

**MARKETING
MANAGEMENT
(DEMB9)
(MBA 2 YEARS)**



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Lesson - I

MARKETING MANAGEMENT : AN INTRODUCTION

OBJECTIVES

After studying this lesson, you should be able to :

- ◆ explain the meaning of Market and Marketing.
- ◆ differences between Marketing and Selling.
- ◆ functions of Marketing.
- ◆ definitions of Marketing.
- ◆ concepts of Marketing.

STRUCTURE

- 1.1 Introduction.
- 1.2 Meaning of Market.
 - 1.2.1 Classification of Markets
 - 1.2.2 Meaning of Marketing
 - 1.2.3 Meaning of Selling
 - 1.2.4 Differences between Marketing and Selling
 - 1.2.5 Definition of Marketing.
- 1.3 Functions of Marketing.
 - 1.3.1 Functions of Exchange
 - 1.3.2 Functions of Physical supply
 - 1.3.3 Facilitating functions.
- 1.4 The Marketing Concept
 - 1.4.1 Evolution of Marketing concept
 - 1.4.2 Exchange oriented Stage
 - 1.4.3 Production - Oriented Stage
 - 1.4.4 Sales oriented stage
 - 1.4.5 Consumer oriented stage
 - 1.4.6 Social oriented stage
- 1.5 Summary
- 1.6 Key words
- 1.7 Self Assessment questions.
- 1.8 Further readings

1.1 INTRODUCTION

Market provides a mechanism for the sale of goods. According to Prof. Philip Kotler market is an area or atmosphere for a potential exchange. Marketing includes all activities involved in the production and distribution of goods and services. Marketing concept refers to the philosophy of an organisation in relation to marketing of a product of service.

1.2 MEANING OF MARKET

The term market is derived from the Latin word 'Marcatus' which means merchandise, trade i.e. purchasing and selling of goods. It is a place where buyers and sellers meet together for the exchange of title to goods. i.e. it is a place where business is conducted. The market provides a mechanism for the sale of goods, but the actual delivery of goods may not take place in all the cases. However, for the students of marketing market refers to any region in which buyers and sellers are brought in contact with one another, and by means of which the prices of goods and services are finalised easily and quickly. According to Prof. Mitchel market is not a geographical meeting place but as any getting together of buyers and sellers, in person, by mail, telephone, telegraph and internet or any other means of communication. Prof. Philip Kotler expressed in his famous book 'Marketing Management', the term 'market' as area or atmosphere for a potential exchange.

Market is an arrangement that provides opportunity of exchanging goods and services for money or money's worth. Thus in market there are two groups of persons, one group holding the goods which they want to sell and another group of prospective buyers who want to pay for the goods they are going to buy. It means that three points are interlinked namely place, atmosphere, and demand. Place stands for a convenient place for the buyers and sellers to come together for the exchange of goods and services; atmosphere stands for the contact between the buyers and sellers; demand stands for the people with needs and wants to satisfy and purchasing power.

1.2.1. CLASSIFICATION OF MARKETS : Markets can be classified in several ways from different approaches.

- I. **On Geographic or Area Basis :** From the stand point of geographical area, markets are divided into (a) Local Markets, (b) National Market and (c) International Market.
 - a) **Local Market :** These markets relate to a particular locality. In the case of these markets, commodities sold within geographical limits. Such commodities are difficult to be sold outside local limits. Generally, commodities which are heavy and perishable have local markets. For example bricks, vegetables, fruits, milk etc have local markets.
 - b) **National Market :** The growth of industries has widened the scope of market on national level. With the growth of transportation and communication, most of the goods are marketed at national level.
 - c) **International Market :** These are known as foreign markets where goods are sold beyond national boundaries. With the growth of transportation and communication systems, a number of products have acquired an international level.
- II. **On the Basis of Importance :** On the basis of importance markets may be divided into
 - (d) Primary Market.
 - (e) Secondary Market.

- (f) Terminal Market.
- (a) **Primary Markets** : In primary markets, primary producers of agricultural products or manufactured goods sell to wholesalers, who assemble the goods from different sources of production. These markets are generally found in villages.
- (b) **Secondary Markets** : In the secondary markets, wholesalers sell the goods to retailers for further selling. Semi - processed and Semi - manufactured goods are generally sold and purchased in secondary markets E.g. Yarn market.
- (c) **Terminal Market** : It is the market where final products are sold to final consumers i.e. consumers purchase goods in the terminal markets from the retailers.
- III. **On The Basis Of Business** : On the basis of volume of business, the market may be divided into
- (a) Wholesale Market.
- (b) Retail Market.
- (a) **Wholesale Market** : In wholesale market goods are bought and sold in huge quantities. In these markets sellers are wholesalers and the buyers are retailers. Wholesalers purchase goods in bulk quantities and sell the same to retailers in small quantities.
- (b) **Retail Market** : In this market retailers who purchase goods from wholesalers, sell to ultimate consumers in individual units i.e. very small quantities.
- IV. **On Economic Basis** : In economics markets are classified into
- (a) Perfect Market
- (b) Imperfect Market.
- (a) **Perfect Market** : In perfect market there will be perfect competition between buyers and sellers who have full knowledge of other buyers and sellers. Due to this only one price will prevail in the market for the commodity. The following are the essential features of perfect market.
- (i) Group of buyers and sellers.
- (ii) Effective competition between buyers and sellers.
- (iii) One price for the commodity throughout the market.
- (b) **Imperfect Market** : Imperfect market is a market which is not a perfect market. In this market we find some kind of maladjustment in demand and supply; buyers and sellers have no knowledge of other buyers and sellers.
- V **On Time Basis** : On the basis of time markets may be classified into
- (a) Very Short Period Markets.
- (b) Short Period Markets and
- (c) Long Period Markets.
- (a) **Very Short Period Markets** : It refers to markets which exist for a very short period normally a day. Such markets generally sell fruits, flowers, vegetables, milk etc.

- (b) **Short Period Markets** : These markets include weekly markets held in villages. Fairs are also included in this category.
- (c) **Long Period Markets** : Durable goods are purchased and sold in long period markets. In these markets goods may be held for a long period without any deterioration in quality.

VI On The Basis Of Nature Of Goods : On the basis of the nature of goods that are purchased and sold, markets may be divided into

- (a) Commodity Markets.
 - (b) Capital Markets.
 - (c) Foreign Exchange Markets.
- (a) **Commodity Markets** : These markets deal in different commodities. Consumer goods are purchased by ultimate consumers and industrial goods are purchased by manufacturers.
 - (b) **Capital Markets** : These include money markets, stock markets etc. In money markets borrowing and lending take place. In stock market shares, debentures, bonds etc are brought and sold.
 - (c) **Foreign Exchange Markets** : Foreign exchange markets deal in currencies of different foreign countries. These markets arrange foreign currencies to make payments for the imports from other countries. They convert home currency into currencies of foreign countries.

1.2.1. MEANING OF MARKETING : In the ordinary sense, marketing and selling are used in the same sense but strictly speaking they are not synonymous, they differ in their meaning. There is a line of demarcation between marketing and selling.

Meaning of Marketing : Marketing includes all activities involved in the production and distribution of goods and services desired by the consumers. Marketing occupies an important place in all business activities. According to modern marketing concept, marketing is essentially consumer oriented and it starts with product idea and ends with customer satisfaction. According to William Stanton "Marketing is a total system of interacting business activities designed to plan, price, promote and distribute want satisfying products and services to present and potential customers". Thus the main idea of modern marketing concept is customer - satisfaction.

1.2.3. MEANING OF SELLING : Selling is concerned with the transfer of goods and services to the consumers. It is mainly concerned with the plans to get the customers to exchange his money to goods and services. It is primarily concerned with the seller's interest.

1.2.4. DIFFERENCES BETWEEN MARKETING AND SELLING : The main difference between marketing and selling lies in their approach. Marketing is basically consumer - oriented. Selling on the other hand is product-oriented.

1. **Scope** : The scope of the term 'marketing' is much wider than that of the term "selling". Selling is one of the activities performed in marketing. Marketing includes all activities starting with the idea of producing a commodity in accordance with the needs of the customers and ending with the satisfaction of customers even after selling the commod-

ity. On the other hand selling refers to distribution of products already manufactured by the firm. Selling focuses on Sellers needs of converting his goods into cash.

2. **Object of Profit** : The object of marketing is to earn profits through satisfaction of customer's needs and desires. The profitability of a marketing oriented firm mainly depends on production of qualitative products to win the appreciation of consumers. Selling concentrates on earning profit on sale of more quantity of products.
3. **Orientation** : Marketing is consumer oriented and therefore it includes pre - production and post sale activities. Selling is basically production oriented and concentrates much on production.
4. **Emphasis** : Emphasis is given on product planning and development to match products with markets. It emphasises as introducing new technology. Whereas in selling, emphasis is placed on sale of goods already produced. It emphasizes on reducing cost of production with a view to maximize profits.
5. **Principle** : In marketing the principle of caveat vendor (let the seller beware) is followed, whereas in selling the principle of caveat emptor (let buyer beware) is followed.
6. **Importance** : The consumer occupies the prime of place in marketing process. He is given supreme importance by treating customer as a king. Product occupies pride of place in selling i.e. product enjoys supreme importance.

1.2.5. DEFINITIONS OF MARKETING :

- "Marketing includes all the activities involved in the creation of place, time and possession utilities" Professor Converses, Huegye and Mitchell.
- "Marketing is that phase of business activity through which human wants are satisfied by exchange of goods and services" - Pyle . J.F
- "Marketing is the business process by which products are matched with market and through which transfers of ownership are effected" - Prof. Cumdiff and Still.
- "Marketing is the process of getting the right goods to the right consumes at the right place and time and at the right price" - Prof. Benerjee.
- "Maketing in the creation and delivery of a standard of living" Malcom Menair.
- "Marketing is concerned with all the resources and acitvities involved in the flow of goods and services from producer to consumer" - Wheeler.

1.3. FUNCTIONS OF MARKETING

Prosperity of every business depends on the efficiency with which its products are marketed. To shift goods from a producer to an ultimate consumer a number of activities are performed which are called marketing functions. A marketing function is an act or operation or service by which the original producer and final sonsumer are linked together. If marketing functions are not properly carried out, the business unit may not be in a position to dispose off its products and all the efforts made for production may not bear fruits. The prime objective of marketing is to take the goods from the producer and perform all functions necessary to make them available to the ultimate consumers. In the process of marketing place, utility is created when goods and services are available at the places where they are needed, time utility when they are needed and possession utility when they

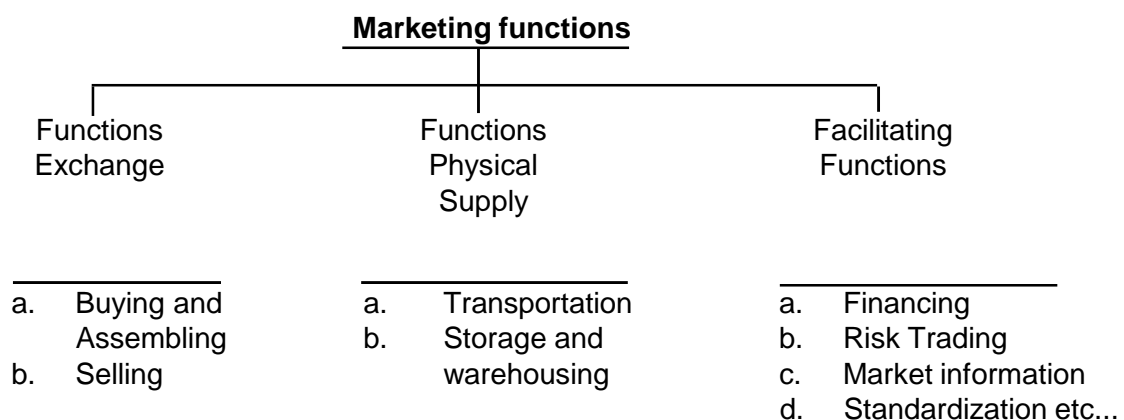
are transferred to those people who need them.

All the marketing functions can be divided into two types viz (i) Concentration and (ii) Dispersion. The process of concentration is concerned with gathering raw materials, manufactured goods at a central place namely market. Dispersion means distribution of goods to final consumers. Concentration involves a number of marketing functions like (a) Buying (b) Trading (c) Storing (d) Grading (e) Financing etc.

