonable period of time when the animal feels the need for food. Once the reward to reinforce the behaviour is withdrawn, the chances of pressing the lever decrease, that is, when a learned response is not reinforced for some time, it diminishes to the point of extinction. In terms of consumers’ purchase behaviour, the marketers wish to teach consumers to purchase a particular brand and a premium, coupon, or prize becomes the reinforcement tool. The purpose is to use sales promotions to encourage purchase frequency but in a manner that would considerably reduce the probability of extinction effect.

A coupon inside a product pack serves as a good example of operant or instrumental conditioning. The coupon is the reward that the consumer receives. In this case the response of the consumer is the purchase of the product, which occurs first and then is reinforced by the

coupon, which is the reward. Purchase behaviour of the consumer is reinforced and is likely to be repeated. In case of classical conditioning, if a premium is given first, it becomes the stimulus and leads to response which is excitement and purchase of the product. In this example of classical conditioning, the premium or the discount serves as the unconditioned stimulus that comes before the purchase response or excitement.

The difference between classical conditioning and operant conditioning approaches is that classical conditioning is based on stimulus-response theory. The stimulus occurs first and a response is elicited. The operant conditioning is based on response-reinforcement theory. In this case the response is first emitted and then reinforced.

Through sales promotions, perhaps, marketers are trying conditioning of consumers but the important question is whether they are reinforcing the deal proneness in consumers (through price-cut or added-value) or the brand usage. Michael L Rothschilds (1987) is of the opinion that deal usage behaviour gets reinforced, not the brand usage. Consumers learn that by buying on deal they save money and that products bought on deal are not necessarily of lower quality such as many consumer durable brands of well-known multinationals. Deal proneness appears to be shaped behaviour and the resulting behaviour of consumers is to seek and buy on deals.

Attribution theory is a group of interrelated psychological principles. The theory attempts to describe various approaches consumers adopt to explain their own and others, behaviour. These explanations are called "attributions". Attributions have a direct effect on attitudes but have no direct effect on behaviour. Attributions have a direct effect on attitudes but have no direct effect on behaviour. Attitudes may affect behaviour significantly and hence the theory has considerable relevance to sales promotions. Mizerski, Golen and Kernan (1979) have distinguished three types of attribution theories: self-perception, object perception and person perception. Attributions regarding one's own motives are considered under self perception, direct attributions towards product relate object perception and attributions made about the other person relate to the third theory.

**3. Self Perception:** According to this theory (Bem, 1972), attitudes of individuals are formed by observing their own past behaviour and are consistent with those past actions. The key question consumers ask is whether the action that they take is due to external cause (sales promotion) or internal causes (favourable brand attitude). For example, a lady who regularly purchases the Femina magazine is likely to conclude from her behaviour that she likes Femina because the magazine is very good in its class. The same lady, in case of Reader's Digest, may conclude that she subscribes annually because she gets substantial discount on annual subscription. In case of Femina it is her favourable brand attitude while in case of Reader's Digest it is sales promotion, which is the external cause.

In case of defensive attribution, consumers are more likely to take total credit for any success (internal attribution) and consider others or outside factors responsible for failure (external attribution).

When significantly strong external causes are present such as attractive promotional incentives, the consumer invokes the "discounting principle" and internal causes such as favourable brand attitude, are disregarded.

Self perception theory is certainly applicable to repeat purchase situation after a sales promotion. According to the theory if a deal incentive is sufficiently strong, the consumer will attribute the purchase to an external cause. Internal causes such as favourable brand attitude will be discounted and the probabilities for repeat purchase would remain the same or may even diminish. Another application of this theory is to induce the customer to use a sample (an intermediate behaviour). If satisfied, then the customer is more likely to involve in a more complex behaviour such as purchase of the brand on full price. The consumer is more likely to rely on internal cause for this action by convincing herself/ himself that she/he conceded to a small request of trying the sample to have firsthand experience and satisfy his/her curiosity.

**4. Object Perception:** This theory (Kelly, 1967) considers the distinctiveness, consistency and the observations of others about the event that involves the object in making attribution. For example, customers may judge the quality of a brand on promotion by considering the event. If this brand alone is on promotion, the event is significant. If this promotion is frequent enough over time, it is consistent. The consumers may draw an attribution about the brand that this brand must be of low quality relative to the price. If a friend or acquaintance or a neighbour also forms a similar opinion after the event, the attribution becomes strong. The implication for low-involvement consumer goods, which are frequently promoted, is that customer does not form a negative image about the brand because most such brands are promoted quite often and any single sales promotion is hardly distinct even for the consumer. / sales promotion of a consumer durable from high involvement category does have the risk of degrading the brand image if the promotion in that category is the first announced by a manufacturer.

#### **12.4: ENVIRONMENTAL INFLUENCES ON CONSUMER BEHAVIOUR**

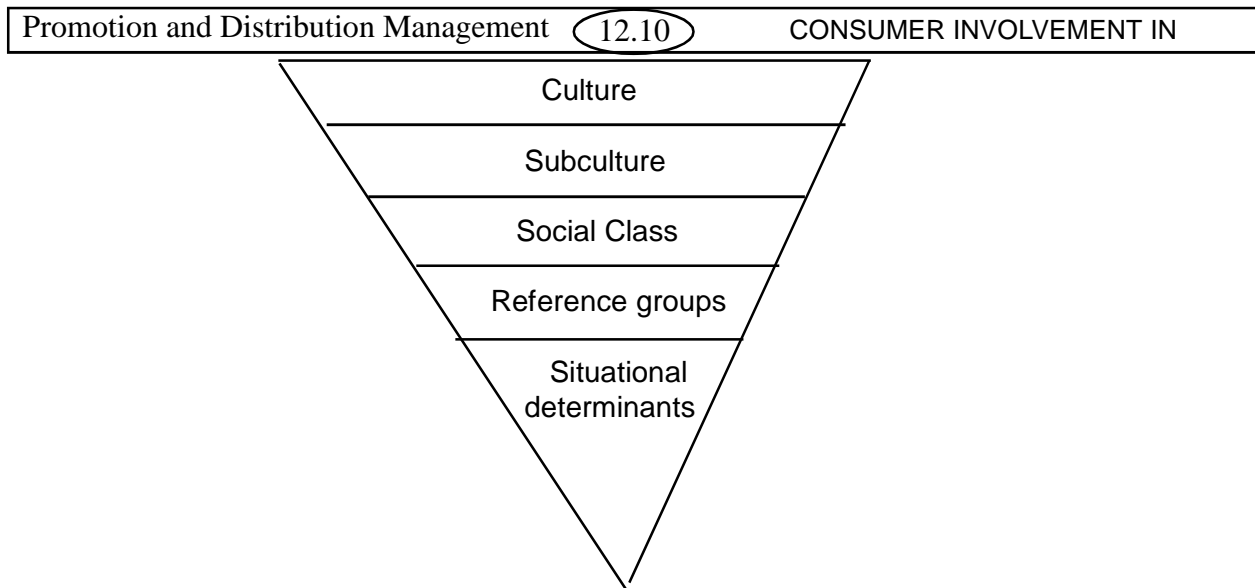
The consumer does not make purchase decisions in isolation. A number of external factors have been identified that may influence consumer decision making .

**Culture:** The broadest and most abstract of the external factors that influence consumer behaviour is culture, or the complexity of learned meanings, values, norms, and customs shared by members of a society. Cultural norms and values offer direction and guidance to members of a society in all aspects of their lives, including their consumption behaviour. It is becoming increasingly important to study the impact of culture on country has certain cultural traditions, customs, and values that marketers must understand as they develop marketing programs.

Marketers must also be aware of changes that may be occurring in a particular culture and the implications of these changes for their advertising and promotional strategies and programs.

**Subcultures:** Within a given culture are generally found smaller groups or segments whose beliefs, values, norms, and patterns of behaviour set them apart from the larger cultural mainstream. These subcultures may be based on age, geographic, religious, racial, and/or ethnic differences.

**Social Class:** Social Class Virtually all societies exhibit some form of stratification whereby individuals can be assigned to a specific social category on the basis of criteria important to members of that society. Social class refers to relatively homogeneous divisions in a society into which people sharing similar lifestyles, values, norms, interest, and behaviours can be grouped.



**Figure: External Influences on Consumer Behaviour**

Social class is an important concept to marketers, since consumers within each social stratum often have similar values, lifestyles, and buying behaviour. Thus, the various social class groups provide a natural basis for market segmentation. Consumers in the different social classes differ in the degree to which they use various products and services and in their leisure activities, shopping patterns, and media habits. Marketers respond to these differences through the positioning of their products and services, the media strategies they use to reach different social classes, and the types of advertising appeals they develop.

**Reference Groups:** A reference Group is a group whose presumed perspectives of values are bring used by an individual as the basis for his or her judgments, opinions, and actions.” Consumers use reference groups as a guide to specific behaviours, even when the groups are not present. In the party example, your peers-although not present- provided a standard of dress that you referred to in your clothing selection. Likewise, your college classmates, family, and co-workers, or even a group to which you aspire, may serve as referents, and your consumption patterns will typically conform to the expectations of the groups that are most important to you. Marketers use reference group influences in developing advertisements and promotional strategies.

**Situational Determinants:** The final external factor is the purchase and usage situation. The specific situation in which consumers plan to use the product of brand directly affects their perceptions, preferences, and purchasing behaviours. Three types of situational determinants may have an effect: the specific usage situation, the purchase situation, and the communications situation.

In sum, situational determinants may either enhance or detract from the potential success of a message. To the degree that advertisers can assess situational influences that may be operating, they will increase the likelihood of successfully communicating with their target audiences.

## **12.5: ALTERNATIVE APPROACHES TO CONSUMER BEHAVIOUR**

In addition to the perspectives discussed, consumer researchers complement these psychological approaches with perspectives driven from other scientific disciplines, such as



sociology, anthropology, philosophy, or history. These cross-disciplinary perspectives have broadened the realm of methodologies used to study consumers and have provided additional insights into consumer decision processes. IMC perspective 4-3 provides a few examples of applications of these approaches.

**New Methodologies:** Whereas psychologists often study consumer response to advertising and other forms of communication in controlled settings, where environmental variables can be kept constant, sociologists and anthropologists study behaviour in context. For this reason, they often employ qualitative methodologies such as individual interviews, participant observation studies, and/or ethnographies. These methods help capture the social, cultural, and environmental influences that may affect consumer behaviour.

The humanities have also been a source of new methodologies for consumer research. Historians and semioticians focus their analyses on the advertising messages and other forms of communications themselves. These researchers examine the significance of communications from linguistic or historical perspective research methods such as semiotic and structural analyses examine the symbolic meanings of advertising and different facets of consumption.

**New Insights:** These alternative perspectives and methodologies provide additional insights and expand our knowledge of consumers. For example, the cultural significance of advertising messages in shaping cultures and triggering communities is now better understood. Likewise, marketers now have a better understating of how advertising campaigns like “Got Milk” become popular and help shape our culture. Thanks to the many interpretive analyses of advertisements over recent years, we are also more aware of the influence of advertising images on society.