The process of distribution may include the following.

(a) Selling (b) Transportation (c) Grading, (d) Risk bearing etc.

Another classification of marketing functions is given by Professors Clark and Clark, which is widely accepted by one and all.



1.3.1. FUNCTIONS OF EXCHANGE : Exchange refers to transfer of goods and services form money's worth. This process can be divided into (a) Buying and assembling and (b) Selling.

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

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

- i) By inspection :** Under this method goods are bought after examining the goods by the buyer in the seller's premises.
- ii) By Sample :** A purchase by sample is made after the buyer examines the sample of goods supplied by the seller.
- iii) By Description :** Some sellers issue catalogues containing description of goods offered for sale. The intending buyer places an order specifying a particular number mentioned in the catalogue.
- iv) By Grading :** This refers to standard quality of goods. Under this method purchase can be made by telegram, telephone, or mail.

Assembling begins after the goods have been purchased. It refers to gathering of goods already purchased form different places at one central place. Assembling facilitates

transportation and storage, It is significant in case of seasonal goods and agricultural products.

2. **Selling** : The ultimate aim of every business is to earn profits and in realising this aim selling plays an important role. Nothing really happens until somebody sells something. Selling enables a firm to satisfy the needs of consumers. It is the process through which ownership of goods is transferred from the seller to the buyer. Sales are the source of income for the manufacturers, wholesalers and retailers.

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

1.3.2. FUNCTIONS OF PHYSICAL SUPPLY : There are two important functions under this classification (a) Transportation and (b) Storage and ware housing.

- A. **Transportation** : Transport means carrying of goods, materials and men from one place to another. It plays an important role in marketing. It creates place utility by moving goods from the place where they are available in plenty, to places where they are needed. Both assembling and distribution of goods are done by using transport. Transportation facilitates not only movement of goods from the places of production to the places of consumption but it also enables the consumers to go to marketing areas where there is wide choice of goods than in the places where they like. Transportation is also useful in stabilizing the prices of various commodities by moving them from the areas where they are in surplus to the areas where they are scarce. Various types of transport are used for carrying goods like (a) Land transport, (b) Water transport and (c) Air transport.
- B. **Storage And Ware Housing** : Storage is another function of marketing process and it involves the holding and preservation of goods from the time they are produced to the time they are consumed. Generally, there is a time gap between the production and consumption of goods. Therefore, there is need for storing so as to make the goods available to the consumers as and when they are required. By bridging the gap between production and consumption, storage creates time utility. It also creates place utility by holding goods at different places.

The importance of storage can be studied as follows.

- (i) Generally, goods are produced in anticipation of demand of the product in future market. All the goods are not sold immediately after production. For the unsold stock of goods storage is indispensable.
- (ii) Some goods are produced throughout the year but demand for them is only in a particular season. For example rain coats, umbrellas, diwali crackers etc. These commodities are to be stored till the arrival of the season.
- (iii) Many commodities are produced during a particular season but they are used throughout the year. Such goods have to be stored so as to make them available throughout the year. For example agricultural products.

- (iv) Certain products which can get higher prices in future market are stored for a longer period. For example, tobacco, liquor, rice, chillies etc.

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

- (i) **Private Warehouses** : Private warehouses are owned by big business units for the storage of their own goods. Only big business houses can afford to have such type of warehouses.
- (ii) **Public Warehouses** : These are the business concerns which offer storage space on rent. These warehouses are licenced by the Govt. They are helpful to businessmen who cannot afford to maintain their own warehouses. These warehouses are generally located near railway lines and main roads.
- (iii) **Bonded Warehouses** : These are located near the ports for the storage of imported goods. When the importer cannot pay customs duties immediately on the goods imported by him, he can store them in bonded houses. Importer can remove the goods in parts after paying import duty.

1.3.3 Facilitating Functions :

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

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

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

- (i) **Long - Term Finance** : It is needed for purchasing fixed assets like land, building, Plant & machinery, furniture etc. The main sources of this finance are shares, debentures, financial institutions.
- (ii) **Medium - Term Finance** : It is needed for raising working capital. The main sources are financial institutions and commercial banks.
- (iii) **Short - Term Finance** : It is mainly required for meeting short term payment normally for less than one year. It can be raised from commercial banks and trade creditors.
- b. **Risk Bearing** : Risk means the possibility of loss due to some unforeseen circumstances in future. Marketing process is confronted with risks of many kinds at every stage. Risk may arise due to changes in demand, a fall in price, bad debts, natural calamities like earthquakes, rains etc. The marketing risks may be classified under the following heads.

- (i) **Time Risk** : Goods are bought by the business with a view to sell them at a profit out of anticipated rise in prices in future. During the time lag conditions might change and the price may fall. Thus time risk is involved in marketing.
 - (ii) **Place Risk** : Place risk arises when the prices of the same product are different in different places. The businessmen may purchase goods in market where prices are low with a view to sell them at other places where the prices are high. But the price in the other market may come down causing loss.
 - (iii) **Competition Risk** : Businessmen have to face risk arising from the forces of competition. The competing firms may introduce modern methods of production due to which quality may be improved or cost of production may be reduced. Under such circumstances, a firm may be forced to sell at a loss which is called risk of competition.
 - (iv) **Risk of Change in Demand** : The manufacturers produce goods on large scale in anticipation of demand in future. But, sometimes the demand of the product may not come to expectations resulting in losses.
 - (v) **Risk Arising from Natural Calamities** : Risks from natural causes are beyond human control. These include rains, earthquake, floods, heat and cold. These risks cause heavy loss.
 - (vi) **Human Risks** : These risks arise due to adverse behaviour of human beings like theft, strikes, lockouts, bad debts etc.
 - (vii) **Political Risks** : Political risks arise due to change in political factors such as changes of government / changes in government policies etc.
- c. **Market Information** : According to Clark and Clark market information means "all the facts, estimates, opinions, and other information used in marketing of goods". The main object of any business is to create and maintain demand for the product produced. For this purpose market information is useful. On the basis of information the seller can know what type of goods are needed by the consumer, when and where they are needed and in what quantity.
- d. **Standardisation** : Standardisation means establishment of certain standards based on intrinsic qualities of a commodity. The quality may be determined on the basis of various factors like size, colours, taste, appearance etc. It is helpful to the consumers as they can safely rely on the quality of the standardised products.
- e. **Grading** : Grading means classification of standardised products in to certain well defined classes. In the words of Clark and Clark "It involves the division of products into classes made up of units possessing similar characteristics of size and quality". Grading is very important for agricultural products like Wheat, Cotton etc.
- Grading is of two types, fixed and variable. Fixed grading refers to the grading of goods according to fixed standards whereas variable grading refers to the application of varying standards.
- f. **Branding** : Branding means giving a name or symbol to a product in order to differentiate it from competitive products. It helps the consumers in identifying their products. Branding may be done by selecting symbols and marks such as Charminar cigarettes, Camel

inks, Binny textiles, or by using the name of manufactures such Ford cars, Godrej steel furniture. A good brand should be brief, simple, easy to spell and remember.

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

1.4. MARKETING CONCEPT

'Concept' refers to philosophy, an idea, an attitude or a notion relating to any aspect. Marketing concept means the philosophy of an organisation in relation to marketing of a product or service. According to Prof. Robert F Hartley marketing concept is "an integration of marketing activities directed towards customer satisfaction". Prof Philip Kotler defines it as "a customer orientation backed by integrated marketing aimed at - generating customer satisfaction, as the key to satisfying organisational goals".

The marketing concept greatly influences the management of marketing efforts. The management of an undertaking can adjust its ways of selling as per the marketing philosophy. The traditional objective of marketing is to make the goods available at the places where they are needed. This idea was later on changed by shifting the emphasis from 'exchange' to satisfaction of human wants.

1.4.1 EVOLUTION OF MARKETING CONCEPT : There are various stages in the evolution of marketing concept, which are as follows.

- 1) Self - Sufficient stage :** In the olden days each family was a self - sufficient unit as far as production and consumption functions are concerned. They produced as per their requirements i.e, practically there was no surplus for exchange. Therefore, the concept of marketing was absent in this stage.

1.4.2. EXCHANGE ORIENTED STAGE : In this stage the families produced more than their requirements leaving some surplus. This necessitated exchange of surplus products with others. For exchanges 'Barter System' came into existence. Under barter system goods are exchanged for goods. The greatest drawback of barter system is absence of double coincidence of wants. To overcome this defect - goods are brought to a central location so that exchange will take place smoothly. Thus 'Markets' came into existence.

1.4.3. PRODUCTION - ORIENTED STAGE : Under production oriented stage there is no need of any marketing effort if the product is good and its price is reasonable. This marketing concept was built on "Good wine needs no bush". That is if the product is of good quality and the price is reasonable there is no need of any special marketing efforts. It implies for good products, customer response is bound to be favourable. It appears that producers gave more emphasis to production than consumption. Under this concept, production is the starting point.

1.4.4. SALES - ORIENTED STAGE : Industrial revolution brought technological changes in industrial activities. Consequently drastic changes were reflected in the buying patterns and behaviour of consumers. There were revolutionary changes in the growth of transport and communications. All these changes compelled the manufacturers to realise the importance of marketing.

According to this marketing concept mere making available the best product is not enough. High pressure salesmanship and heavy doses of advertising are essential to move the products in the market. Even the best product can not be sold out in the market without the help of sales promotion and aggressive salesmanship. The essence of this concept is "Goods are not bought but sold". This concept states that goods are not bought but they have to be sold with the help of salesmanship, advertising and publicity. This philosophy has been prevailing since 1940. It is popular in selling all kinds of insurance policies, durable products, automobiles etc.

1.4.5. (5) CONSUMER ORIENTED STAGE : It is also called customer oriented stage. This philosophy was introduced after 1950. According to this the main task of any business unit is to study the needs, desires, wants of the consumers and produce goods accordingly. Here the starting point is consumer or customer than the product. All Business operations revolve around customer satisfaction and service. Marketing research provides information relating to wants, desires, aspirations etc of the consumers.

Two radical changes were brought about when this marketing concept was introduced.

- (1) Move from production to market orientation.
- (2) Gradual shift from caveat emptor (buyer beware) to caveat vendor (seller beware)

1.4.6. (6) SOCIAL ORIENTED STAGE : It is the broadest marketing concept. It takes into consideration not only consumer satisfaction but also social welfare. Social welfare speaks of pollution - free environment and quality of human life. Every organisation should adopt socially responsible marketing policies and plans in order to assure social welfare in addition to consumer welfare.

The socially responsible marketing concept is based on the following assumptions.

- (1) The manufacturer is to produce, those goods which are wanted by the consumers.
- (2) The manufacturer shall not offer a product to the consumer if it is not in the best interest of consumer.
- (3) He should offer long - run public welfare.
- (4) The firm should discharge its social responsibilities.

1.5. SUMMARY :

Market is a place where buyers and sellers meet together for the exchange title to goods.

Marketing includes all activities involved in the production and distribution of goods and services desired by the consumers. Marketing occupies an important place in all business activities.

The activities performed to shift goods from produce to ultimate consumers are called marketing functions.

Marketing concept refers to an idea or philosophy of an organisation in relation to marketing of a product or service.

According to consumer oriented stage of marketing concept, a business unit should sell those products which are actually needed by the consumers.

1.6. KEY WORDS

1. **Market** : Market refers to a place where goods are purchased and sold, e.g. Cotton market, Fruit market, cloth market etc. It is a place where buyers and sellers meet to effect purchases and sales.
2. **Marketing** : Marketing is a process which carries goods from original producer to ultimate consumer. It bridges gap between producer and consumer. Marketing is concerned with handling and transportation of goods from the point of production to the point of consumption.
3. **Selling** : Selling refers to transfer of goods services to the consumers. It is mainly concerned with the plans to get the customers to exchange their money to goods and services.
4. **Marketing Functions** : The activities or operations which are mainly concerned with taking the goods from producer to ultimate consumer are called marketing functions. These are necessary to make the goods and services available to the consumers.
5. **Marketing Concept** : It refers to an idea or philosophy or attitude of an organisation in relation to marketing of a product or service. It influences the management of marketing efforts.
6. **Self - Sufficient Stage** : Under this stage each family produces as per its requirements i.e. there cannot be any surplus for exchange.
7. **Exchange Oriented Stage** : In this stage the families produce more than requirements. There will be some surplus meant for exchange.
8. **Product Oriented Stage** : Here producers give more emphasis to production than consumption.
9. **Sales Oriented Stage** : According to this concept products cannot be sold automatically immediately after production. High pressure salesmanship and heavy doses of advertisement are essential to sell the goods in the market.
10. **Consumer Oriented Stage** : The main task of any business unit is to know the needs, wants, desires and fashions of the people and produce goods accordingly.
11. **Social Oriented Stage** : It is based on the assumption that a business unit should offer long run public welfare. It should discharge its social responsibilities.

1.7. SELF ASSESSMENT QUESTIONS

- (1) What's 'market' and 'marketing' ?
- (2) Define 'marketing' and distinguish from selling.
- (3) Explain briefly various functions of marketing.
- (4) What is 'marketing concept' ? Outline the evolution of 'marketing concept' from early days to date.
- (5) Explain the importance of 'branding', 'grading' and packing as marketing functions.
- (6) Write short notes on the following
 - (a) Market

- (b) Branding
- (c) Importance of transport in marketing
- (d) Kinds of business risks
- (e) National market
- (f) Commodity markets
- (g) Exchange markets
- (h) Capital markets
- (i) Perfect markets
- (j) Time and Place utilities.

1.8. FURTHER READINGS

- | | | |
|--|---|---|
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Lesson - II

MARKETING AND SOCIAL RESPONSIBILITY

OBJECTIVES

The objectives of this lesson are to enable you to :

- ◆ understand the application of Social Responsibility of marketing
 - ◆ evaluate the progress of consumerism in India.
 - ◆ discuss the concept of marketing ethics and highlight the implications.
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STRUCTURE

- 2.1 Introduction
 - 2.2 Social Pressures on marketing
 - 2.3 Marketing Responses to social pressures
 - 2.4 Social Responsibility of Marketing
 - 2.5 Public Action to regulate Marketing
 - 2.6 Environmentalism
 - 2.7 Consumerism
 - 2.8 Marketing Ethics
 - 2.9 Summary
 - 2.10 Self assessment Questions
 - 2.11 Further Readings
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2.1 INTRODUCTION

Marketing is understood as a social institution. Hence it is subjected to various pressures from society. Marketing has to respond to the pressures from society. Besides social pressures, the marketing also faces environmental pressures from the society. Marketing as it has been understood as a social institution has been subjected to regulations from the public. The public reaction to marketing can also be observed from the growth of consumerism. In addition ethics also play an important role in marketing.

2.2 SOCIAL PRESSURES ON MARKETING

Responsible marketers discover what consumers want and respond with right products, priced to give good value to buyers and profit to the producers. The marketing concept is a philosophy of customer service and mutual gain. Its practice leads the company by an invisible hand to satisfy the

many and changing heads of millions of consumers. All the companies do not follow marketing concept. The practices of some of the companies are questionable which strongly affect the interests of larger society. For ex: the production and sale of cigarettes which have many implications like.

- a) The health of the smoker is affected
- b) Smoking causes a financial burden on the family.
- c) Other people around the smoker are affected by the smoking
- d) The young people are also attracted to use cigarettes.

All these implications together with the following opinions place social pressures on marketing.

1) Impact on individual consumers :

The individual consumers complain on the following aspects relating to marketing

- a) charging high prices
- b) high cost of promotion and distribution.
- c) excessive profit margins
- d) deceptive practices in advertising and packaging
- e) offer unsafe products.
- d) poor services to poor consumers

2) Impact on Society:

The following are the complaints normally lodged by society on marketing :

- a) Increase in the materialism, resulting in offering products, which are materialistic in nature.
- b) Poor concentration on social products (like air pollution, traffic blocks etc.,)
- c) Imitation of culture resulting in mixing up of cultural products.
- d) Political influences also affect the societal welfare.

3) Impact on other businesses :

The criticism levelled against the marketing which had an impact on other businesses may be as under.

- a) acquisitions and mergers to obstruct competition.
- b) marketing practices that create barriers to entry
- c) unfair marketing practices.

2.3 MARKETING RESPONSES TO SOCIAL PRESSURES

For the criticisms levelled against marketing by various groups (individual consumers, society and other business) the marketers took a number of steps at national and international level. Some of the illustrations can be given as under :

1. Zenith set up a Customer Relations Department in 1968; Motorola opened an office of consumer affairs in 1970; General Electric runs a GE Answer Centre which handles consumer phone enquiries throughout the day.
2. A company of Johnson & Johnson introduced a meter to measure to monitor sugar levels. It was found that one meter was found to be defective. The company withdrew all the meters from the market immediately.
3. In India many trade associations were formed like FICCI, ASSOCHAM etc., and associations at local and regional levels.
4. Many of the manufacturers in India have been spending on research and development cost. In the automobile sector, fuel efficiency cars and motor cycles have been produced.
5. On all the products, MRP (Max. Retail Price), contents, price, date of package, batch no. etc., are printed.
6. In service organisations (like banks, insurance companies) the firms are providing their services to the door steps of the customers. Many of the Star Hotels introduced cards to receive comments and suggestions from customers. Consumers day, weeks are also being observed by organisations.

2.4 SOCIAL RESPONSIBILITY OF MARKETING

The concept of social responsibility is understood as the obligation to implement those policies, decisions and to follow those lines of action which are desirable in terms of the objectives and values of the society. As stated by Paul Mazur "Marketing is the creation and delivery of standard of living to the society." Hence marketing is expected to improve the quality of life of the society by not only providing qualitative products and services but to enrich the quality of environment.

From a marketing perspective, social responsibility also encompasses the socio - ecological view of marketing. According to this view, firms, their customers, and others should consider all the stages in a product's life span in developing, selling, purchasing, using and disposing of that product. These are times when social responsibility poses dilemmas for firms because popular goods and services may have potential adverse effects on consumer or social well being. Ex: Tobacco products, liquor, food with high taste appeal but less nutritional content.

Until 1960's, it was generally felt that marketing's role was limited to satisfying consumers and generating profits. Such resources as air, water, and energy are seen as limitless. Responsibility to the general public was rarely considered. Many firms now realise that they should be responsive to the general public, environment, employees, channel members, stock holders, competitors as well as customers.

Since marketing is understood as a social institution, it has to discharge many obligations towards a number of groups. The obligations of the marketing to the various groups may be summarised as under :

1. General Public and Environment :

- a) Community involvement
- b) Contributions to nonprofit organisations

- c) Product recycling
- d) Eliminating offensive signs and bill boards
- e) Proper disposing of waste materials
- f) Using goods and services requiring low levels of environmental resources.

2. Regarding employees

- a) Provide flexible internal communications
- b) Employee empowerment
- c) Employee training about social issues
- d) Recognising socially responsible employees

3) Channels of Distribution

- a) Honour both oral and written commitments
- b) Fairly distributing scarce goods and services
- c) Accepting reasonable requests by channel members
- d) Encouraging channel members to act responsibly
- e) No coercion of channel members.

4) Competition

- a) Adhere to high standards of performance
- b) No illegal or unethical acts to obstruct competition
- c) No actions that would lead competition to waste resources.

5) Stock holders

- a) Honest reporting and financial disclosure
- b) Publicity about company activities
- c) Stockholder participation in setting socially responsible policy
- d) Explaining social issues affecting the company

Reasons for social responsibility of marketing :

The reasons which favour social responsibilities of marketing can be advocated as under :

1) Achieve long term objectives :

Every company attempts to achieve both short term and long term goals. The short term goals are related to profit maximisation and long term goals are related to wealth maximisation. To achieve these, the companies have to discharge certain activities which are social in nature.

2) Improve Organisational Image :

It is very much necessary that organisational image is to be improved in order to sustain the market and to generate an image in the view of the public. Social obligations in various forms are necessary for enhancing image.

3) Awareness among consumers :

The reason increase in the awareness of consumers who are expecting qualitative products at responsible prices, The consumers have organised themselves into a number of associations to fight against malpractices, blackmarketing and adulteration etc.,

4) Avoid Government intervention :

If the business is resorting to anti social activities the Government will intervene through legislative and administrative measures. Hence the business has to undertake social responsibilities and retain the credibility in the society.

2.5 PUBLIC ACTIONS TO REGULATE MARKETING

There have been many social movements which are undertaken by various associations to regulate marketing. The movements resulted in the following two public actions :

- 1) Actions to protect environment which is known as environmentalism.
- 2) Actions to protect and educate consumers which is known as consumerism.

These two actions are explained as under :

2.6 ENVIRONMENTALISM

Environmentalism is an organised consumer movement of concerned citizens, businesses and Government agencies to protect and improve people's living environment. They want people and organisation to operate with more care for the environment. The objective of marketing is to improve quality of life of the people and not to maximise profits. The environmental movement in the world can be observed as under :

- a) The first stage of environmental protection measures were forced by consumer groups and environmental groups during 1960's and 1970's.
- b) The second stage of measures were driven by Government through regulations and legislations during 1970's and 1980's.
- c) The third stage of measures were initiated by companies themselves when they shifted from protest to prevention, regulation to responsibility.

Most of the organisations in the world face challenges from environmentalism. As international trade barriers have been reduced and global markets expanded, environmental issues have a greater impact as the international trade countries in North America, Western Europe have developed strict environmental standards. More than 24 legislations were introduced in USA on the environmental aspects. Countries like China, India, Russia etc., are in the early stages of the development of policies relating to environment. Moreover, environmental factors that motivate consumers in one country may have no impact on consumers in another country for ex: PVC Softdrink bottles cannot be used in Switzerland or Germany whereas they are preferred in France.

Efforts in India to protect environment :

The following are some of the efforts by voluntary organisations and Government in India to protect environment :

1. The Ganga cleaning project is an attempt to clean the river Ganges of the air and water pollution created by industries in the area.
2. Many of the transport departments in India have introduced necessary steps to replace old vehicles with certain high percentage of carbon dioxide.
3. Another movement called 'Chipko' was also organised to protect trees and forests in India.
4. Recycling of used material has also been undertaken by many marketing companies through the use of paper cartons, polythene etc.
5. Planned obsolescence is a marketing practice that capitalises on short run material wear out, style changes and functional product changes.
6. Environment protection Act 1986 was passed by Government to initiate actions against the companies involved in environment pollution.

2.7 CONSUMERISM

Consumerism encompasses the wide range of activities of Government, business and independent organisations that are designed to protect people from practices that infringe upon their rights as consumers. In the developed countries, the interests of the consumers was widely recognised and a series of measures have been taken up. In the developing countries, the measures to protect the interests of consumers are at the introductory stages.

The growth of consumerism can be observed from the following :

1. In the first stage during the 1900's the emphasis was on protection against unfair trade practices.
2. In the second stage during 1930 - 1950's, consumer groups and consumer were unions formed to highlight the problems of consumers.
3. In the third stage during 1960 - 1980, US President John F. Kennedy introduced consumer bill of rights in USA and these rights have been accepted in most of the countries.
4. In the fourth stage during the 1980's, consumerism entered a mature phase and the emphasis was on business deregulation and self regulation.
5. In the fifth stage during the 1990's, the consumer laws have been balanced with business laws.

Need for consumer protection :

The need for consumer protection arises because of the following important reasons :

1. Consumer needs physical protection against products and services that are unsafe and endanger health and property of the consumers.
2. Consumer needs protection against deceptive and unfair trade practices followed by business sector. Today the consumer is the victim of business mal-practices and frauds.
3. Consumer needs protection against the abuse of monopoly and restrictive trade practices. It is also known that monopoly is a source of consumer exploitation in terms of higher prices and lower quality.
4. Consumer needs protection against non-commitment of sellers. In many cases, it was exhibited that goods once sold will not be taken back. Many sellers are selling defective goods and do not take them back.

5. Consumer needs protection against pollution of all kinds. For ex: Chemical factories, fertiliser plants are producing more items of air and water pollution affecting the health of people.

The Consumerism is that philosophy which forces the marketing managers to look at the goods and services from the view of consumers. A satisfied customer is the real asset for a marketer and the marketer should use consumer satisfaction for their benefits. Consumerism as a protest against unfair business practices aims at removing them or reducing them to enhance consumer acceptance of the products.