Some consumer researchers believe that cross-disciplinary research is better suited for the study of consumers because it takes into account their complexity and multidimensionality. When considered along with psychological research, these alternative approaches help us better understand the impact of communications.

## 12.6: DEAL PRONENESS

**Definition:** According to Blattberg and Neslin, “Deal proneness is the degree to which the consumer is influenced by sales promotion, in terms of behaviours such as purchase timing, brand choice, purchase quantity, category consumption, store choice, or search behaviour.”

It is clear from the definition itself that sales promotions can produce some varying degree of “influence” on consumers’ behaviour. Sales promotions may affect brand switching in some while in some others, it could be the timing of purchase, trying new products, or the quantity of the product purchased. For example, if there is an attractive discount (same for less) on a brand of toothpaste, the consumer may buy this brand instead of the regular one that the consumer had the intention of buying. Another consumer, who was planning to purchase a refrigerator during the summer months, notices a promotional offer and buys this product during winter. When a certain promotion says, “buy three shirts and take one free”, the customer might buy six shorts and gets two shirts free. A free sample of a new detergent may encourage the consumer to try the product. All these behaviours might pertain to the same consumer or this consumer may not mind switching the brand but may not change the purchase timing. The point emphasized here is that different consumers will be influenced in many different ways in response to the same sales promotions.

There are no definite answers as to who are those who may be characterized as deal prone or not deal prone. Researchers in this area of consumer behaviour, have tried to study demographic, psychographic and behavioural variables of consumers to study the deal proneness to find any correlation. Consumers who are brand loyal generally may not qualify as deal prone. However, if the deal happens to be on some preferred brand (low-involvement product category), they may avail this opportunity and buy more than their immediate requirement. In fact, many products, in an attempt to reward the brand loyalty of the consumers, announce promotions on such brands. An important question arises-is it the trait of deal proneness of the consumers that leads to brand switching, or is it the sales promotion that makes consumers deal prone? It seems that price sensitivity of consumers has a strong relationship with deal proneness. Other factors that perhaps may influence consumers in becoming deal prone are education and the level of income. The research conducted so far has provided strong support to the view that characteristic of deal proneness does exist in consumers for many product categories. However, the findings so far do not reveal those consumers that possess the trait of being deal prone.

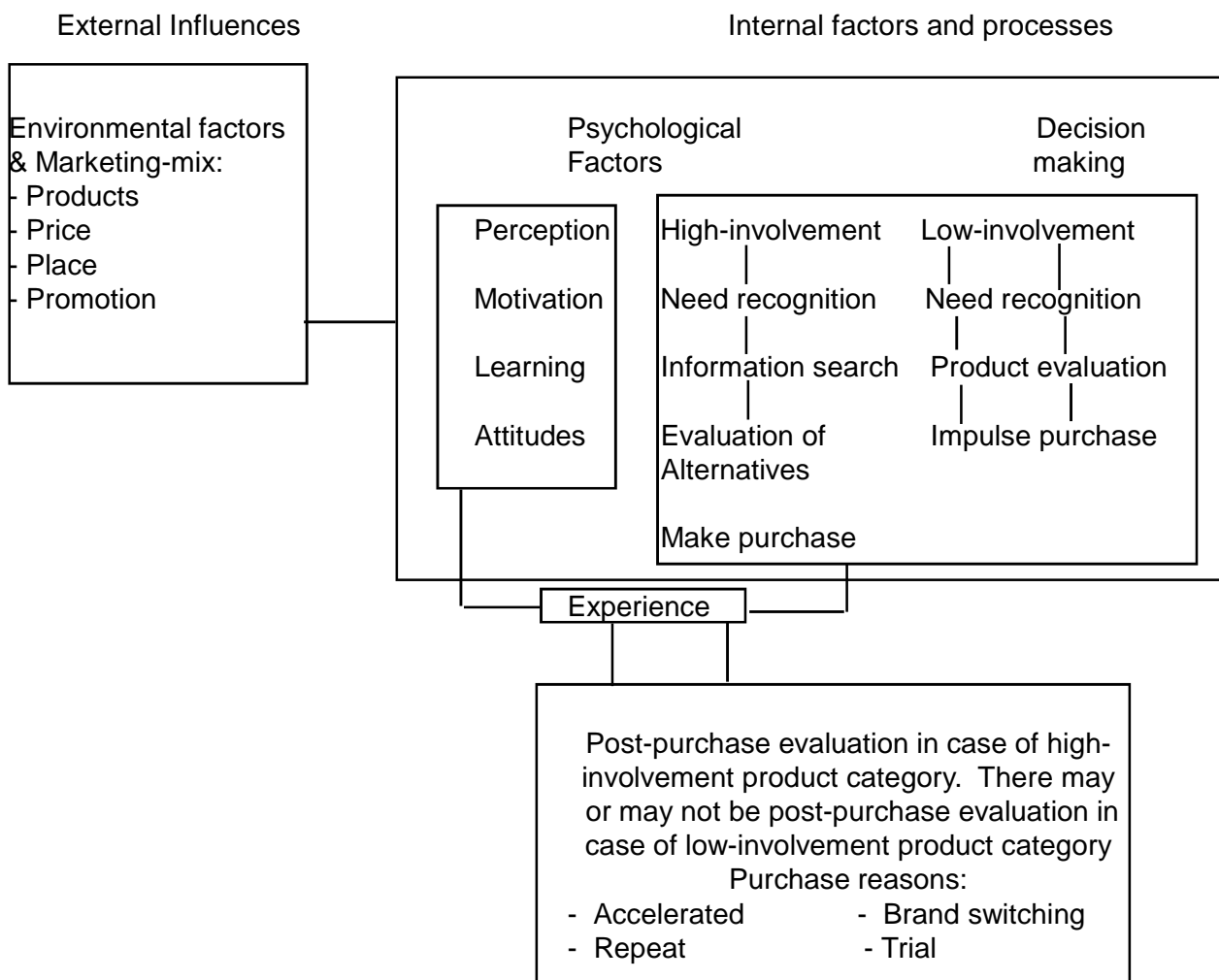
The observations, in general, point to a few things. There are brand loyal consumers for certain products but these very consumers at times may behave as deal products. There are others who are brand loyal to products in high-involvement category but are brand switchers in other low-involvement category products and hence, deal prone.

Sales promotions affect sales by encouraging consumers to try new products, brand switching, repeat purchasing, purchase acceleration, etc.

A consumer who tries a sample and, if satisfied, might become a regular user of the brand, for example a new shampoo or many other non-durable products which are consumed on a regular basis. Promotion offers encourage the consumers to switch brand, particularly in case of low-involvement product category. The probability of purchasing the same brand by the consumer increases after the use of the promoted brand. Promotion also affects the quantity of product purchased, for example, more frequent use of noodles bought on promotion or other similar products.

## **12.7: PROFILES OF HIGH AND LOW-INVOLVEMENT CONSUMERS**

The concept of consumers' involvement in a purchase situation is important. However, it is also important to realize that involvement is a matter of degree and identifying or measuring low involvement against high involvement is a difficult task. Even then one can make certain distinctions between high and low involvement decision making. Consumers who are highly involved in a purchase situation actively seek and process information about the product or service. Consumers with low involvement rarely seek information and if the information is provided, the processing is passive. To maximize the satisfaction from their purchases is the purpose of highly involved consumers.



**Figure: A model of consumer decision making related to sales promotion**

Consumers with involvement seek only an acceptable level of satisfaction. Highly involved consumers see the reflection of their self-concept in purchased products, while no such association exists for low involvement consumers. High-involvement consumers purchase products after careful evaluation of different brands and decide their level of satisfaction after the use of the product. In most cases, consumers with low-involvement purchased products first and may or may not give any thought to product evaluation after use. At best this evaluation may be just cursory.

There are many theories and concepts of consumer behaviour which are considered to be applicable to sales promotions. Only a few, which appeared to be of immediate interest in the context of this book, have been briefly discussed. Consumer behaviour is a vast subject and there is considerable research activity in this area by the academics. This may lead to newer findings that will be reported from time to time in the literature. Some of the existing applications concepts may get modified as a result of increasing attention given to the subject.

## 12.8: SUMMARY

This chapter introduced you to the field of consumer behaviour and examined its relevance to promotional strategy. Consumer behaviour is best viewed as the process and activities that people engage in when searching for, selecting, purchasing, using, evaluating, and disposing of products and services to satisfy their needs and desires. A five stage model of the consumer decision-making process consists of problem recognition, information search, alternative evaluation, purchase, and post purchase evaluation. Internal psychological processes that influence of the consumer decision making process include motivation, perception, attitude formation and change, and integration processes.

The decision process model views consumer behaviour primarily from a cognitive orientation. The chapter considered other perspectives by examining various approaches to consumer learning and their implications for advertising and promotion. Behavioural learning theories such as classical conditioning and operant (instrumental) conditioning were discussed. Problems with behavioural learning theories were noted, and the alternative perspective of cognitive learning was discussed.

The chapter also examined relevant external factors that influence consumer decision making. Culture, subculture, social class, reference groups, and situational determinants were discussed, along with their implications for the development of promotional strategies and promotional strategies and programs. The chapter concluded with an introduction to alternative perspectives on the study of consumer behaviour (also called interpretive, postmodern, or post positivist perspectives)

The chapter also discussed above deal proneness consumer. The observations, in general, point to a few things. There are brand loyal consumers for certain products but these very consumers at times may behave as deal products. There are others who are brand loyal to products in high-involvement category but are brand switchers in other low-involvement category products and hence, deal prone.

Consumers who are highly involved in a purchase situation actively seek and process information about the product or service. Consumers with low involvement rarely seek information and if the information is provided, the processing is passive. Post-purchase evaluation in case of high-involvement product category. There may or may not be post-purchase evaluation in case of low-involvement product category.

## 12.9: KEYWORDS

**Brand switching.** The objective of some sales promotions is to induce brand switching, that is, encouraging consumers to purchase the promoted brand instead of the regular brand that would have been purchased had there been no sales promotion.

**Repeat buying.** Sales promoting influence the consumers in a manner that increases the chances of purchasing the same brand again in future.

**Purchasing more or accelerating timing.** Consumers purchase more quantity than their immediate requirements, or the purchase timings are changed.

**Increasing category expansion and consumption.** Consumption of total product category is increased by the consumers as a result of sales promotion.

**Deal Proneness.** “Deal proneness is the degree to which the consumer is influenced by sales promotion, in terms of behaviours such as purchase timing, brand choice, purchase quantity, category consumption, store choice, or search behaviour.”

### 12.10: SELF ASSESSMENT QUESTIONS

1. Describe the various stages in the buying process a consumer is likely to pass through while planning to purchase a color T.V.
2. What are the steps involved in consumer decision- making process?
3. Define deal proneness. How the consumers who are highly involved in a purchase situation?
4. Draw a model of consumer decision –making related to sales promotion.
5. Describe various consumer behaviour theories applied to sales promotion.

### 12.11: FURTHER READINGS

1. George E. Belch & Michael A. Belch: Advertising and Promotion, Tata McGraw-Hill, New Delhi.
2. S H H Kazmi – Satish K Batra : Advertising & Sales Promotion, Excel Books Publications, New Delhi.

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**LESSON - 13****DISTRIBUTION – SELECTION & MOTIVATION OF INTERMEDIARIES****13.0. Objectives :**

After having gone through this lesson, you will be able to:

- ☞ Explain the Functions of Intermediaries
- ☞ Discuss Regarding Selecting the Intermediaries
- ☞ Analyze Deferent Motivating Factor

**Structure :**

- 13.1 Introduction**
- 13.2 Functions of Intermediaries**
- 13.3 Selecting the Channel Members**
- 13.4 Motivating the Channel Members**
- 13.5 Training the Channel Members**
- 13.6 Evaluating the Channel Members**
- 13.7 Modifying Channel Arrangements**
- 13.8 Summary**
- 13.9 Key Words**
- 13.10 Self Assessment Questions**
- 13.11 Further Readings**

**13.1 INTRODUCTION**

Channel decisions refer to the managerial decisions on the selection of best routes or paths for moving goods from the producer to the customer. Channels of distribution are concerned not only with the physical movement of goods but also with their promotion, selling and marketing control.

The term channel of distribution is used to refer to the various intermediaries who help in moving the product from the producer to the customer. There are a variety of middlemen and merchants who act as intermediaries between the producers and consumers.

Channels of distribution can be grouped under two major headings: (i) Direct selling by manufacturer and (ii) Indirect selling through middlemen. For direct selling, the first option involves supplying the product to the customer using your own salesmen and arranging your own deliveries. The second option is using the medium of post office. You obtain orders from your customers who respond by mail or telephone to your advertisements or to letters mailed directly to their houses. You deliver your products to them through mail or through some other carrier. The next alternative is to establish your own retail stores. Bata Ltd., for example has established its own retail stores through out the country. This practice has also been adopted on a smaller scale by a number of

textile mills who have their own retail shops like calico mills, Raymonds, etc., has furnished a number of retailers to sell their products to the customers.

But in most cases, manufacturers have to take the help of a variety of agencies or middlemen to reach their ultimate customers. These agencies are called by various names which generally follow the services they perform. They are generally classified as (i) functional middlemen or (ii) merchant middlemen. The functional middlemen are those intermediaries who perform various making functions without having title to goods. More important than them are mercantile agents like brokers and commission agents. On the other hand, merchant middlemen obtain title to the goods with a view to selling them at a profit. They take risk involved in marketing and work not for a certain percentage of commission but for a margin of profit. More important of them are wholesalers and retailers.

### 13.2 FUNCTIONS OF INTERMEDIARIES

Every activity or transaction involves cost. Every transaction made for exchange of goods and services in terms of brokerage, commission, carriage, and damage during transit incur cost. The overhead costs can be reduced by reducing the number of transactions (exchanges). Marketing intermediaries increase efficient availability of products in target markets in a lesser number of transactions. Moreover, intermediaries offer the manufacturer, benefits of larger and more efficient customer service through contacts, experience, specialization, and scale of operation. Intermediaries smoothen the flow of products from sellers to buyers, by performing key functions such as informing, promoting, and physical possession (including negotiation, title, payment, risk taking and financing). A producer will use an intermediary can perform the functions more economically and efficiently than it can, as sharing of selling function with the intermediaries also means loss of control. This loss of control can be terms of how and to whom the products can be sold in the market. The main functions of intermediaries are as follows:

**1. Information:-** Information is concerned with gathering and distributing marketing research and intelligence about the environment for planning purposes. This information is best provided by the intermediaries as they are the people who deal with the customers regularly and understand the customers' attitude and motivations better than the manufacturer. And it is this pulse of the customer that needs to be felt by a company, for its strategy formulation.

**2. Promotion:-** Promotion involves developing and spreading persuasive communications about an offer. The intermediaries being close to customer know best as to the strategy which will be best suited for motivating the customers. It is these people who can tell best if the company should adopt push promotional strategies or pull strategies at a given time in the market. They can also provide valuable information concerning the possible contents of the promotion mix.

**3. Physical Possession:-** Physical possession relates to transporting and storing of products. The intermediaries also play an important role in creating possession and place utilities. They help in value addition of a product by helping and motivating customers understand the utility of the product. This activity also involves negotiations on price and other terms. The title is the actual transfer of ownership from one organization or person to another. The payment involves buyers paying their bills. The risk taking function assumes the risk of carrying the product and receiving payment.

**4. Financing:-** Financing involves acquiring and using funds to cover costs. Without an intermediary each buyer has to negotiate and exchange with each seller. Intermediaries reduce

the number of contacts necessary to complete a transaction. For example, if eight customers want to buy a product from three different manufacturers, they will have to make a total of twenty four transactions. However, with an intermediary, the total number of transactions, is reduced to eleven. Thus, the use of intermediaries is extremely efficient for the customer and the manufacturer. In other words, intermediaries help decrease the inventory conversion period.

**5. Retail:-** Retail is concerned with retail selling of products. Most manufacturers produce a single line of products and sell them in large quantities. Intermediaries reduce this quantity discrepancy by matching supply with demand. They buy in large quantities. Intermediaries reduce this quantity discrepancy by matching supply with demand. They buy in large quantities and sell in smaller quantities. They help to smoothen the distribution path for goods by creating utility, performing marketing functions, and cutting costs producers do not have to deal directly with a large number of end-users. Instead, marketing intermediaries handle the tasks involved.

**6. Consumers:-** Consumers need an assortment of products, and intermediaries resolve this assortment discrepancy by gathering products from several manufacturers to offer a broad assortment to consumers. This we call assortment function. By representing numerous producers, marketing intermediaries cut the costs of buying and selling. Because they can consolidated orders, they may also be able to negotiate better prices than individual consumers could.

In addition to all these, the intermediaries specialize in certain functions and perform them more efficiently than producers. But most of the intermediaries specialize in one particular level or type. That specialised activity is proportional to the type of intermediary.

### 13.3 SELECTING CHANNEL MEMBERS

After a company has chosen a channel alternative, individual middlemen must be selected, motivated and evaluated. Also, channel arrangements must be modified over time.

Producers vary in their ability to attract qualified middlemen within the chosen channel. Some producers have no trouble recruiting middlemen. The channel members are required to commit, not only psychologically but also monetarily, to the mission and objective statement of the planned distribution system. Monetary resources involve procurement of resources like warehouses, toll-free telephone lines, well-trained sales force electronic data storing and managing equipment. Thus, to make a distribution channel work, the channel partners should be carefully selected. The factors which are considered before selecting a channel member are as follows:

**1. Financial Strength of the Prospective Partner: “Financially Sound”:-** This deals with finding the financial resources at the disposal of the partner being considered. This is done, so as to get an idea of the resources the potential partner can spare for the manufacturer. The idea of the financial position can be generated from the intermediaries’ financial statement and analysis thereof.

**2. Sales Strength: “Enough Good People”:-** Sales strength is a term which is used to analyze the skills of the sales force employed by the intermediary, again, i.e. the number as well as their competencies. Competency, is measured in terms of communication skills and technical know-how possessed by the employees of the channel partner.

**3. Product Lines:-** In the modern economy it is impossible to find an intermediary solely dedicated to one product line. This variable considers the existing product line carried by the



prospective intermediary. An in depth analysis is made into the type, strategies, resources committed by the intermediary to the product line, in order to determine whether it is a competitive product, complementary or a compatible product. For example, Pepsi and Coke never have same intermediary.

**4. Reputation of the intermediary: “Character Counts”:-** In today's economy, customer behaviour is motivated by the need for maintaining a status symbol. Therefore, the reputation of the intermediary in the market could make a lot of difference in terms of input required in order to sell the product in the market. The reputation of the intermediary amongst other suppliers is also evaluated so as to know about the intermediaries like his habit to return orders, late payments and asking for discounts.

**5. Market coverage: “The more the Better”:-** We are looking for intermediary not only to take advantage of certain specialized functions performed by them like packaging of products, sorting, advertising and storing, but also to sell the product to a wider market. The primary aim of any company to share market control with the intermediary is to bridge the gap between itself and a larger number of consumers. Thus an intermediary chosen, should also have a wide coverage area, quantified in terms of number of outlets per market area, industry coverage and intensity coverage.

**6. Sales Performance: “Good Track Record”:-** Sales strength indicates the qualitative strength of the sales force. While this is so the competencies of the sales force is enhance by the intermediary. This is done by analyzing the performance of the existing related product lines in the portfolio of the channel partner. Moreover, efficiency is also judged by measuring the capacity of the intermediary to reach target individuals, provide after sale services and organize advertising and sales promotion programmes.

**7. Management Strength:-** Manufacturers look for an intermediary to increase their strength in the market. For this purpose an analysis into the management style of the intermediary is done. It is not necessary that the two styles have to be the same or compatible. But they have to be efficient. Efficiency is measure in terms of factors such as employee relations, strategic direction, organization decision-making structure and employee training programmes.

**8. Equipment and facilities:-** This variable analyses the kind of transportation facilities, delivery methods, safety precautions during storage and transportation and record keeping facilities at the disposal of the prospective intermediary to be provided to the manufacturer.

**9. Ordering and Payment Producers:-** The efficiency with which an intermediary places orders with the manufacturer and settles his bills also influence the selection process. This is so because there is no use of a fast inventory conversion period to a manufacturer if the average collection period is long.

**10. Willingness:-** This variable considers the willingness on the part of the intermediary to commit resources, cooperate in joint programme and share data with the manufacturer concerning customers, sales force and inventory.

A company cannot achieve the best of all the variables in a intermediary. A manufacturer has to understand the needs of the product and market, and then land upon a set of priorities. This selection process would help get the best of the line to constitute a distribution channel. But the best are of no use, if they do not cooperate with other channel members in achieving the company's objectives.

### 13.4 MOTIVATING CHANNEL MEMBERS

Middlemen must be continuously motivated to do their best job. The terms that lead them to join the channel provide some motivation, but these must be supplemented by training, supervision and encouragement. The producer must not only sell through the middlemen but to them.

Activities of one channel do not necessarily lead to gains (Monetary or non-monetary) for other channel members. Channel members are thus unlikely to co-ordinate their activities with other members spontaneously. These can be both monetary and non-monetary. Under monetary motivators, a manufacturer can use reward power while under non-monetary category, he can use coercion, expert knowledge, reference and legitimacy as levers. Let us discuss these motivators in detail one by one.

**Monetary Motivators: Reward Motivator:-** It is based on the belief of a channel member that the other party (may be wholesaler for retailer or manufacturer for wholesaler) has an ability give something of value to him. This reward will be available to a channel member only if he adheres to the wishes of the latter party. This is also known as positive reinforcement where reward is used to motivate the individual to repeat the behaviour. The rewards (monetary) may include the following.

- (a) Granting wider margins to the intermediaries
- (b) Allocation of various promotional allowances.
- (c) Functional discount schemes under which, the manufacturer offers certain discounts to channel partners for performance of certain functions. These functions may include early payment, inventory maintenance or merchandising manufactured product.
- (d) Granting exclusive territories
- (e) Setting sales force compensation (Sales force does not share the dealers' enthusiasm for the product; for them, their monetary pay package is the motivator). By setting this package the manufacturer ensures good performance.