Consumer rights :

It was John F. Kennedy, the Former-President of America who spelled out the consumer rights in the year 1962. These six rights can be outlined as under :

1. Right to protection of Health and Safety :

There are many products which cause physical danger to consumer health, lives and property. They contain potentially harmful substances that are dangerous from the consumer welfare point of view. For ex: food additives, colours, preservatives etc., The health hazards that are likely to arise are to be eradicated or reduced considerably. In case of food items, drugs, home appliances etc., their safety is to be guaranteed. There is a need to protect the consumers from false, misleading and deceptive advertisements. The consumers who rely on the advertisement and buy the products find themselves cheated are to be protected.

2. Right to be informed :

This implies that the manufacturer and the dealer are expected to disclose all the material facts that are going to affect the economic and social interests of consumers. The supply of information must be adequate, accurate, verifiable and legal sanctions. Such an information provides wide choice to the consumers in making sound decisions on buying. The package of the product must provide full details relating to name and place of the manufacturer, date of packing, date of expiry contents, batch no etc., This information saves the consumer from loss of time and effort in decision making

3. Right to Choose :

Consumer satisfaction is the final aim of marketing and is the philosophy of marketing concept. Consumer satisfaction can be increased by providing wide choice to the consumer. Right to choose implies the monopoly is set aside by the consumers. It means that consumers encourage competition among the producers and dealers, so that there will be improvements in quality, reduction in costs, and increase in quantity produced so that maximum number of consumers can be benefitted.

4. Right to be heard :

Consumer has the right to ventilate and register his dissatisfaction, disagreement, and get his complaint heard. This gives power to the Government to intervene between the buyers and sellers and thus grant the justice to the aggrieved party. This right is very important and in the absence of this right, all other rights tend to be useless.

5. Right to be redressed :

The aggrieved buyer should be granted compensation by bringing due adjustment in the transaction. There should be fair and just settlement of cases. As per the terms and conditions of

sales, the customer is to be compensated through warranties and guarantees. These types of adjustments attempt to reduce the post - purchase dissatisfaction. This right ensures existence of an acceptable mechanism for asserting the rights.

6. Right to quality of life :

Quality of life refers to the perceived well being of people in groups and individually, and the well being of the environment in which these people live. Recently, consumerism has been defined as "improvement in equality of life." The consumers should be left free from all types of pollution to make a happy and healthy living.

Measures to promote consumer protection in India :

The different measures to promote consumer protection in India are the following.

1. Voluntary organisations :

There are many organisations which are formed to protect the consumers. These organisations include.

a) Associations formed by Business :

These include Chambers of Commerce and trade, Federation of Indian Chamber of commerce and industry, Manufacturers Associations, Management Associations etc., which are formed voluntarily to plan and implement measures relating to protection of business and consumers.

b) Consumer Associations :

There are a number of consumer associations which are formed at National and local levels. These are Consumer Guidance Society of India at Bombay, Consumer Education and Research Centre at Ahmedabad, Consumer Action Forums, and Consumer Service Societies. However, these organisations suffer from lack of persistent and motivated members, inadequate finance and over shadowed by the influence of politicians.

2. Legislation by Government :

The Government introduced a number of legislations which include the following.

- i. The Essential Commodities Act 1955
- ii. Weights and Measures Act 1956
- iii. The Drugs and Cosmetics Act 1954
- iv. The Prevention of Adulteration Act 1954
- v. The Environment Protection Act 1986
- vi. The Consumer Protection Act 1986

The Consumer Protection Act 1986 is the most specific and relevant act for today. Under the Act, three-tier Quasi-judicial machinery was set up.

- i. District Forums at the district headquarters.
- ii. State Commission at the state Capital
- iii. National Commission at Delhi

These three institutions are authorised to deal with consumer grievances at different levels. Both the Central and State Government are given powers to appoint members of these commissions. While appointing the members of these commissions, the Governments consider experts in the field of law, economics, commerce, industry accountancy, and public administration etc., The cases referred to the above commissions are based on the amounts of compensation claimed.

2.8 MARKETING ETHICS

Ethics in marketing is concerned with the moral standards used to influence the behaviour of managers and to determine what is right or wrong. In the decisions related to marketing, the following guidelines are to be observed :

- a) It should aim to have fair dealings with every one dealing with it.
- b) It should be based on broad guidelines of what should be done and what should be avoided.
- c) Any violation of ethical behaviour should be detected and rectified at the earliest possible time.

The following are the various decisions related to unethical behaviour in marketing:

1. The decisions related to product include brand similarity and packaging. There have been many occasions where there are similarities among the competition products.
2. The decisions related to price includes price collusions, price discrimination and unfair pricing. The competition in pricing has become a potential strategy to counter competitions.
3. The decisions related to distribution include some of the segments which are unprofitable are not taken up, and the distributors resorting to collusion among them by tie up arrangements.
4. The decisions related to promotion include gifts and bribes offered for sale.

2.9 SUMMARY

There have been many social pressures on marketing. The marketing has been responding to social pressures in different ways. Social responsibility is one of the important strategies adopted by marketers. There have been two important public actions to regulate marketing. They are environmentalism and consumerism. In India, the Government has been taking a series of measures to protect environment and consumers. The marketers are also expected to demonstrate ethical behaviour in their decisions.

2.10 SELF ASSESSMENT QUESTIONS

1. Write an Essay on the Social Responsibility of Marketing?
2. What is consumerism? How is consumerism implemented in India?
3. What are the efforts to protect environment in India.

2.11 FURTHER READINGS

1. Gary Armstrong and Philip Kotler " Marketing - An Introduction", Pearson Education Asia, New Delhi 2001.
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3. C. N. Sontakki "Marketing Management" Kalyani Publishers, New Delhi.
4. William J. Stanton "Fundamentals of Marketing" Mc Graw Hill International Company Ltd.,
5. Dr RL Varshney and Dr SL Gupta. "Marketing Management - An Indian Perspective" Sultan Chand & Sons, New Delhi.

Lesson - III**MARKETING ENVIRONMENT****OBJECTIVES**

The objectives of this lesson are to make you understand the

- ◆ concept of environment and the need for study of marketing environment
- ◆ influence of various types of environment on marketing decisions.
- ◆ importance of environmental analysis on marketing of various products and services.

STRUCTURE

- 3.1 Concept of Environment
- 3.2 Need for Environmental analysis
- 3.3 Marketing Environment - Classification
- 3.4 Influence of environment on marketing
- 3.5 Importance of environment analysis
- 3.6 Summary
- 3.7 Self Assessment Questions
- 3.8 Further Readings

3.1 CONCEPT OF ENVIRONMENT

Environment in general can be defined as "surroundings which influence a particular activity". The market is also influenced by a number of forces which are part of the marketing environment. Marketing Environment can be defined as the forces and actors that affect the ability of a company to develop and maintain successful relationships with its target customers. The organisations which are producing a number of products, services are influenced by a group of factors which are operating within and outside the organisation. The environment within which the organisations are operating is dynamic and uncertain. The different forces of environment provide a number of opportunities and threats to the organisations. Hence, a marketer must develop marketing mix decisions as per the changes in the marketing environment.

3.2 NEED FOR ENVIRONMENTAL ANALYSIS

Environmental analysis attempts to give an extensive insight as the current market conditions as well as of impact of external factors that are uncontrolled by marketers. These variables play an important role in convincing potential customers regarding changes in market trends, market conditions etc., For ex: Tamil Nadu is considered as a favourite place for the establishment of car projects

as the Government provided a five year tax holiday for them. The changes in the Indian economy after 1991 resulted a drastic change in the Indian marketing environment. Electronics, Soft ware, Passenger Cars, Telecommunications etc., are the various sectors which are affected by the changes in the Indian economy.

In analysing the environment five important stages are indentified for the pupose of analysis.

1. Audit of Environment :

This involves vouching, checking and inspection of the various forces of environment. The various elements of marketing environment are to be identified and a clear examination of these elements is to be undertaken.

2. Assess Nature of Environment :

The assessment of the environment has to be undertaken with reference to identification of the nature in terms of micro, macro, controllable and uncontrollable etc.,

3. Key Environmental Factors :

The key environmental factors which will have a significant impact on marketing decisions are to be identified. Some of them are resources, men, technology etc.,

4. Identify opportunities and threats :

In view of the changes in the variables of environment, the various opportunities and threats are to be identified. The opportunities may come in the form of improved sales, markets, increased customer satisfaction etc.,

5. Strategic Decision making :

The decisions are to be taken in view of the analysis of the nature of variables of environment, and the potential opportunities and threats etc. The decisions are related to changes in the combinations of product line and mix, pricing, promotion and distribution etc.,

3.3 MARKETING ENVIRONMENT - CLASSIFICATION

The marketing environment may be classified as under :

1. Internal
2. External

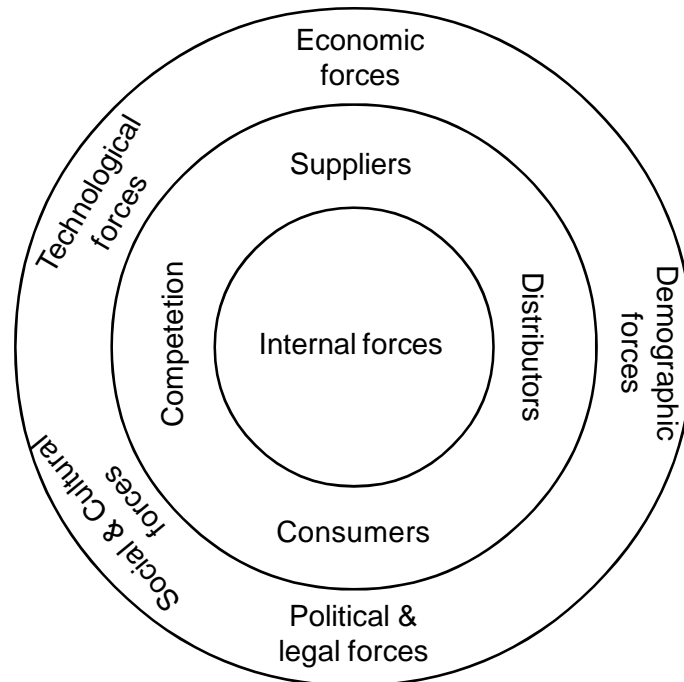
It can also be classified as

1. Micro
2. Macro

Further, another classification is as under :

1. Controllable forces
2. Uncontrollable forces

The various forces of marketing environment may be shown in the following diagram :



Source : Dr RL Varshney & Dr SL Gupta Marketing Management - An Indian Perspective p - 24

3.4 INFLUENCE OF ENVIRONMENT ON MARKETING

The influence of environmental factors on marketing can be discussed as under :

1. Micro Environment :

The following are the components of micro environment :

a) Internal factors :

The organisations internal environment consists of policies, financial and human resources, production technology, and capacity etc., The decisions related to product planning, branding, packing, pricing, promotional budgets etc., are influenced by the policies and attitude of top management. Any decision in relation to marketing is also based on the availability of financial and human resources. The adequate supply of capital, continuous flow of resources, availability of skilled, qualified and talented employees will influence the decisions in the field of marketing. The use of technology (traditional and modern) and the capacity installed and use of the plant and machinery will have a considerable influence on the marketing decisions. The marketing managers should take the appropriate decisions on the basis of over all objectives of the organisation and the objectives of marketing department.

b) Influence of other groups :

The influence of other groups as a component of micro environment can be analysed as under:

i) Suppliers :

The organisations require a variety of raw materials, inputs, finance for a continuous flow of their activities. The services of suppliers is of great significance as they affect the company's flow of production, delivery plans, production cost and marketing efforts. A co-operative environment is to be created between the suppliers and the organisation. The agencies which supply raw material, banks and other financial institutions which supply necessary flow of credit to the organisation play a vital role in the marketing decisions of any organisation.

ii) Intermediaries :

Much of the marketing activity is being influenced by the intermediaries in the marketing. The intermediaries include firms and people involved in physical distribution of products and services (agents, distributors, stockists etc.) who provide time, place and ownership utility for the products and services. The other types of intermediaries are wholesalers, retailers etc., who provide the necessary link between organisations and consumers. The marketing activities are also undertaken by transport firms, warehousing organisations. Transport firms include rail, road, air, water transport agencies which are owned by Government and private organisations. Other service organisations including advertising agencies, insurance companies etc., are also involved as intermediaries in marketing. These intermediaries provide qualitative service in an efficient and effective manner.

iii) Customers :

Another important group in the micro environment are customers. The customers constitute a very important aspect in the micro environment of an organisation as they are the central point for the marketing activity. The customers may be classified into final users or consumers, industrial users, Government, resellers etc., The needs, requirements and expectations of each of the groups is different and hence the organisations have to implement different marketing policies to satisfy these different groups. The marketing concept emphasises that consumer satisfaction is the key for the success of any marketing activity.

iv) Competition :

The marketing decisions of any organisation are influenced by the competition existing in the market. The competition may be in the form of perfect competition, monopolistic competition etc., Today many of the organisations force oligopolistic competition. The features of this type of competition are no different in the case of products, services, same price for all products of same category. Advertising and sales promotion play an important role in influencing consumers. For ex: in case of tooth pastes, soaps, TV's, refrigerators, automobiles etc., the type of competition existing is oligopoly. The competition for attracting consumers money also exists between non-similar products and services.

v) Other Public Organisations:

The marketing decisions are also influenced by a number of public organisations. These include Government departments, consumer councils, stock exchanges, media, etc., These different groups always watch the decisions of the organisations and interpret them from the view point of providing societal welfare. The reports which appear in the newspapers and TV on the progress of each industry provide frame work for improving their functioning.