#### **Non-Monetary Motivators: 1. Coercive Power (Negative Reinforcement):-**

Coercive power would be represented by the manufacturer's threatening to withdraw a resource or terminate the relationship if the middlemen fail to cooperate. This power is quite effective if the middlemen are highly dependent upon the manufacturer. But the exercise of coercive power produces resentment and can lead the middlemen to organize countervailing power. While coercive power may be effective in the short run, it is usually the least effective type of power to use in the long run.

**2. Expert Power:-** Expert power can be applied by the manufacturer, who has special knowledge that is valued by the middlemen. For example a manufacturer may have a sophisticated system for locating leads for middlemen or giving expert training to the middlemen sales forces. This is an effective form of power, since the middlemen would perform poorly if they couldn't get this help from the manufacturer. The problem is that once the expertise is passed on to the middlemen this basis of power weakens. The solution is that the manufacturer must continue to develop new expertise so that the middlemen will be eager to continue cooperating with the manufacturer.

**3. Legitimate Power:-** Legitimate power is wielded when the manufacturer requests a behaviour as warranted by the hierarchical relationship and contract. Thus general motors may insist that its dealers carry certain inventory levels as part of the franchise agreement. The manufacturer feels it has this right and the middleman has this obligation. As long as the middlemen view the manufacturer as a legitimate leader, legitimate power works.

**4. Referent Power:-** Referent power occurs when the manufacturer is so highly respected that middlemen are proud to be identified with him. Companies such as IBM, caterpillar, McDonald's have high referent power, and middlemen are normally ready to go along with their wishes.

### 13.5 TRAINING CHANNEL MEMBERS

Careful selection can ensure a company efficiency and good status in the market. However, it cannot and does not ensure that the channel members already have 100% knowledge about our company. Thus the channel members have to be trained to be able to best represent the company. For the intermediaries to be able to perform this function efficiently, they need to have a complete knowledge of not only the products but also the customer profile.

Channel members have to be trained from time to time in the latest marketing strategies adopted by the company and the competitors so as to help them coordinate with not only the company but also other channel members. Training sessions can be held, if nothing else provides a platform to the parties involved to communicate and understand each others point of view. These are forums where a manufacturer can understand the needs and wants of the dealers (therefore creating an efficient motivational package), gather information about the market and above all, make the channel members feel valued. Training programmes are also used as reward motivators by many companies. These companies group training sessions with a holiday package for the families involved, thereby making it a very lucrative programme.

### 13.6 EVALUATING CHANNEL MEMBERS

The producer must periodically evaluate middlemen's performance against such standards as sales-quota attainment, average inventory levels, customer delivery time, treatment of damaged and lost goods, cooperation in promotional and training programs, and middlemen services owed to the customer.

The producer will discover on occasion that too much is being paid to particular middlemen for what they are actually doing. One manufacturer discovered that he was compensating a distributor for holding inventories in his warehouse but the inventories were actually being held in a public warehouse at the manufacturer's expense. Producers should set up functional discounts in which they pay specified amounts for the trade channel's performance of each agreed-upon service. Underperforming middlemen need to be counseled, retrained, or remotivated. If they do not shape up, however, it might be better to terminate their services.

### 13.7 MODIFYING CHANNEL ARRANGEMENTS

The last step in channel management is to make incremental changes in the distribution channel. Sometimes the manufacturer may need to revise entire channel strategy after researching target customers values, perceptions and needs. Thus, the conditions of the market place may make it necessary for the channel member to make changes.

More over, the channel member relationship may also change and thus modification be required. Bryan J. Hudgens says that channel member relationship life cycle can direct as to the nature of changes necessary. The four stages of this cycle can be discussed as follows:

**1. Birth:-** This is a very exciting stage of channel member relationship life cycle. In this stage, the members work together knowing each other. But if things aren't working out for the parties, they should get out immediately.

**2. Growth:-** This is a stage which dictates hard work on both the parties part. The energy should be directed towards solving problems. The relationship should be traded off with the birth or decline stage dealers so as to have more energy with this stage intermediaries.

**3. Maturity:-** This stage requires parties to communicate as it is the key to efficiency. Also, watch for trouble since the only way to go is down!

**4. Death:-** Too many problems kill efficiency. So, you must get out fast!

Thus effective channel management calls for selecting and motivating intermediaries while modifying the channel continuously. Evolution is the key to success in this field.

### 13.8 SUMMARY

Channel decisions refer to the managerial decisions on the selection of best routes or paths for moving goods from the producer to the customer. Channels of distribution are concerned not only with the physical movement of goods but also with their promotion, selling and marketing control.

The main functions of intermediaries are as follows: 1) Information, 2) Promotion, 3) Physical Possession, 4) Financing, 5) Retail, 6) Consumers.

The factors which are considered before selecting a channel member are as follows: 1) Financial Strength of the prospective partner, 2) Sales strength, 3) Product lines, 4) Reputation of the intermediary, 5) Market coverage, 6) Sales performance, 7) Management strength, 8) Equipment and facilities, 9) Ordering and payment procedures, 10) Willingness.

Activities of one channel do not necessarily lead to gains (Monetary or non-monetary) for other channel members. Channel members are thus unlikely to co-ordinate their activities with other members spontaneously. These can be both monetary and non-monetary. Under monetary motivators, a manufacturer can use reward power while under non-monetary category, he can use coercion, expert knowledge, reference and legitimacy as levers. Let us discuss these motivators in detail one by one.

Channel members have to be trained from time to time in the latest marketing strategies adopted by the company and the competitors so as to help them coordinate with not only the company but also other channel members. Training programmes are also used as reward motivators by many companies. These companies group training sessions with a holiday package for the families involved, thereby making it a very lucrative programme.

The producer must periodically evaluate middlemen's performance against such standards as sales-quota attainment, average inventory levels, customer delivery time, treatment of damaged and lost goods, cooperation in promotional and training programs, and middlemen services owed to the customer.

The last step in channel management is to make incremental changes in the distribution channel. Sometimes the manufacturer may need to revise entire channel strategy after researching target customers values, perceptions and needs. Thus, the conditions of the market place may make it necessary for the channel member to make changes.

### 13.9 KEY WORDS

**Sales Strength:** Sales Strength is a term which is used to analyze the skills of the sales force employed by the intermediary as well as their competencies.

**Management Strength:** Managers look for an intermediary to increase their strength in the market for this purpose efficiency is measured in terms of factors such as employee relations, strategic direction, organization decision -making structure and employee training programmes.

**Coercive Power:** Coercive power would be represented by the manufacturer's threatening to withdraw a resource or terminate the relationship if the middlemen fail to cooperate.

**Expert Power:-** Expert power can be applied by the manufacturer, who has special knowledge that is valued by the middlemen.

**Legitimate Power:-** Legitimate power is wielded when the manufacturer requests a behaviour as warranted by the hierarchical relationship and contract.

**Referent Power:-** Referent power occurs when the manufacturer is so highly respected that middlemen are proud to be identified with him.

### 13.10 SELF ASSESSMENT QUESTIONS

1. What are the functions of intermediaries?
2. What are the factors considered before selecting a channel member?
3. How to motivating the channel members?
4. What is the process of selecting the intermediaries?

### 13.11 FURTHER READINGS

1. Basics of Distribution Management: Satish K. Kapoor and Purva Kansal, Prentice Hall of India Pvt. Ltd., New Delhi.
2. Sales and Distribution Management: NG.Nair and Latha Nair, Himalaya Publishing House, Hyderabad.

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**LESSON - 14**

# **DISTRIBUTION SYSTEM IN INDIA**

## **14.0 Objectives :**

After studying the lesson, we can able to understand:-

- . Analyzing the functions of Physical Distribution
- . Evaluating the Distribution System in India

## **Structure:**

### **14.1 Introduction**

### **14.2 Nature of Physical Distribution**

### **14.3 Functions of Physical Distribution**

### **14.4 Distribution System in India**

### **14.5 Importance of Physical Distribution Management**

### **14.6 Summary**

### **14.7 Key Words**

### **14.8 Self Assessment Questions**

### **14.9 Further Readings**

## **14.1 INTRODUCTION**

Producers of physical products and services must decide on the best way to store and move their goods and services to their market destinations. They typically need to engage the services of physical distribution firms-warehouses and transportation companies- to assist in this task producers know that their physical distribution effectiveness will have major impact on customer satisfaction and company costs. A poor distribution system can destroy an other wise good product.

Here we will examine the nature, functions and types of distribution, tasks of distribution, decision areas in physical distribution or organizational aspects of physical distribution also called market logistics.

## **14.2 NATURE OF PHYSICAL DISTRIBUTION**

Physical distribution involves planning, implementing, and controlling the physical flow of materials and final goods from points of origin to points of use to meet customer requirements at a profit.

Physical distribution involves several activities. The first is sales forecasting, distribution planning and accounting, in bound transport, receiving, inventory management, in plant warehousing, order processing, packaging, dispatch of goods, out board transportation, field warehousing, customer service.

The main elements of total physical distribution costs are transportation (37%), inventory carrying (22%), warehousing (21%) and order processing or customer service or distribution administration (20%).

Physical distribution is not only a cost, it is a potent total in competitive marketing. Companies can attract additional customers by offering better service, faster cycle time, or lower prices through physical distribution improvements.

Traditional physical distribution thinking starts with goods at the plant and tries to find low-cost solutions to get them to customers. Marketers prefer market-logistics thinking that starts with the market place and works backward to the factory.

Logistical thinking clearly not only addresses the problem of out bound distribution (goods moving from the factory to the customers) but also the problem of inbound distribution (goods moving from suppliers to the factory). In leading-edge logistics firms, the logistics executives handle both inbound and outbound distribution.

### **14.3 FUNCTIONS OF PHYSICAL DISTRIBUTION (OR) DECISION AREAS IN PHYSICAL DISTRIBUTION**

Functions of a department of physical distribution generally include management, warehousing industrial packaging, material handling, transportation, order processing and location analysis. These functions are briefly discussed.

**1. Transportation:-** Transport is the crux of the problem of physical distribution. It is sometimes called the Gordian knot of physical distribution management. Marketers need to be concerned with their company's transportation decisions. Transportation choices will affect product pricing, on-time delivery performance, and the condition of the goods when they arrive, all of which affect customer satisfaction.

In shipping goods to its warehouses, dealers, and customers, the company can choose among five transportation modes such as rail, air, trucks, waterways and pipelines. Shippers consider such criteria as speed, frequency, dependability, capability availability, and cost. If a shipper seeks speed, air and truck are the prime contenders. If the goal is low cost, then water and pipeline are the prime contenders. In the choosing transportation modes, shippers can decide between private, contract and common carries. If the shipper owns its own truck or air fleet, the shipper becomes private carrier. A contract carrier is an independent organization selling transportation services to other on a contract basis. A common carrier provides services between predetermined points on a schedule basis and is available to all shippers at standard rates.