2) Macro Environment

The variables of Macro environment may be classified as

- a) Economic Environment
- b) Demographic Environment
- c) Socio - Cultural Environment
- d) Political & Legal Environment
- e) Technological Environment

These can be analysed as under :

1. Economic Environment

Economic environment is the most significant component of the marketing environment. The economic factors can be subdivided into economic conditions prevailing in a country, industrial conditions and availability of resources for production.

a) Economic Conditions :

The economic conditions prevailing in a country are related to the different components like economic system, per capita income trends, pattern of income distribution, pattern of savings and expenditure price levels, employment trends, agricultural and industrial output trends, impact of Government policies etc.,

b) Industrial conditions :

The organisations have to understand the influence of industrial conditions which include market growth of the industry, demand patterns of the industry, and stage in product life cycle.

c) Availability of resources for production :

Supply of resources are required for production determine inputs which are available for production. The most important resources required for production are land, labour, capital, machinery and managers.

The economic environment describes the overall economic situation in a country and helps in analysing GNP per Capita, rate of economic growth, inflation rate, interest rates, unemployment etc., Therefore it is necessary to examine the economic environment carefully before taking any decision.

2) Demographic environment

This environment explains the pattern and changes in economy based on population, city size, nationality, age, sex, education, marital status, family size, religion, family life style etc., The variables of demographic environment is useful for market segmentations targeting and positioning. The environment also provides quantitative and qualitative aspects of the population. The demographic features of Indian environment can be presented as under : (2001 census)

- a) Population - 102.70 crores
- b) Male -53.1 crores; Female - 53.1 49.6 crores
- c) The heavily populated the cities are Calcutta, Chennai, Mumbai, Hyderabad, Delhi, Chandigarh, Mahe, Howrah, Kanpur and Bangalore
- d) Literacy rate - 65.38%
- e) People living in urban - 25.7%, and rural areas 74.3%

- f) The division of population according to education is on the basis of Primary, Secondary, College, Post-Graduation and Professional courses.
- g) Religion wise India has many religions including Hinduism, Islam, Christianity, Buddhism, Jainism etc.,
- h) Age wise, people belong to different age groups Viz., 0-4, 5-14, 15-59, 60 plus etc.,
The other variables like family size like people with one child, two children and more than two children etc., life style in terms of attitudes, interests, opinions etc., will also play a significant influence on marketing environment.

3. Socio - Cultural Environment :

The social environment of a country influences the value system of the country which affects the marketing of products. The social factors which influence the marketing environment are caste, customs, conventions, cultural heritage, etc. In the Indian social environment, the changes that took place are as under :

- a) Break up of the joint family system
- b) Women employment
- c) Changes in the attitude towards physical fitness.
- d) Increase in the attitude towards education.

The change in the quality of life of the people also brought about many changes in the purchase of goods and services. For Ex: The people are preferring various automobile products like Motor Cycle, Car etc., Products like washing machines have also become very popular products now - a - days.

The social environment has the following directions :

- a) Change in life style of people
- b) Increasing concern for social problems
- c) Growth of consumerism.

The marketing decisions are based on recognition of needs and wants of the customers. These help in understanding of lifestyles and behaviour patterns as they have grown in the society in which the individuals have been groomed. Each society contains sub-cultures, various groups with shared values emerging from their special life experience or circumstances. There are some core cultural values which are found in the society deep rooted and stable and hence change very little.

4. Political & Legal Environment

Marketing decisions are also affected by the forces of political and legal environment. The political changes may take the following forms :

- a) Stability of tenure of Government
- b) Political parties and their philosophies.

Political factors play a major role in in shaping the environment in which business organisations operate. Thus a marketer has to study and analyse risks and opportunities involved in political changes. The political factors which are to be considered are :

- i) Role of public and private sector in the economy.

- ii) Changes in Government policy
- iii) Importance of small scale industry
- iv) Growth of service sector in the economy

Marketing decisions are strongly influenced by laws relating to competition, price, advertising etc., It is necessary for a marketer to understand the legal environment in the country. The following laws are important :

1. Essential Commodities Act 1955
2. Weights & Measures Act
3. Drugs & Cosmetics Act
4. Trade and Merchandise Marks Act 1958
5. Monopolies & Restrictive Trade Practices Act 1969
6. Environment Protection Act 1986
7. Consumer Protection Act 1986
8. Tax Laws (Direct and Indirect taxes Acts)
9. The water (Prevention and control of Pollution) 1974

The legislations and judicial rulings given by the courts influence the marketing environment of any organisation.

5 Technological Environment :

The technological environment provides an opportunity and a threat for the growth of the organisation. The factors to be considered in technological environment include:

- a) Expenditure on research and Development
- b) Concentration on product improvements
- c) Unlimited innovations in technology
- d) Emphasis on regulation of technological change.

The technological environment in India is influenced by the technology policy which is formed by the Government of India and updated from time to time. The new economic policy covers the following aspects :

- a) Selecting the few areas where research is to be concentrated
- b) Open systems are required to assimilate the advances achieved.
- c) Technology is an area of planning initiatives that India cannot afford to neglect.

Advances in technology are however difficult to predict. However, the marketer should consider potential, technological developments determined from resources committed by major industries or the Government. Being in a market, that is rapidly changing due to technological development, will require the marketer to make careful short-term marketing decisions as well as being prepared with contingency plans given, any new technological developments that may affect product or services.

3.5 IMPORTANCE OF ENVIRONMENT ANALYSIS

The marketing manager needs to understand the challenges of environment and the following benefits will be obtained by environmental analysis :

1. It helps to create a general understanding about changes in the environment to face challenges.
2. It guides to better planning of strategies relating to Government and other departments.
3. It also suggests necessary changes in the allocation of scarce resources and to plan for necessary diversifications.
4. It also helps to identify various opportunities and threats which are posed by environment.
5. It provides a base for qualitative and objective information about the environment and helps to design necessary marketing strategies.
6. It provides a broad and general education for managers to implement necessary strategies.

The marketing management is concerned with matching of the requirements of the organisation with the factors of business environment. The environmental forces faced by the organisation vary in their complexity and reflect on the decisions of the organisation.

3.6 SUMMARY

The marketing environment is the sum total of internal and external factors which the organisation operates. Some of the factors of the environment are controllable and some of them are uncontrollable. The marketing manager must obtain deep and up-to-date knowledge of all these forces as his marketing strategy is influenced by these at every step. The four P's namely product, price, place and promotion are forced to change as per the changes in the environmental forces.

3.7 SELF ASSESSMENT QUESTIONS

1. Define marketing environment. Explain the need for understanding marketing environment.
2. What are the forces of economic, socio-cultural environment on the marketing decisions?
3. How do political, legal and technological environments affect the marketing decisions?

3.8 FURTHER READINGS

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Lesson - IV

STRATEGIC MARKETING PLANNING

OBJECTIVES

The objectives of this lesson are to enable you to:

- ◆ appreciate the importance of strategic marketing planning;
- ◆ distinguish between strategic marketing and marketing management;
- ◆ understand the steps involved in the marketing process;
- ◆ analyse different approaches to marketing planning;
- ◆ identify the competitive strategies adopted by different players in the marketplace; and
- ◆ know the components of marketing plan.

STRUCTURE

- 4.1 Strategic Marketing
- 4.2 Need for Strategic Planning
- 4.3 Strategic Marketing Vs Marketing Management
- 4.4 The Marketing Process
- 4.5 Approaches to Marketing Planning
- 4.6 Competitive Analysis and Strategies
- 4.7 Components of Marketing Plan
- 4.8 Summary
- 4.9 Key words
- 4.10 Self Assessment Questions
- 4.11 Further Readings

4.1 STRATEGIC MARKETING

One of the major challenges facing today's enterprises is how to build and maintain viable businesses in a fast changing marketplace and business environment. In the West, in the 1950s, the answer was thought to lie in increasing production efficiency. In the 1960s, and 1970s, despite the opening up of the Western economies, companies sought growth and profits through vigorous acquisition and diversification programmes. They saw their businesses as constituting an investment portfolio to which they added promising businesses and removed faltering businesses. In the 1980s, however, the agenda shifted to strategic marketing. Market segmentation, market targeting, differentiating and positioning the market offering, etc., dominated the agenda.

The conditions that existed in the developed economies about two decades ago are becoming increasingly relevant in India today. With the opening up of economy, the survival of any business lies with the successful management of its markets. Thus, a changing environment is a necessary presumption for a strategic marketing context. Discounting certain situational factors, whether it is in the West or in India or elsewhere environmental change was influenced by:

- ◆ A loose regulatory environment leading to free enterprise and resultant fierce competition;
- ◆ Availability of a wide variety of good quality products to consumers;
- ◆ Adequate supply at the consuming points to meet demand as it arose;
- ◆ Income and savings reached a wide population;
- ◆ Communication technology broke many barriers and the information search was greatly facilitated.

4.2 NEED FOR STRATEGIC PLANNING

In a changed setting described above, it is interesting to know how the companies compete in a global marketplace. Philip Kotler found that one part of the answer is a commitment to creating and retaining satisfied customers. He added a second part to this answer: Successful companies and high-performance businesses know how to adapt to a continuously changing marketplace. They practise the art of market-oriented strategic planning. According to Philip Kotler, "Market-oriented strategic planning is the managerial process of developing and maintaining a viable fit between the organisation's objectives, skills, and resources and its changing market opportunities. The aim of strategic planning is to shape and reshape the company's businesses and products so that they yield target profits and growth." Strategic planning takes place at four levels: Corporate, division, business unit and product.

Strategic planning calls for action in three key areas. The first-calls for managing a company's businesses as an investment portfolio. Each business has a different profit potential, and the company's resources should be allocated accordingly. The second key area involves assessing accurately each business by considering the market's growth rate and the company's position and fit in that market. It is not sufficient to use current sales or profits as a guide. For example, if the Ford Motor Company had used current profits as a guide to investment in the 1970s, it would have continued to pour money into large cars, since that was where it made its money at that time. But Ford's analysis showed that the profits on large cars would dry up. Therefore, Ford needed to reallocate its funds to improving its compact cars, even though the company was losing money on compact cars at that time. The third key area of strategic planning is strategy. For each of its businesses, the company must develop a game plan for achieving its long-run objectives. Because there is no one strategy that is optimal for all companies in that business, each company must determine what makes the most sense in the light of its industry position and its objectives, opportunities, skills and resources.

STRATEGIC LINKAGES

The relationship between strategic planning for the corporation, the business units within the corporation, and marketing strategy is shown in Figure - 4.1.

Marketing plays a critical role in the company's strategic planning process. In the words of a strategic planning manager of General Electric:

"The marketing manager is the most significant functional contributor to the strategic planning process, with leadership roles in defining the business mission: analysis of the environmental, competitive, and business situations; developing objectives, goals and strategies; and defining product, market, distribution, and quality plans to implement the business' strategies. This involvement extends to the development of programmes and operating plans that are fully linked with the strategic plan."