Transportation decisions must consider the complex tradeoffs between various transportation modes and their implications for other distribution elements, such as warehousing and inventory. As transportation costs change over time, companies need to reanalyze their options in the search for optional physical distribution arrangements.

**2. Warehousing:** - The word 'storage' means holding the stock of goods for relatively longer period as the goods are not immediately in demand. Warehousing involves more than storage. Warehouses perform many of the usual functions of wholesalers; e.g., breaking bulk,

dispatch of smaller consignments to retailers, holding the stocks for retailers, regulating the goods flow to retailers, providing market intelligence and many other merchandising services of manufacturers. A full service warehouse is called distribution centre.

Storage warehouses are fixed facilities where we store our inventories usually for longer period. Warehousing creates time utility and can stabilize prices over a certain period. It can regulate market supplies according to changing market demand time wise. We have private warehouses owned by the user. There are also public warehouses owned and operated by professional firms who sell storage space and perform many warehousing functions on reasonable commission or fee.

Every firm requires a certain number of warehouses to offer a desired level of customer service, i.e., prompt delivery of goods. However, it has also to minimize total physical distribution cost. Marketers know very well that customer service does not rise appreciably when the number of warehouses increases beyond a certain number.

**3. Inventory Control:-** Business firms usually believe that if too high an inventory level is maintained then they would have to bear a very high inventory carrying cost and also a high risk of obsolescence. Bulk of the total distribution cost, which generally account for five to twenty five percent of the product costs, is incurred on the physical distribution and costs of holding inventories. Since inventory holding costs are always on the rise due to all round increase in prices as well as cost of capital, very careful attention has to be paid on how much inventory should be maintained, of what items and where. Many of these decisions have to be taken keeping in view the broader corporate objective of service reliability, i.e. the capacity of the firm to deliver on time.

Order-processing costs must be compared with inventory-carrying costs. The larger the average stock carried, the higher the inventory carrying costs. These carrying cost include storage charges, cost of capital, taxes and insurance, and depreciation and obsolescence. Inventory-carrying costs might run as high as 30% of inventory value.

**4. Order Processing:-** Physical distribution begins with a customer order. A key need in companies today is to shorten the order-to remittance cycle, that is, the elapsed time between an order placement and payment. This cycle involves many steps, including transmission of the order by the salesperson, order entry and customer credit check, inventory and production scheduling, order and invoice shipment, and receipt of payment. The longer this cycle takes, the lower the customer's satisfaction and the company's profits.

Companies are making great progress in speeding up order handling, thanks to computers. General Electric Operates a computer-oriented system that upon receipt of a customer's order, checks the customer's credit standing and whether and where the items are in stock. The computer issues an order to ship, bills the customer, updates the inventory records, sends a production order for new stock, and relays the message back to the sales representative that the customer's order is on its way-all in less than 15 seconds.

**5. Packaging and Material Handling System:-** The dimension of the package must ensure efficient use of containerization. Higher cubic footage will increase warehousing costs. Accompanied baggage of a passenger in a jumbo jet travel demands specific maximum cubic footage (length breadth and height).

The effect of package in physical distribution is measured in terms of its effects on three costs such as warehousing, transport and damage. If the damage cost is brought down from Rs.20,000/- to Rs.10,000/- on account of better packaging and the additional cost of packaging is



Rs.3,200/-, the marketer will incur a loss of Rs.13,200/- (instead of Rs.20,000) due to extra-ordinary packages. The best package is expected to reduce the three costs mentioned above to a minimum.

In highly industrialized countries we have automated material handling services and manhandling has been practically eliminated. New concept of packaging containerization has contributed to cost reduction appreciably. Improved conveyor systems and forklift equipment has brought about almost total mechanization in material handling. Containerization is the packing and transporting of goods in standard sized containers. There metal or wood containers can be stored on pallets, or small platforms, which can then be moved easily by mechanical devices such as forklift trucks, cranes and conveyors. These containers are unopened during entire transport from the forwarding point to be destination point. The modern mechanized handling services and protective packaging have improved the level of customer service and at the same time lowered physical distribution costs. Material handling and packaging services have also speeded up the order processing and movement of consignments.

#### **14.4 DISTRIBUTION SYSTEM IN INDIA**

Physical distribution in India has gained special importance to following causes:

Physical distribution cost is continuously rising. These costs are 30 to 40 percent of the consumer prices of the products. Hence, physical distribution has become the most desirable area for cost control. Savings in physical distribution costs (without reducing reasonable level of customer service) will certainly enable business units to gain a competitive edge in the market in the form of lower prices.

In India there are problems of transportation problems of warehousing, and also problems of inventory control. We do not yet possess adequate and efficient facilities in transport, warehousing and inventory control. These constitute the infrastructure of effective physical distribution and marketing of goods. As long as these constraints are not removed, physical distribution costs cannot be effectively controlled in India.

On the one hand, marketer has to face rising costs of transport, warehousing, energy and borrowing. Where as, on the other hand, competitive marketing environment compels the marketers to enhance their customer service level. Marketers in India consider physical distribution as the most crucial of all marketing functions.

Various studies have shown that the total marketing costs are about 50 percent of the price of all goods. G. Raghu ram and N. Rangaraj Point out that out of the total logistics cost, 38 percent is spent on transportation, 28 percent on inventories, 14 percent on losses, 11 percent on packing, 9 percent on handling and warehousing operations.

The physical distribution policy assumes unique importance in offering desired level of customer service at a reasonable cost. The distribution policy attempts to optimize time and place utility (through storage, transport and physical handling of products) for marketable products, while minimizing the total cost of physical distribution. The management of physical distribution activities emphasizes the systems approach designed to achieve a trade off between optimum customer service and optimum operating costs in physical distribution. Under the systems approach, marketers have to recognize the integrated and interrelated character of all components of physical distribution. The costs of transport, warehousing, inventories packing, order processing, etc., are closely interdependent and integrated. The total cost approach is approach is desirable in practice.

According to a report on Indian logistics industry conducted by Indian institute of management, in March 200, India is being identified as the “Destination Future” for physical distribution service providers all over the world. Indian players are also gearing up and positioning themselves for the competition by providing a wide spectrum of services.

Physical distribution is fast becoming a tool for gaining competitive advantages over other firms. This is true with India as well. One of the success stories which emphasize this point is that of Amul which has a world class physical distribution of ‘short-life’ produce.

Eighty million persons in India own or rear one or two cows, and maintain quantity of milk, 90 percent of the country’s available milk quantity is never pasteurized and therefore cannot be resold. But Amul now reaches to about 10 percent of India’s 7,00,000 Villages. It is further planning to expand its physical distribution system using internet so as to extend the milk grid and other distribution systems to food stuffs and other rural products. Amul’s distribution networks are also used to support health workers and educators. This proves that India is already using tools like smart distribution systems, horizontal markers, enhanced information flows to increase physical distribution system efficiency.

The Self Employed Women’s Association (SEWA) an organization which helps improve the economic and social position of women workers in a bewildering array of trades: also follows physical distribution concept. Many of these women earn a modest monthly income; many, less than \$ 50, while some, less than \$ 10, being their family’s sole bread winner if the man’s work is seasonal (farming and so forth). SEWA’s mission is to help these women earn more value for their occupation than it is now. Also, it enables more direct communications between the women and the end users of their products or services.

SEWA is now using some of the online tools like auctions, Local Economy Trading Schemes (LETS), various forms of job and expertise sites and also recommends sources to fulfill its objectives.

N. Kumar (2001), points out the main characteristics of Indian industry as the direct and indirect cost disadvantages it encounters, despite which it has to remain competitive. This more and more attention is being paid to physical distribution management in India.

Mr. Arun Jaitley in his inaugural address at the C I I logistics 2001 said that, India had, in the past, made lost of efforts to improve efficiencies in ports, transportation attracting foreign investment for improving efficiency and encouraging competition. In India, traditional transportation companies, courier companies and freight forwarders have emerged as integrated logistics serviced providers by leveraging on their existing infrastructure and expertise. They now include not only primary functions like transportation, warehousing, packaging, clearing and forwarding but also handle activities like order processing, sales tax and excise duty documentation, invoicing, collection of bills, inventory management and others major players in Indian logistics fields are APL, Macrsk and South Indian corporation Agency Ltd. (SICAL).

On this basis, it can be safely concluded that, in Indian though physical distribution might not be a very well developed field, organizations are understanding its importance and gearing themselves up to imbibe it as a part of their management strategy.

#### **14.5 IMPORTANCE OF PHYSICAL DISTRIBUTION MANAGEMENT**

Planned and integrated management of physical distribution has assumed unique importance in marketing management since 1970, as it can offer a feasible solution striking an optional balance between physical distribution costs (in puts) and the customer service level (output) that will be satisfactory to the customer and profitable to the seller. A customer give top preference

to reliable and punctual delivery of goods and expects minimum time interval between the date of placing an order and the date of receipt of goods. Besides this time interval should be stable.

**1. Ever-Increasing Cost:-** The costs of transporting by all carriers, costs of warehousing, materials handling, inventories and order processing have risen substantially all over the world due to continuous inflationary conditions. At the same time, customers have been demanding higher, and thus costlier, levels of physical distribution service.

Average division of physical distribution costs in large enterprises indicates 1.44 percent transports costs, 2.20 percent warehousing and handling costs, 3.18 percent inventory carrying costs, 4.18 percent order processing order costs.

Cost reductions could be successfully made not only in production activities but also in many areas of marketing with the help of scientific managed rationalization and marketing research marketers now feel that physical distribution should be the new major (perhaps the last) frontier for cost minimization without of course, adversely affecting customer service are now given greater emphasis.

**2. Broader Scope of Marketing:-** Physical distribution system is now recognized as an integral part of marketing. Hence, the marketing concept must apply to the management of physical distribution physical distribution revolving around customer needs can add the utility or want-satisfying power, viz., the availability of products at the right place and time, and at the lowest possible cost physical distribution is not only a cost; it should be regarded as one of the tools in competitive marketing. A marketer can attract additional customer and maintain existing customers by offering better and dependable service or lower price with fair service through improvements in the physical distribution package marketers have to evolve an appropriate physical distribution process which will fulfill the objective of adequate customer satisfaction. The marketing function of warehousing, inventory control, transport, protective packaging, physical handling, order processing, etc., are now managed as an integrated whole. An effective physical distribution package give the customers the service they expect and at the same time it assure profitable sales.

**3. The Sales Generating Power:-** Marketing management has realized that there is a definite connection between merchandising programme and physical distribution services (particularly delivery service and order processing services). Customers often give more importance to physical distribution than to price and promotion services physical distribution is considered by customers second in importance to product quality as a reason for purchasing from a certain firm. Better physical distribution services give higher overall customer satisfaction. In other words, customer's buying behaviour hinges on the offer of adequate physical distribution services. Customer service (the main objective of physical distribution system) can act as a unique selling point to attract business from potential customers. For instance, "Second morning rail delivery any where in Maharashtra State" "the prompt availability of installment and repair service and parts from the supplier", many sales shops close to the points of demand", and so on can generate accelerated sales and profits. Due to the growth of consumerism, customer is now insisting on better service and quality. Integrated physical distribution package can satisfy this pressing demand.

**4. Rising Competitive Demand:-** When some firms though physical distribution management got the benefits of lower costs and higher levels of customer service and thereby could reduce their operating expenses by 10 to 15 percent, many other competing firms were also compelled to adopt scientific management of physical distribution services. Thus many companies have now started giving more attention to the management of physical distribution operations in an integrated manner.

**5. Management Science:-** The development of management science or operations research made possible the integration of physical distribution functions. Physical distribution problems have large number of variables which are readily measurable. Operations research techniques (statistical and mathematical techniques) can be easily applied to secure solution of physical distribution problem particularly in the location of warehouses, in arriving at the optimum size of inventories, and in determining transport rates and methods. The computer and operations research are now at our disposal to evolve the most appropriate and viable physical distribution packages which can achieve the physical distribution objective of getting the right goods to the right place at the right time for the least total cost.

## 14.6 SUMMARY

Producers of physical products and services must decide on the best way to store and move their goods and services to their market destinations. They typically need to engage the services of physical distribution firms-warehouses and transportation companies- to assist in this task producers know that their physical distribution effectiveness will have major impact on customer satisfaction and company costs. A poor distribution system can destroy an other wise good product.

Physical distribution involves several activities. The first is sales forecasting, distribution planning and accounting, in bound transport, receiving, inventory management, in plant warehousing, order processing, packaging, dispatch of goods, out board transportation, field warehousing, customer service.

Functions of a department of physical distribution generally include management, warehousing industrial packaging, material handling, transportation, order processing and location analysis. These functions are briefly discussed.

In India there are problems of transportation problems of warehousing, and also problems of inventory control. We do not yet possess adequate and efficient facilities in transport, warehousing and inventory control. These constitute the infrastructure of effective physical distribution and marketing of goods. As long as these constraints are not removed, physical distribution costs cannot be effectively controlled in India.

On the one hand, marketer has to face rising costs of transport, warehousing, energy and borrowing. Where as, on the other hand, competitive marketing environment compels the marketers to enhance their customer service level. Marketers in India consider physical distribution as the most crucial of all marketing functions.

Planned and integrated management of physical distribution has assumed unique importance in marketing management since 1970, as it can offer a feasible solution striking an optional balance between physical distribution costs (in puts) and the customer service level (output) that will be satisfactory to the customer and profitable to the seller. A customer gives top preference to reliable and punctual delivery of goods and expects minimum time interval between the date of placing an order and the date of receipt of goods. Besides this time interval should be stable. The following factors are important in physical distribution management. 1. Ever-Increasing Cost 2. Broader Scope of Marketing 3.The Sales Generating Power 4.Rising Competitive Demand 5. Management Science

## 14.7 KEY WORDS

**Storage:** The word 'storage' means holding the stock of goods for relatively longer period as the goods are not immediately in demand.

**Warehousing:** - Warehousing involves more than storage.

**Distribution Centre:** A full service warehouse is called distribution centre.

**Storage warehouses:** Storage warehouses are fixed facilities where we store our inventories usually for longer period. Warehousing creates time utility and can stabilize prices over a certain period.

**Sewa:** The self employed women's association.

**IIM:** Indian Institute of Management.

**SICAL:** South Indian Corporation Agency Ltd.,

#### 14.8 SELF ASSESSMENT QUESTIONS

1. What is the Nature of Physical Distribution?
2. What are the functions of the Physical Distribution?
3. What is the importance of the Physical Distribution Management?

#### 14.9 FURTHER READINGS

1. Sales Basics of Distribution Management: Satish K. Kapoor and Purva Kansal, Prentice Hall of India Pvt. Ltd., New Delhi.
2. Sales and Distribution Management: NG.Nair and Latha Nair, Himalaya Publishing House, Hyderabad.

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**LESSON - 15****DISTRIBUTION – LOGISTICS****15.0 Objectives :**

After studying the lesson, we can able to understand:

- . Understand the Meaning of Logistics
- . Analyzing the Objectives of Logistics
- . Identifying Distinction among Physical Distribution, Supply chain management and Logistics

**Structure:**

- 15.1 Introduction**
- 15.2 Channel Functions**
- 15.3 Logistics Meaning**
- 15.4 Market Logistics**
- 15.5 Market Logistics Process**
- 15.6 Logistics Activities**
- 15.7 Market Logistics Objectives**
- 15.8 Market Logistics Decisions**
- 15.9 Distinction between Physical Distribution and Logistics**
- 15.10 Distinction between Supply Chain Management and Logistics**
- 15.11 Need for Physical Distribution**
- 15.12 Functions of Physical Distribution**
- 15.13 Marketing Forces Affecting Physical Distribution**
- 15.14 Summary**
- 15.15 Key Words**
- 15.16 Self Assessment Questions**
- 15.17 Further Readings**

**15.1 INTRODUCTION**

Distribution channel comprises a group of people and firms involved in the transfer of title of ownership (of the product), as the product moves from producer to ultimate consumer or a buyer. A channel of distribution includes producer, consumer as well as many middlemen such as retailers and wholesalers.

American marketing Association defines distribution channel as : the structure of intra company organization units and extra company agents and dealers, wholesalers and retailers, through which a commodity, product or service is marketed.

In the words of kotler, channel is a set of independent organization involved in the process of making a product or service available for use of consumption.

Thus, distribution channel in the marketing system seeks to satisfy the needs and wants of target users and objectives of various parties involved.

A particular channel extends to the point till significant changes are made to the product form. For example, when wheat is reaped from the farms the distribution channel is different, but when it is ground into flour, the product form changes, and thus the channel requirements will also change. Thus different type of distribution channel comes into existence.

The channel for wheat will be

Farm → Middle Man → Flour Mill

Channel for flour will be

Flour mill → Retail outlet → Consumer

Other intermediaries that can participate in distribution channel are banks, insurance companies, storage firms and transportation companies. But as they do not take the title / ownership of the goods, they are not formally considered as the distribution channel.

## 15.2 CHANNEL FUNCTIONS

Explicitly stated, channel works as a means of moving goods from producers to consumers. It overcomes time, place, and possession gaps and provides goods and services to people who want them. Main functions performed by the channels are:

- 1) **Information Gathering:-** Information about potential and current customers, their behaviours, competitors and other forces which affect the business are gathered by channels.
- 2) **Consumer Motivation:-** Channels develop and disseminate persuasive communications to motivate consumers in buying the product. Being in direct touch with the consumers, they know what turns consumers on and what turns them off.
- 3) **Bargaining:-** They reach agreement on price and other terms with the consumer on behalf of the producer so that transfer of ownership can take place.
- 4) **Placing Orders:-** Intermediaries place orders with producers on behalf of consumers, for the products they need. Later they sell these products to the consumer on terms acceptable to the producers. Thus they bridge the gap between producers and consumers, who are at extremes.
- 5) **Financing:-** Intermediaries finance inventories at different levels of marketing channels. They provide funds to the producers by decreasing the time required to convert inventory to cash.
- 6) **Risk-Bearing:-** Intermediaries also share risks connected with carrying out channel work, thereby reducing the burden on the producer.
- 7) **Inventory Management:-** Intermediaries also provide successive storage facilities and movement of physical products to the producers. This enables a producer to redirect their limited factors of production towards other systems.
- 8) **Services:-** Intermediaries offer specialized product services, including repairing service to the customers on behalf of the producers. The two main categories such as pre-sale services, and post –sale services are provided by the intermediaries.

**9) Sales Channel:-** This is used to perform motivational informational, bargaining and finance functions.

**10) Delivery Channel:-** This involves transfer of physical products, i.e. possession of the product.

**11) Service Channel:-** This channel performs after sale services. This concept is best explained by the example of an e-brand, (amazon.com). Amazon uses telephone and internet as sales channels, express mail services as delivery channel, and local offices as service channel.

### 15.3 LOGISTICS MEANING

In the early 1991, the world was made to realize the significance of logistics. In the Gulf War, US and its allies had to move half a million people and over held a million ton of material and supplies by air, i.e., 12000 Km, and 2.3 million ton of equipment, by sea in a matter of few months. This was made possible by the application of logistics.

Business logistics is a relatively new field of integrated management study in comparison to the traditional fields like finance, marketing and production. According to Webster's New Encyclopedia Dictionary (1993), logistics is:

The branch of military science having to do with procuring, maintaining and transporting material, personnel and facilities.

Council of Logistics Management (CLM) defines logistics as process of planning, implementing and controlling the efficient, cost-effective flow and storage of raw material, in-process inventory, finished goods and related information from point of origin to point of consumption for the purpose of confirming customer requirements.

Robert A. Novack defines logistics as an activity involving the creation of time, place, form and possession of utilities within and among firms and individuals through strategic management with the goal of creating products or services that satisfy customer through attainment of value.

To summarize, logistics encompasses the total flow of materials, from acquisition of the raw materials and purchased component parts, to delivery of a finished product to the customer. Logistics involves two major operations: (1) Material management (2) Physical distribution management.

### 15.4 MARKET LOGISTICS

Physical distribution starts at the 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 and capital equipment); converting them efficiently into finished products; and dispatching them to the final destinations.

Market logistics involves planning the infrastructure to meet demand, then implementing and controlling the physical flows of materials and final goods from points of origin to points of use, to meet customer requirements at a profit.

### 15.5 MARKET LOGISTICS PROCESS

Market Logistics planning has four steps

1. Deciding on the companies 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.

## 15.6 LOGISTICS ACTIVITIES

The activities which come under logistics can be classified as follows:

1) Procurement (2) Plant and warehouse selection (3) Demand forecasting (4) Customer service (5) Order processing (6) Traffic and transportation (7) Inventory control (8) Warehousing and storage (9) Packaging (10) Material handling (11) Distribution communication (12) Return of goods handling (13) Parts and service support (15) Salvage and scrap disposal.

## 15.7 MARKETS-LOGISTICS OBJECTIVES

Many companies state their market –logistics objective as “getting the right goods to the right places at the right time for the least cost”. Unfortunately, this objective provides little practical guidance. No system can simultaneously maximize customer service and minimize distribution cost. Maximum customer service implies large inventories, premium transportation, and multiple warehouses, all of which raise market logistics costs.

Given the market-logistics objectives, the company must design a system that will minimize the cost of achieving these objectives. Each possible market logistics system will lead to the following cost:

$$M = T + FW + VW + S$$

Where M = Total Market- logistics cost of proposed

T = Total freight cost of proposed system.

FW = Total fixed warehouse cost of proposed system

V W = Total variable warehouse costs (including inventory) of proposed system.

S = Total cost of lost sales due to average delivery delay under proposed system.

Choosing a market – logistics system calls for examining the total cost (M) associated with different proposed systems and selecting the system that minimizes it. It is hard to measure S, the company should aim to minimize T + FW + VW for a target level of customer service.

## 15.8 MARKET – LOGISTICS DECISIONS

Four major decisions must be made with regard to market logistics:

- 1) Market should order be handled? (order processing)
- 2) Where should stocks be located? (Warehousing)
- 3) How much stock should be held? (inventory)
- 4) How should goods be shipped? (Transportation)

### 15.9 DISTINCTION BETWEEN PHYSICAL DISTRIBUTION AND LOGISTICS

Physical distribution and logistics differs considerably, as is furnished in the following table considerably, as is furnished in the following table.