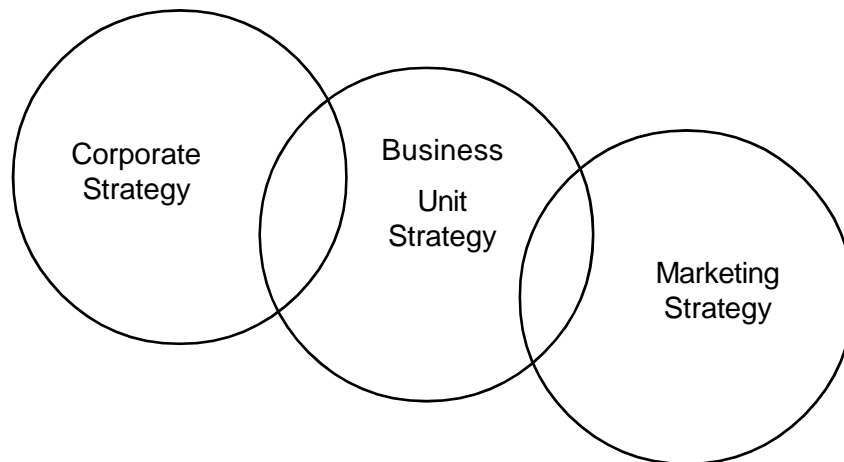


Figure 4.1 Strategic Linkages

Source : David W. Cravens, *Strategic Marketing*, Richard D. Irwin, Homewood, Illinois, 1987, p.12

Thus, the chief marketing executive's strategic planning responsibility includes: (1) participating in corporate strategy formulation, and (2) developing business unit marketing strategies in accordance with corporate priorities. Since these two areas are closely interrelated, it is important to examine marketing's role and functions in both areas to gain more insight into marketing's responsibilities and contributions. Peter Drucker describes this role:

"Marketing is so basic that it cannot be considered a separate function (i.e., a separate skill or work) within the business, on a par with others such as manufacturing or personnel. Marketing requires separate work, and distinct group activities. But it is, first, a central dimension of the entire business. It is whole business seen from the point of view of its final result, that is, from the customer's point of view."

4.3 STRATEGIC MARKETING VS. MARKETING MANAGEMENT

The totality of the marketing management task is to address the customer's needs through the means of the marketing mix and in the context of an environment. In the words of Rakesh Khurana and Ravichandran, "The point at which conventional marketing wisdom tends to become strategic is where the timeframe that is envisioned by the marketer becomes long-term. Any marketing activity invariably takes into account the environment in which the business activity is taking place. It is never independent of it. But the essential difference is that in conventional marketing management the environment is assumed to be given while in a changing environment or in an environment, that is projected to change in a certain manner and over a period of time, it is imperative that marketing becomes strategic." The major difference between strategic marketing and marketing management are explained in Table. 4.1.

Table-4.1 Major Differences Between Strategic Marketing and Marketing Management.

Point of Difference	Strategic Marketing	Marketing Management
Timeframe	Long-range i. e., decisions have long-term implications	Day-to-day; i. e., decisions have relevance in a given financial year
Orientation	Inductive and intuitive	Deductive and analytical
Decision process	Primarily bottom-up	Mainly top - down
Relationship with environment	Environment considered ever-changing and dynamic	Environment considered constant with occasional disturbances
Opportunity sensitivity	Ongoing to seek new opportunities	Ad hoc search for a new opportunity
Organisational behaviour	Achieve synergy between different components of the organisation, both horizontally and vertically	Pursue interests of the decentralised unit
Nature of job	Requires high degree of creativity and originality	Requires maturity, experience, and control orientation
Leadership style	Requires proactive perspective	Requires reactive perspective
Mission	Deals with what business to emphasise	Deals with running a delineated business

4.4 THE MARKETING PROCESS

Marketing managers follow marketing process in order to carry out their responsibilities whether at the corporate, division, business, or product level. According to Philip Kotler,

"The marketing process consists of analysing marketing opportunities, researching and selecting target markets, designing marketing strategies, planning marketing programmes, and organising, implementing, and controlling the marketing effort." The steps involved in the marketing process are discussed hereunder:

Environmental Scanning

The exercise will begin with an assessment of marketing environment through monitoring factors such as political set-up, economic conditions and technology. One must make a thorough scan of the business environment with a view to identifying new opportunities and/or threats. In this connection, marketing research will serve as an indispensable marketing tool for assessing buyer wants and behaviour and assessing market size.

Formulation of Marketing Strategy

An important input at this stage is competitive analysis. A firm must be in a position to identify its own strategic choices against the perspective of the strategies adopted by the competitors. A firm's chosen strategy emphasises every aspect of the marketing mix. Further, it is more likely that one element of the marketing mix may dominate the strategy (called the 'core strategy') and the rest may act as supporting strategies.

Planning Marketing Programmes

Marketing managers, must transform marketing strategy into marketing programmes by making decisions about marketing expenditure, marketing mix and marketing allocation. The company has to decide now to divide the total marketing budget among the various tools in the marketing mix, viz., product, price, place and promotion. It is the responsibility of the marketers to allocate the marketing budget to the products, channels, promotion media and sales areas.

Strategy Implementation and Control

After the details of a chosen strategy have been worked out, it is important to pay attention to continuous implementation. Updating the systems of the organisation, especially the information systems, the management reporting systems and reward systems is a key requirement in strategy implementation. Selecting, training, directing, motivating and evaluating marketing personnel is another key requirement. Because of rapid changes in the marketing environment, each firm needs to reassess its marketing effectiveness periodically.

Figure 4.2 exhibits the factors influencing a firm's marketing strategy.

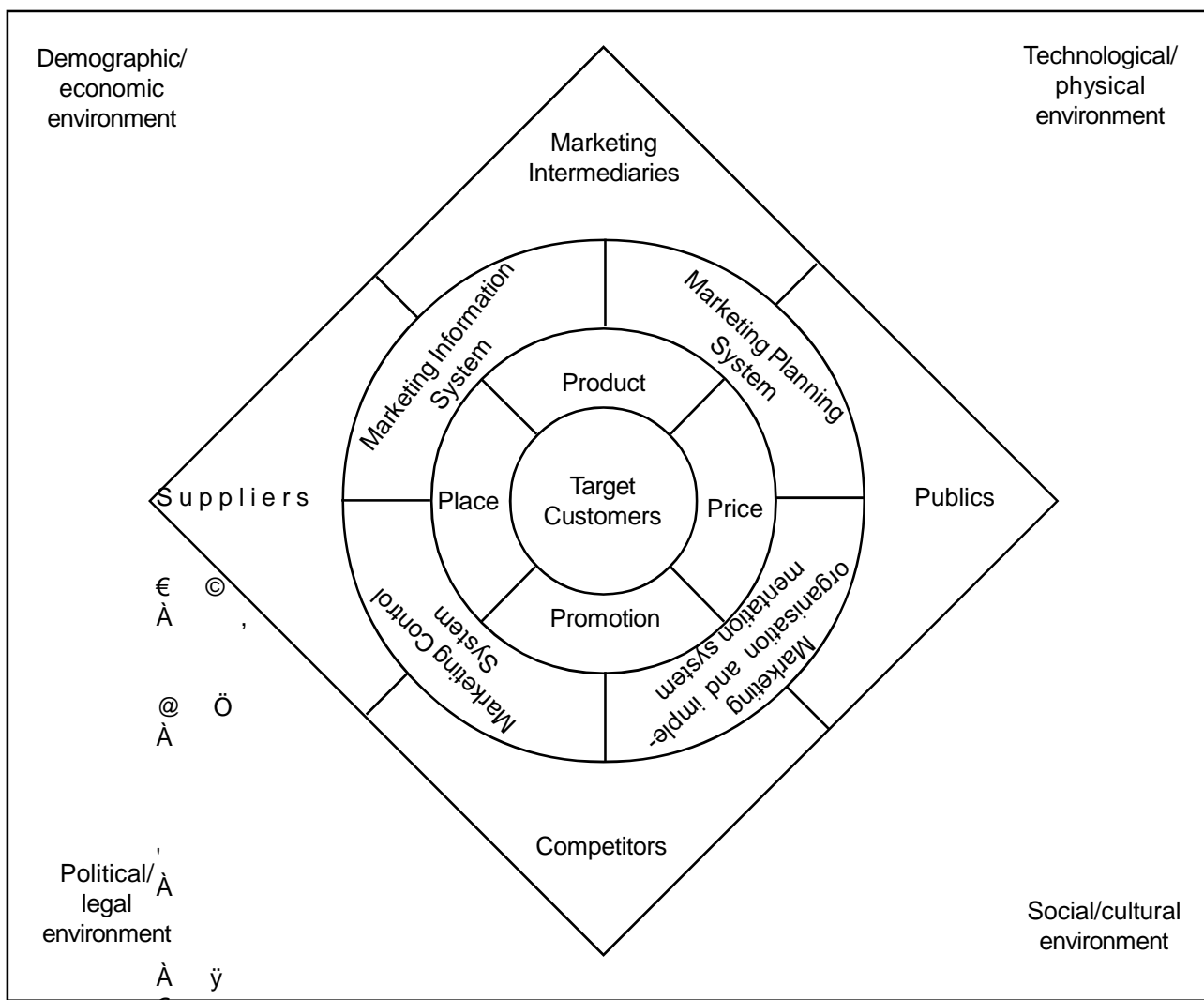


Figure 4.2: Factors Influencing a Firm's Marketing Strategy

4.5 APPROACHES TO MARKETING PLANNING

Different authors and consultant firms have recommended different approaches to marketing planning. Some of the approaches are: Profit Impact of Marketing Strategies (PIMS), portfolio models, and competitive analysis.

4.5.1 Profit Impact of Marketing Strategies (PIMS)

It is one of the path-breaking approaches to strategic planning and competitive strategy development. The Strategic Planning Institute of the USA sought to identify the most important variables affecting the profits by launching a study called Profit Impact of Marketing Strategy (PIMS). For the purpose, it gathered data from hundreds of business units in a variety of industries and identified the most important variables associated with the profitability. Market share is one among the key variables thus identified affecting profitability.

According to a PIMS report, "The average return on investment (ROI) for business with under 10 per cent market share was almost 9 per cent..... on the average, a difference of ten percentage points in market share is accompanied by a difference of about five points in pretax ROI." The PIMS study shows that business with market shares above 40 per cent earn an average ROI of 30 per cent, or three times that of those with shares under 10 per cent. Market shares can improve their profitability further through increasing their market share. In many markets, one share point is worth tens of millions of dollars. For example, in the USA, a one-share-point gain in coffee is worth \$ 48 million and in soft drinks \$ 120 million.

4.5.2 Portfolio Models

Another approach to marketing planning is the portfolio approach. A number of portfolio models have been proposed by researchers and management consultants. Some of the portfolio models are briefly discussed as follows:

Boston Consulting Group (BCG) Approach

The Boston Consulting Group, leading management consultant firm in the U.S., developed an approach known as the growth share matrix as shown in Figure 4.3. This model uses the market rate

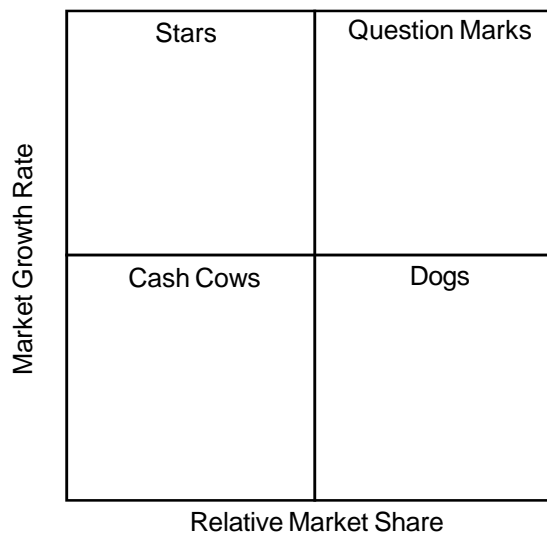


Figure 4.3: The BCG Growth Share Matrix

growth (vertical axis) as the indicator of the industry's attractiveness and a firm's market share (horizontal axis) as its competitive position in that industry. The BCG matrix categorised the firm's SBUs into four groups, viz., Stars, Cash Cows, Question marks and Dogs.

Stars: These SBUS are supposed to be fast growing and carry the company's future prosperity. As they show a high growth prospect they usually consume the maximum resources, particularly cash and marketing efforts to maintain their positions.

Cash Cows: These SBUs earn the highest revenues for the firm. Management should carefully protect the profitability of these SBUS.

Question marks: These SBUS are low performers compared to the industry average. Management has to decide whether by putting in more resources it can bring these products into the high market share or "star" level or else to withdraw from those businesses in view of continuous below-average performance.

Dogs: These SBUs are performing poorly from the stand point of both the industry growth rate and the company's market share position. Therefore, unless the company is hopeful of turning them into a "high position" on any of the two axes, they have to be wound up.

The BCG model is based on the premise that a high market share and profitability are interrelated, because a high market share will mean (a) greater economies of scale (b) greater market power vis-a-vis consumers as well as input suppliers, (c) better quality management, which is generally a characteristic of market leaders.

GENERAL ELECTRIC (GE) MODEL:

The General Electric (GE) model is an improvement over the BCG model. It relates to market attractiveness to the SBU and firm's strengths, which will make it competitive in the marketplace. Factors that determine market attractiveness are: nature of competition, government policy, Return on Investment (RoI), technology, market size, rate of market growth and so on. On the other hand, the strengths of any SBU or firm may lie in R&D, finance, distribution, market share, product quality, customer service, etc. To measure these two dimensions, managers must identify the factors underlying each dimension and find a way to measure them and combine them into an index.

As shown in Figure 4.4 the GE matrix is divided into nine cells, which in turn fall into three zones. The three cells in the upper-left corner indicate strong SBUs in which the company should invest or

Market Attractiveness	Strong	Protect Position	Invest to build	Build Selectively
	Medium	Build Selectively	Selectivity/Manage for Earnings	Limited Expansion or Harvest
	Low	Protect and Refocus	Manage for Earnings	Divest
		Strong	Medium	Weak
		Business Strength		

Figure : 4.4 The GE Matrix

grow. The diagonal cells stretching from the lower left to the upper right indicate SBUs that are medium in overall attractiveness. The company should pursue selectivity and manage for earnings in these SBUs. The three cells in the lower-right corner indicate SBUS that are low in overall attractiveness. The company should give serious thought to harvesting or divesting these companies.

Arthur D. Little Life Cycle Portfolio Matrix

This model proposed by Arthur D. Little Inc., a management consulting firm, is built on the assumption that industries, like products, have life cycles. Every industry usually passes through four stages. The characteristics of each stage are as follows:

Embryonic industry: Slow growth, changes in technology, vigorous pursuit of new customers, fragmented and unstable market shares.

Growth industry: Rapid growth, customers exhibit definite purchase patterns, rising market shares of leading competitors, rapid pace of technological developments and negligible barriers to entry.

Mature industry: Stable purchase patterns, technology and market shares.

Aging industry: Falling demand, a declining number of competitors and a narrowing product line.

This model further conjectured that firms can occupy one of the six competitive positions viz., dominant, strong, favourable, tenable, weak and non-viable.

Shell's Directional Policy Matrix:

This model has two dimensions: the business sector's profitability prospects and competitive capability. The profitability dimension has three classifications: unattractive, average and attractive. The competitive dimension is defined as weak, average or strong. As shown in Table-4.2, the model offers nine possible strategies.

Table 4.2: The Shell's Directional Policy Matrix

Company's competitive capabilities	Business Sector Prospects		
	Unattractive	Average	Attractive
Weak	Disinvest	Phased Withdrawal	Double or Quit
Average	Phased Withdrawal	Custodial	Try Harder
Strong	Cash Generation	Growth	Leader

4.6 COMPETITIVE ANALYSIS AND STRATEGIES

This section examines the role competition plays and how companies position themselves relative to competitors.

There are usually four different levels of competition. The first is known as brand level competition. Certain brands are targeted at the same segment of customers. For example, Thums up and Pepsi are competitors at the brand level. The second level of competitors is referred to as product

category competition. For example, all companies that are producing a washing product (be it a cake, powder, liquid or other forms) are directly or indirectly competing at the product category level. The third level of competition is known as generic competition. Theodore Levitt, in his well-known article 'Marketing Myopia' described of this kind of competition. For instance, the companies producing manual typewriters could not foresee that personal computers would virtually wipe them out. Likewise, viewers of cinema have been greatly invaded by television. It means if one sees the competition only at the brand' or 'product' level, one runs the risk of being outrun by 'generic competition.' The fourth level of competition is 'Budget competition.' Here marketers are seen to be competing for the same 'consumer's purse.' At a more intensive level, firms compete for all kinds of resources and skills. For example, there is competition for shelf space and for obtaining raw materials. Similarly, the Indian industry has started experiencing competition for key manpower resources.

Porter's Model of Competitive Analysis

Michael Porter uses the evolutionary stages of an industry to suggest suitable strategies. Porter argues that it is industry structure as reflected in the strength of just five forces which are universal that determine the state of competition (both the rules of the game and strategies available) and ultimately the profit potential of the industry. A firm should identify the extent to which it can influence or defend itself against these five forces. Under Porter's concept of extended rivalry, all these forces offer competitive threats to the business. His model is shown in Figure. 4.5. These five forces are:

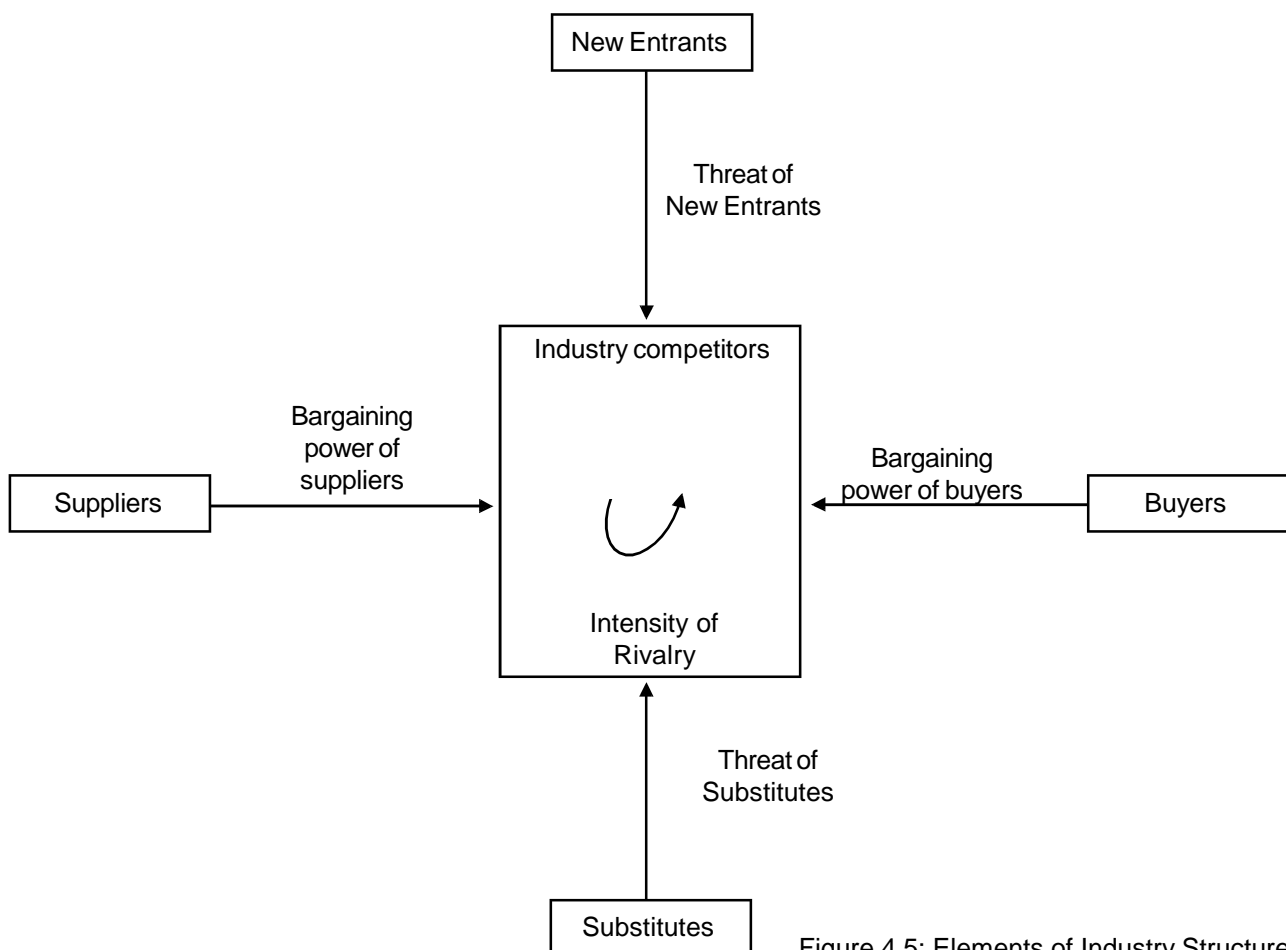


Figure 4.5: Elements of Industry Structure

- ◆ Threat of entry
- ◆ Rivalry among existing firms
- ◆ Threat of substitute products or services
- ◆ Bargaining power of buyers
- ◆ Bargaining power of suppliers.

Competitive Strategies

We shall now examine how the market leaders, challengers, followers and nichers evolve their strategies.

Market-Leader Strategies:

A market-leader wants to remain number one. This calls for action on three fronts. First, the company must find out ways to expand total market demand. Second, it must protect its current market share. Third, it can try to increase its market share further, even if the total size of the market remains constant. The market leaders try to find out new users, cultivate new applications and encourage more usage of its offering.

Market-Challenger Strategies:

Companies who occupy the second or third position in terms of market share are called market-challengers. The Challenger may adopt a variety of attack strategies such as frontal attack (e.g., Pepsi in the initial years-attacking Thums up), flanking attack (e.g., Nirma against Surf), encirclement attack (Closeup or Pepsodent vis-a-vis Colgate), bypass attack (Maruti in the initial years against the Ambassador), and guerrilla attack (as is done by any milk food company to attack Nestle)

Market-Follower Strategies:

Many companies prefer to follow rather than challenge the market-leader. A market follower must know how to hold current customers and win a fair share of new customers. The follower has to define a growth path, but one that does not invite competitive retaliation. Followership is often not a rewarding path.

Market-Nicher Strategies:

A market -niche chooses to operate in a small segment of a large market. The key strategy adopted by them is some sort of specialisation. Several specialist roles open to market nichers are to cater to some specific end-user segment, geographic area, unique product feature, price, or superior service.

4.7 COMPONENTS OF MARKETING PLAN

In professionally managed companies, marketing planning is a formal exercise undertaken on an annual basis. There is no uniformity in the contents of marketing plans of different firms. Generally, marketing plans have the following contents:

I. Executive summary: This is an overall bird's eye view of the marketing plan. It tells the focus of the plan and is generally targeted to the top management.

II. Situation analysis: This component presents data on sales, costs, profits, the market, competition and the macro environment.

III. Opportunity analysis: Here the marketer identifies the major opportunities / threats and strengths/ weaknesses.

IV. Objectives: The marketer must decide on the plan's financial and marketing objectives.

V. Marketing strategy: The marketer now outlines the broad marketing strategy.

VI. Action programmes: The marketing plan must specify the broad marketing programmes for achieving the business objectives.

VII. Projected profit and loss account: Action plans allow the marketer to build a supporting budget. The budget becomes the basis for developing plans for material procurement, manpower planning and production scheduling.

VIII. Control systems: In order to ensure that performance is as per planned schedule, it is necessary to evolve control systems which can help management take corrective mid-course action.

4.8 SUMMARY

Marketing plays a crucial role in the company's strategic planning process. The marketing process consists of analysing marketing opportunities, researching and selecting target markets, designing marketing strategies, planning marketing programmes, and organising, implementing and controlling the marketing effort. The steps involved in the marketing process are: environmental scanning, formulation of marketing strategy, planning marketing programmes, and strategy implementation and control.

Different approaches to marketing planning viz., Profit Impact of Marketing Strategies (PIMS) and Portfolio models (BCG matrix, GE model, Arthur D. Little Life Cycle Portfolio matrix and Shell's Directional Policy matrix) have been discussed.