Physical Distribution	Logistics
1) Management of movement, inventory control, protection and storage of raw materials and of processed or finished goods to and from the production line.	1) Process of planning, implementing and controlling the efficient, cost effective flow and storage of raw material, in process inventory, finished goods and related information form point of origin to point from point of consumption for the purpose of confirming customer requirements.
2) Narrow scope than of logistics	2) Larger scope.
3) Concerned with creation of time and place utilities.	3) Creates time, place, form and possession utilities.
4) Deals with outbound activities	4) Deals with both inbound and out bound activities.

### 15.10 DISTINCTION BETWEEN SUPPLY CHAIN MANAGEMENT (SCM) AND LOGISTICS

**Supply Chain Management (SCM):-** Supply chain is the network of organized activities that are coordinated or in other words, upstream and down stream linkages of different processes and activities, so as to distribute the products, through channels, ultimately to the consumers. For example, a shirt manufacturer is a part of supply chain that extends upstream through the weavers of fabrics to the manufactures of fibers and downstream though distributors and retailers to the final consumers.

SCM is a philosophy of business, based on the idea of partnership. It believes that if partnership is maintained between a marketing channel and the entities with the channel, it would increase the efficiency of the channel. A well planned logistics system helps an organization achieve (1) Lower costs (2) more sales (3) prompt delivery (4) Increased goodwill (5) Improved customer confidence (6) Competitive edge.

A logistics system should always aim at providing a fast and effective response to the ever-changing market environment, accompanied by changes in the inventory levels, product demand, characteristics of supply chain, distribution channel, technology, competition, Government Polices and so forth. To ensure efficient management of these activities, logistics should maintain the balance of the supply chain.

#### **SCM Entails:-**

- 1) Management of flow of goods from supplier to final user.
- 2) System-wide coordination of product and information flows.
- 3) Development of relationships and integration of all activities that provide customer value though distribution channel.

1) Not only seeks to create single plan for flow of goods and information through business, but also aims to achieve linkages and coordination between process of other entities in the chain like suppliers, customers and so forth.	1) A function which is 100% planning oriented seeks to create a single plan for flow of product and information through business. But it is planning oriented.
2) Defined as management of down –stream and upstream relationships to ensure superior customer satisfaction to the organization.	2) It is defined as a process of planning implementing and controlling the efficient, cost-effective flow and storage of raw material in-process inventory, finished goods and related information from point of origin to point of consumption to fulfill customer requirements.

### 15.11 NEED FOR PHYSICAL DISTRIBUTION

American Management Association (1960) defines physical distribution as “Moving of finished products from one end of a production line to customers”

The national council of physical Distribution Management (NCPDM); now know as The Council for Logistics, has given he following definition is a broad range of activities concerned with efficient movement of finished goods products from the end of the production line to the customer..... and in some cases includes movement of raw material from the secure of supply to the beginning of the production line.

Reasons for management's interest in physical distribution are many. But the most significant can be listed as follows:

- ☞ Management conflicts
- ☞ Rising costs
- ☞ Cost-reduction opportunities
- ☞ Physical distribution as an aid to marketing
- ☞ Customer Service Explosion
- ☞ Time constraints

### 15.12 FUNCTIONS OF PHYSICAL DISTRIBUTION

- ☞ Transport Management
- ☞ Inventory control
- ☞ Warehousing
- ☞ Industrial packaging
- ☞ Material Handling
- ☞ Order processing
- ☞ Locational Analysis
- ☞ Management of information flow

### 15.13 MARKETING FORCES AFFECTING PHYSICAL DISTRIBUTION

The form in which physical distribution is implemented in an organization should be proportional to the marketing problems faced by the organization market forces that affect physical distribution in general are:

- ☞ Demand Characteristics (Population, Income, Demand Variations)
- ☞ Product Characteristics (Value of the product, seasonality of the product, product line)
- ☞ Dynamic environment

Physical distribution is same times used synonymously with Logistics and even confused with supply chain management (SCM). Logistics involves receiving and processing orders, releasing goods from, inventory and transporting finished goods to ultimate consumers while trying to achieve maximum customer satisfaction within the distribution channel. SCM is a part of logistics and concerned with supply of raw materials and finished products.

### 15.14 SUMMARY

Logistics encompasses the total flow of materials, from acquisition of the raw materials and purchased component parts, to delivery of a finished product to the customer. Logistics involves two major operations: (1) Material management (2) Physical distribution management.

Market Logistics planning has four steps 1) Deciding on the companies 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 ad procedures.

The activities which come under logistics can be classified as follows: 1) Procurement (2) Plant and warehouse selection (3) Demand forecasting (4) Customer service (5) Order processing (6) Traffic and transportation (7) Inventory control (8) Warehousing and storage (9) Packaging (10) Material handling (11) Distribution communication (12) Return of goods handling (13) Parts and service support (15) Salvage and scrap disposal.

Reasons for management's interest in physical distribution are many. But the most significant can be listed as follows: 1) Management conflicts, 2) Rising costs, 3) Cost-reduction opportunities, 4) Physical distribution as an aid to marketing, 5) Customer Service Explosion, 6) Time constraints

### 15.15 KEY WORDS :

**SCM:** (Supply Chain Management) Supply chain is the network of organized activities that are coordinated or in other words, upstream and down stream linkages of different processes and activities, so as to distribute the products, through channels, ultimately to the consumers.

**Logistics:** The branch of military science having to do with procuring, maintaining and transporting material, personnel and facilities.

**CLM:** (Council of Logistics Management) defines logistics as process of planning, implementing and controlling the efficient, cost-effective flow and storage of raw material, in-process inventory, finished goods and related information from point of origin to point of consumption for the purpose of confirming customer requirements.

<b>M</b>	=	<b>T + FW + VW + S</b>	Where
<b>M</b>	=	Total Market- logistics cost of proposed	
<b>T</b>	=	Total freight cost of proposed system.	
<b>FW</b>	=	Total fixed warehouse cost of proposed system	
<b>V W</b>	=	Total variable warehouse costs (including inventory) of proposed system.	
<b>S</b>	=	Total cost of lost sales due to average delivery delay under proposed system.	

### 15.16 SELF ASSESMENT QUESTIONS

1. Define channel and discuss various functions of channel?
2. Define Logistics. What are the steps have in Logistics Planning?
3. What are the objectives of Market - Logistics?
4. What are the activities included in Logistics?
5. What is the difference between Physical Distribution and Logistics?
6. What is the difference between SCM and Logistics?

### 15.17 FURTHER READINGS

1. Advertising and Promotion: George E. Belch & Michael A. Belch, Tata McGraw-Hill Publishing Company Ltd., New Delhi.
2. Advertising and Sales Promotion : S.H.H. Kazmi and Satish K Batra,
3. Sales and Distribution Management: NG.Nair and Latha Nair, Himalaya Publishing House, Hyderabad.

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**LESSON – 16****DISTRIBUTION COST AND CONTROL****16.0 Objectives :**

After studying the lesson, you should be able to:

- ☞ Analyze Various Distribution Costs
- ☞ Evaluate Different Stages of Distribution Control Process

**Structure :**

- 16.1 Introduction**
- 16.2 Reasons for Distribution Costs Rise**
- 16.3 Components of Distribution Costs**
- 16.4 Distribution Control**
- 16.5 Stages of Distribution Control Process**
- 16.6 Summary**
- 16.7 Key Words**
- 16.8 Self Assessment Questions**
- 16.9 Further Readings**

**16.1 INTRODUCTION**

Distribution covers a range of operations and activities. It encompasses all movement of the products. The concept covers seven rupees the right product, in right quantity, in right condition, at the right time and right place, for the right customer at the right cost. Physical distribution management is concerned with demand satisfaction through creation of time and place utility.

The total physical distribution concept emerged from a study conducted forty years ago. It can be described as a cost-service integration backed by an integrated physical distribution network that is aimed at minimizing the total cost of distribution at a given level of customer service. The main components of total physical distribution concept are: (1) Total cost perspective (2) Trade-offs (3) Zero sub-optimization (4) Total system perspective.

Cost of physical distribution means cost of performing various physical distribution activities, including cost of planning, and managing a range of physical distribution activities, like transportation, distribution of finished goods, receiving, inspecting and storing goods. In brief

Total Distribution Cost = Transport Cost + Facilities Cost + Communications Cost +  
Inventory cost + protective packaging cost + Distribution  
management cost.

All the functions are necessary for converting inventories and satisfying customers. But the performance cost of these functions are high and an effort at reduction will be a vain attempt. This is where the individual cost control fails and total cost perspective succeeds. Total cost approach refers to the process of considering the cost of all the physical distribution elements simultaneously. It refers to tackling the cost of physical distribution as a whole, while trying to handle the primary functions of a physical distribution system, thus component of physical distribution.

## 16.2 REASONS FOR DISTRIBUTION COSTS RISE

Distribution costs are on the rise. The reasons are:

- ☞ Distribution is a labour – intensive function and wages of transport and warehouse staff has been rising rapidly.
- ☞ Competition has increased drastically in the past few years. This has led to great proliferation of product lines. With ever changing tempo of flow in of new products and the continuance of old products, the distribution costs have also increased.
- ☞ Consumers now-a-days expect more frequent deliveries from the supplier, which in turn increases the distribution costs.
- ☞ Moreover, in the recent years trade has become internationalized. This means goods have to move across greater distances and this increases the transportation costs.

## 16.3 COMPONENTS OF DISTRIBUTION COSTS

The following are the various components of Total Distribution Costs (TDC) .

**1. Transportation Costs:-** Transportation service prices are keyed to the cost characteristics of each mode of transport. Just and reasonable transportation rates tend to follow the costs of services. Because each services has different cost characteristics, under any given set of circumstances, there will be potential rate advantage of one mode over other services. To take advantage of this rate economy and be able to negotiate with the transport operators, it is essential to understand the various components of transport cost. This point makes discussion of different transport costs essential.

**(a) Variable or Fixed Cost:-** A transport service incurs a number of costs such as labour, fuel, maintenance, road way, administrative and others. These costs can be divided into two categories. Firstly those which vary with services or volume, i.e, variable costs, and secondly those which do not, i.e., fixed costs. Fixed costs in transportation refers to costs like roadway acquisition and maintenance, transport equipment and administration costs. Variable cost on the other hand, refers to costs like fuel and labour and equipment maintenance practically all costs are partly fixed and partly variable and allocation of costs into these categories is a matter of personal preference.

**(b) Common or joint Cost:-** Another crucial point in determining total cost is what the actual cots far a particular shipment. This task is difficult because transportation costs are

indivisible as shipments of different sizes and weights move jointly in the same haul. Thus, how much cost to assign to a shipment and on what basis is a difficult problem. The cost can be assigned on the basis of shipment weight to total load, or on basis of cubic footage used.

**(c) Costs Characteristics by Mode:-**

**(i) Road ways:** Contrasted with railroads, a truck operator has relatively small investment in terminal facilities and operates single truck or trailer over public highways. The depreciation levels thus are also low. This means that roadways have a low fixed cost but high variable cost. Variable cost tends to be high because the highway construction and maintenance costs are charged to the user through taxes. The total costs do decrease with shipment size and distance due to decrease in fixed costs.

**(ii) Railways:-** The rail road has a characteristics of high fixed cost and relatively low variable cost. Loading unloading, billing and collecting and yard switching contribute to high fixed costs of the shipment. But the increased volume per shipment results in some substantial economies of scale, that is, lower per unit cost per shipment.

**(iii) Waterways:-** The fixed cost of water transportation as a part of total cost is less than those of airlines, but more than of road carries. The major capital investment in this mode is in transport equipment. Waterways and harbour are publicly owned and only a small part is carried forward to the user in the form of harbour fee. In addition, high loading and unloading cost make waterways exclusive for bulk commodities.

**(iv) Airways:-** Although the largest jet costs more than 6 million dollars a piece, yet the airline fixed cost do not represent as large a percentage of total cost as railroad industry. An important contributing factor to this relationship is the fact that almost all the terminal facilities are publicly owned. Thus the user purchases the services as and when required. Substantial per unit cost reductions come from operating air craft over long distances.

**(v) Pipelines:-** The fixed cost of pipeline operations include interest on land acquired or rights purchased for construction of a pipeline, depreciation of cost of construction of pipeline, terminals and pumps. Because of these elements, pipelines have highest percentage of fixed cost among all the modes of transport.

Variable cost in this may include power to move the product and cost of operating pumping stations. Thus, cost per ton-mile decreases substantially with larger sized pipes, provided output justifies the use of larger pipes.

**2. Inventory Costs:-** Inventories are accompanied by four categories of costs such as procurement costs, inventory carrying costs, out of stock costs, over stock costs.

Procurement costs include cost of processing an order through accounting and purchasing department. Inventory carrying costs are costs associated with holding the inventory for a period of time. The basic costs categories cover the cost of stock holding. i.e., capital cost, insurance and taxation costs and storage costs. Third category of cost associated with inventories out-of-stock costs, quantified in terms of lost sales costs and back-order costs. Another category in which a company can incur is the cost concerned with the circumstances when the company is left with some stock on hand even after the demand for the product has terminated. The interpretation of this cost is proportional to whether the inventory is static or dynamic.

To total cost of inventory, varies from industry to industry. Inventory carrying cost consists of cost of capital, warehousing costs, taxes and insurance costs, obsolescence and cost of material handling equipment..



**3. Warehousing Cost:-** A company must pay warehouse-system costs. These can be paid either in the form of rates charged by an outside firm offering such services or through internal costs generated from the particular operational activity system adopted in the company controlled warehouses. The cost incurred is proportional to services and material handling facilities provided to by the warehouse. Practically, the warehousing costs can be divided into two categories: total warehousing construction cost and total warehousing operating costs. To describe it mathematically

$$TWC = TWCC + TWOC$$

Where

TWC = Total warehousing cost

TWCC = Total warehousing construction cost

TWOC = Total warehousing operating cost

The decision as to opt for private or public warehouse depends upon total warehousing cost. The company opts for a warehouse if the cost of warehouse is less than direct shipment cost. To be precise,

$$TWC < \text{Direct shipment cost}$$

Total warehousing construction costs refer to estimation of cost incurred on construction of the warehouse facility. If the company opts for private warehouse this element is higher. As the fixed expenses incurred are higher, this cost is comparatively lower in case of contracted or public warehouses.

Total warehouse operating costs, on the other hand, stand for costs incurred in the course of normal functioning of the warehouse. These costs are proportional to the facilities provided in a warehouse. These include fixed, variable as well as semi-variable costs like depreciation of material handling equipment and other fixed assets human resource expense (needed to maintain and run the warehouse), power, lighting charges, taxes, insurance premiums and so forth. The exact treatment of these cost will be proportional to the firms accounting practices.

In terms of costs, the private warehouse with automated-handling storage system has high level of fixed investment (TWCC) in the warehouse and the automated handling equipment such as computer controlled mechanisms. But it has a low variable cost (TWOC) as the system requires little by way of labour, light or heat. A company, irrespective of which system it opts for, has to bear costs. The decision based on cost effectiveness will be useless if the cost are not controlled. Thus, the business unit needs to exploit economies of scale to take advantage of warehousing facility and for the control purposes the costs can be divided into storage, handling and clerical costs.

**4. Costs of Packaging:-** One of the definitions of packaging states packing as one of the means of ensuring safe delivery of a product to ultimate consumer in sound condition, at a minimum overall cost, since it is a very important function of packaging. Still, it become important to know what are all included in the "overall" cost of packaging. The main elements are:

- i) Package cost (delivered to the factory)
- ii) Storage and handling costs of the empty package handling of filled packages)
- iii) Filling cost (including quality control and handling of filled packages)
- iv) Storage costs of filled packages
- v) Insurance costs of filled packages

- vi) Losses due to breakage or other spoilage of the product ( including loss of goodwill)
- vii) Effect of package on sales.

## 16.4 DISTRIBUTION CONTROL

Physical distribution plans may be made and implemented, but that alone does not ensure accomplishment of their intended goals. It is necessary to think in terms of a function called control. Control is defined as the process where planned performance is brought in line with desired objective. It is a process of benchmarking actual performance and then initiating corrective measures to reduce my gaps.

The need for control activity is motivated by management's intention to reduce performance alteration in a planned process; i.e., reduce the gap between the planned and actual performance. But the future uncertainties ensure that there are some alterations in a plans performance during application.

Control is defined as the process where planned performance is brought in line with desired objective. It is a process of bench marking actual performance and then initiating corrective measures to reduce any gaps.

## 16.5 STAGES OF DISTRIBUTION CONTROL PROCESS

**1. Standard and Goals:-** The focus for control system is on the activity or process or system to be regulated. The first inputs indicate the standard of the activity or process or system under consideration. The manger consultant or computer tries to compare actual performance with this set standard which may be in the form of a budget, customer service target, contribution to profit, quality standard like ISO standards, ISI standard and AGMARK standard.

**2. Performance Report & Measurement:-** The second set of input in control process is performance reports-documentation stating the actual performance levels of the activity or process or system under evaluation. One of the main concerns of physical distribution management, in being able to achieve an efficient control system is to measure actual performance accurately. New tools are being developed to improve the performance measurement for an efficient control process. Traditional performance measurement systems include status and trend reports.

Managers need more sophisticated and customized tools of performance measurement to facilitate rapid response to market opportunities. The performance measurement measures can be discussed under two categories such as (1) Internal performance measurement (2) External performance measurement.

To measure internal performance, variables like cost, customer service, productivity measure, asset measurement and quality are used. Variables used to quantity quality are: (1) Order entry errors (2) Availability of ordered items (3) Ability to meet shipment date (4) picking error (5) paper work completion time (6) Error in payment processing (7) Shipment damage (8) Invoice error (9) Overcharge error (10) Missing information. Thus, internal performance measures focus on the activities required to earn/retain customer loyalty. Cost measurement is the easiest of all methods and a necessity for every company opting for performance evaluation, but sophisticated firms use other tools discussed so far. But, these tools measure only internal activity or process or system efficiency and do not measure the external process.

While internal performance evaluation measures are important for detailed organizational monitoring, external performance measures are necessary to gain insight into customer's perspective and other industries. Ti offers an integrated measurement tool for the system, while

the internal performance measures offer only activity performance evaluators. To measure external performance, variables like customer perception measurement and best activity bench mark are used.

**3. The Monitor:-** This stage is the nerve centre of the control system or process. If is in this stage that the two inputs are compared, i.e, the performance is cross referred with the set standards and corrective action is initiated. Information received by the monitor will be in the form of reports or audits. The monitor in the system can be a manager, a consultant or a software program. It is up to the monitor to compare the two inputs and decide if corrective measures are needed to match the actual performance levels with the set standard. If the gap is within acceptable limits then the corrective action may be foregone but if the gap is too wide, then the monitor might consider strategic corrective action.

**4. Corrective Action:-** The final element of the control function is the corrective action that must be taken when the monitor perceives that difference between the standard and actual performance is beyond tolerance limits.

Action can be either Minor adjustments, major adjustments or contingency action. If the variance is due to changes in business environment and was anticipated in the planning stage, then minor adjustments in management are required to get the activity or process or system back on the track.

In the first form of corrective action plan-the minor adjustments plan the company has to opt making routing changes in the system. Automatic control adjustments are made in the system through the decision route. No special effort in required.

In the second form of corrective action plan -the major adjustment plan-the company has to consider it is a process of making properly planned adjustment in the system to remove the bottlenecks. Substantial changes in the system are required to have an efficient control.

In the third form of corrective action plan-the contingency plan-the company has to opt for dramatic performance level changes. Such dramatic changes can be due to an unforeseen event. The customer service cost suddenly rose because of dramatic changes.

Thus, management control is concerned with efficiency and effectiveness of established plans, programmes and procedures. The focus is on reports which signal to the management that either corrective instructions have to be issued to ensure desired levels of performance or modifications of set standards is needed.

## 16.6 SUMMARY

Cost of physical distribution means cost of performing various physical distribution activities, including cost of planning, and managing a range of physical distribution activities, like transportation, distribution of finished goods, receiving, inspecting and storing goods.

The following are the various components of Total Distribution Costs (TDC): 1. Transportation Costs, 2. Inventory Costs, 3. Warehousing Cost, 4. Costs of Packaging.

Control is defined as the process where planned performance is brought in line with desired objective. It is a process of bench marking actual performance and then initiating corrective measures to reduce any gaps.

The following are stage of control process: 1) Standard and Goals, 2) Performance report and measurement, 3) The monitor, 4) Corrective action.

**16.7 KEY WORDS**

<b>TWC</b>	=	<b>TWCC + TWOC</b> Where,
<b>TWC</b>	=	Total warehousing cost
<b>TWCC</b>	=	Total warehousing construction cost
<b>TWOC</b>	=	Total warehousing operating cost
<b>TDC</b>	=	<b>TC + FC + CC + IC + PPC + DMC</b> Where,
<b>TDC</b>	=	Total Distribution Cost
<b>TC</b>	=	Transport Cost
<b>FC</b>	=	Facilities Cost
<b>CC</b>	=	Communications Cost
<b>IC</b>	=	Inventory cost
<b>PPC</b>	=	Protective Packaging Cost
<b>DMC</b>	=	Distribution Management Cost.

**16.8 SELF ASSESSMENT QUESTIONS :**

1. What is the Meaning of Distribution Cost?
2. What are the reasons for rise the Distribution Cost?
3. What are the Components Including in Distribution Cost?
4. What are the Stages in Distribution Control Process?

**16.9 FURTHER READINGS :**

1. Advertising and Promotion: George E. Belch & Michael A. Belch, Tata McGraw-Hill Publishing Company Ltd., New Delhi.
2. Advertising and Sales Promotion : S.H.H. Kazmi and Satish K Batra,
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