In the section *Competitive Analysis and Strategies*, four different levels of competition are identified. They are: brand level, product category, generic and budget competition. Michael Porter uses the evolutionary stages of an industry to suggest suitable strategies. Porter argues that it is industry structure as reflected in the strength of just five forces which are universal that determine the state of competition and ultimately the profit potential of the industry. The five forces are: threat of entry, rivalry among existing firms, threat of substitute products or services, bargaining power of buyers, and bargaining power of suppliers. We have also examined how the market-leaders, challengers, followers and nichers evolve their strategies in brief.

The last section touches upon the contents of marketing plans of professionally managed firms.

4.9 KEY WORDS

Arthur D. Little Life Cycle Portfolio Matrix: This model is built on the assumption that industries, like products, have life cycles. Every industry usually passes through four stages; Embryonic, growth, mature, and aging.

BCG Matrix: This model uses the market rate growth (vertical axis) as the indicator of the industry's attractiveness and a firm's market share (horizontal axis) as its competitive position in that industry. The BCG matrix categorised the firm's SBUs into four groups, viz., Stars, Cash Cows, Question marks and Dogs.

GE Model: It relates to market attractiveness to the SBU and firm's strengths, which will make it competitive in the marketplace.

Marketing Process: It consists of analysing marketing opportunities, researching and selecting target markets, designing marketing strategies, planning marketing programmes, and organising, implementing and controlling the marketing effort.

Michael Porter's Model of Competitive Analysis: Michael Porter identified five forces that determine the intrinsic long-run profit attractiveness of a market or market segment: industry competitors, potential entrants, substitutes, buyers, and suppliers.

Profit Impact of Marketing Strategies (PIMS): The Strategic Planning Institute of the USA sought to identify the most important variables affecting the profits by launching a study called Profit Impact of Marketing Strategy.

Shell's Directional Policy Matrix: This model has two dimensions: the business sector's profitability prospects and competitive capability.

Strategic Linkages: The relationship between strategic planning for the corporation, the business units within the corporation, and marketing strategy.

4.10 SELF ASSESSMENT QUESTIONS

1. Explain the need for strategic marketing planning for Indian firms in the context of privatisation and globalisation.
2. What are the steps involved in the marketing process? Discuss.
3. Briefly discuss about different approaches to marketing planning.
4. Identify the competitive strategies adopted by the Indian toothpaste marketers.

4.11 FURTHER READINGS

David W. Cravens, Strategic Marketing, Richard D. Irwin, Inc., Illinois, 1987.

Philip Kotler, Marketing Management, Prentice-Hall of India, New Delhi, 1999.

Rajan Saxena, Marketing Management, Tata McGraw-Hill, New Delhi, 1999.

Rakesh Khurana and A.N. RaviChandran, Strategic Marketing Management, Global Business Press, Delhi, 1995

Ramanuj Majumdar, Marketing Strategies, Allied Publishers, New Delhi, 1996.

Lesson - V**SEGMENTING, TARGETING AND POSITIONING****OBJECTIVES**

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

- ◆ appreciate the need for segmentation.
- ◆ understand the bases for segmenting consumer markets.
- ◆ know how the firm can select one or more market segments to enter (market targeting)
- ◆ understand how to establish the product's key distinctive benefits in the market (market positioning).

STRUCTURE

- 5.1 Introduction
- 5.2 Market Segmentation
- 5.3 Bases for Segmenting Consumer Markets
- 5.4 Market Targeting
- 5.5 Market Positioning
- 5.6 Summary
- 5.7 Key words
- 5.8 Self Assessment Questions
- 5.9 Further Readings

5.1 INTRODUCTION

The decade of 1980 must have been a memorable one for Hindustan Levers Ltd., (HLL). For, in a typical David and Goliath war, the giant and an undisputed market leader in consumer non-durables in India suffered a humiliating defeat at the hands of a new and small firm, Nirma Chemicals. Nirma Washing Powder became a national brand soon after 1982, when the Indian television went commercial and started colour telecast. The product immediately caught the fancy of the middle-income customer; who was finding it difficult to make both ends meet with a limited monthly income. Nirma was the lowest priced branded washing powder available in the grocery and co-operative stores. The middle class housewife was more than satisfied, as she could now choose a lower priced washing powder rather than the high priced Surf detergent powder from HLL. Nirma also had an impact on upper middle income and higher income families who used it for washing their inexpensive clothes and linen. Initially, HLL responded by launching sales promotion campaign on Surf - by offering a bucket at subsidised price for every 1 kg of Surf, or by trading premium brands of toilet

soap with every kilogram of Surf. These schemes, however, did not halt the decline of Surf. HLL then launched a head-on attack on Nirma. Without naming it (though it was obvious) they came up with an advertising commercial comparing 1 kg of Surf with 1 kg of low-priced yellow washing powder and showed that Surf washed more clothes than the low-priced yellow washing powder - and hence it was economical to buy Surf.

The commercial did not bring in any substantial results. It was at this time (around 1984) that HLL decided to take a fresh look at the market. Research was conducted throughout the country which revealed that different income groups of consumers, had varying expectations from detergents or washing powders. It also showed that different colours of washing or detergent powders were associated with different types of fabrics. For example, yellow coloured washing or detergent powder was mainly bought by middle and lower middle or lower income people. They washed all their fabrics and associated whiteness in clothes to a yellow coloured powder. Also, middle class families used the blue coloured Rin bar for washing their expensive clothes. The research further indicated that blue or white coloured detergent powders were bought by middle to higher income group people, and then colours were also associated with washing clothes clean. In fact, the housewife was known to add "blue" to her laundry to give that extra whiteness to the white clothes. Interestingly, green was also the colour that was perceived to clean extra - dirty clothes. Armed with this research on colour perceptions and income groups, HLL launched the Sunlight (yellow), Wheel (green), Rin (blue) and Surf Ultra (white) detergent powder for different market segments. This strategy of segmenting the markets, understanding its needs and thus evolving a marketing mix to suit segments' needs helped HLL win back part of its lost market. In fact, Nirma made all other consumer product companies sit up and take a fresh look at their markets. It announced, for many, a beginning of an era of low-priced products for a highly price sensitive Indian market, and, to others, an end of mass marketing era. The market was indeed changing, demanding new responses from companies. The latter part of 1980s or early 1990s has taught the firms a lesson - "One cannot be everything to everyone; but one can be everything to a select few." This is the basis of segmentation (Adopted from Rajan Saxena, *Marketing Management*, Tata McGraw-Hill, New Delhi, 1997).

From the above case discussion, it is clear that a company cannot serve all customers in a total market. The customers are different in terms of their buying requirements. The company has to identify the market segments that it can serve more effectively.

In **target marketing**, the company distinguishes the major market segments, target the most attractive segment(s), and develop products and marketing programmes tailored to each.

According to Philip Kotler, target marketing requires marketers to take three major steps:

- ◆ Identify and profile distinct groups of buyers who might require separate products or marketing mixes (market segmentation).
- ◆ Select one or more market segments to enter (market targeting).
- ◆ Establish and communicate the products' key distinctive benefits in the market (market positioning).

5.2 MARKET SEGMENTATION

The Concept : Mass marketing is the starting of any discussion on segmentation. In *mass marketing*, the firm engages in the mass production, mass distribution, and mass promotion of one

product for all buyers. The sellers practising mass marketing assume that all buyers are alike. At the other extreme, *individual marketing* leads to 'customised marketing'. In individual marketing, the seller will customise the offer, logistics, communications, and pricing for each customer. New technologies such as computers, databases, internet and fax enabled the marketers to adopt customised marketing.

Market segmentation is an approach midway between mass marketing and individual marketing. The buyers of each segment are assumed to be similar in wants, purchasing power, geographical location, or buying attitudes. *Market segmentation* is the process of dividing a total, heterogeneous market into homogeneous segments. It offers several benefits over mass marketing. It is a customer - oriented philosophy. The firm's marketing programme is tailored to the specific needs of a segment. It helps matching of market opportunities to the company's resources. To be able to overcome a threat of competition, the marketers attempt to segment their markets, position themselves in a segment they perceive they will be able to defend against competitive attacks. As Michael Porter puts it, the competitive advantage of a firm lies in being everything to select few. To be everything to everyone is a sure recipe for a strategic failure.

Patterns of Market Segmentation : Market segments can be created in many ways. Philip Kotler suggested a way to identify *Preferences segment*. For instance, the buyers of shampoo may be asked as to how much they want of two attributes: foam and fragrance. Three different patterns of preferences can emerge as shown in Figure 5.1.

* **Homogeneous Preferences :** Figure 5.1 (a) exhibits a market where there are no natural segments. All the consumers have more or less the same preference with regard to foam and fragrance.

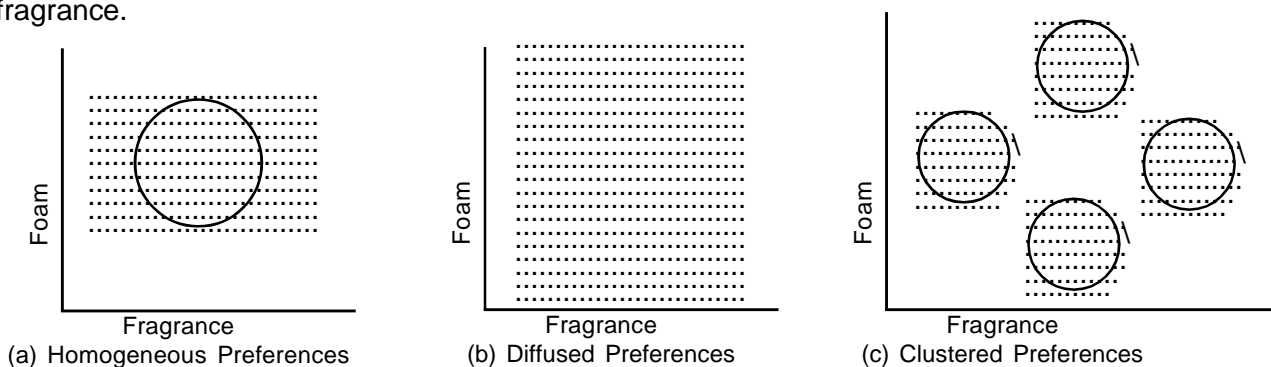


Figure 5.1 Basic Market - Preference patterns

* **Diffused Preferences :** This is the other extreme (Figure 5.1 [b]). Consumers differ greatly in their preferences. A brand is likely to be positioned in the centre so that it may be able to appeal to the majority of the customers. A second competition could locate a corner to attract a customer segment that was not satisfied with the centre brand.

Clustered Preferences : Figure 5.1 (c) shows a market which reveals natural market segments. Three options are normally available to the first marketer. It might position itself in the centre with a view to appealing to all the customer groups (*Undifferentiated marketing*). It might position itself in the largest market segment (*Concentrated marketing*). It might offer many brands, each positioned in a different segment (*Differentiated marketing*).

5.3 BASES FOR SEGMENTING CONSUMER MARKETS

Marketers segment consumer markets by using two broad groups of variables. The market segments can be formed by looking at consumer characteristics, viz., geographic, demographic and psychographic. On the other hand, the marketers attempt to form segments by understanding consumer responses to the market offerings. For example, the marketers try to know whether customers who want "picture quality" versus "easy to use" in buying a camera differ in their geographic, demographic and psychographic makeup. The bases for segmenting the markets - geographic, demographic, psychographic and behavioural - are discussed hereunder:

Geographic Segmentation :

This involves dividing the market into different geographical areas such as nations, states, regions, cities, or villages. A very common base is the rural and urban divide. Geographic segmentation assumes that people in a particular geographic area have similar preferences and consumption behaviour.

Demographic Segmentation :

Demography is the study of population. Demographic variables are the most popular bases for segmenting consumer markets. Some of the demographic bases are: age, family size, family life cycle, gender, income, occupation, education, religion and social class.

Age : Based on age, one can have the (i) infants market (newly born - upto 1 year); (ii) child market (1 year - 12 years); (iii) teens market (13 years - 19 years); (iv) adolescent market (16 years - 19 years); (v) youth market (20 years - 35 years); (vi) middle aged market (36 years - 50 years); and (vii) elders market (50 years and above).

Family size and structure : With the spread of the family planning programmes, the average family size has been declining in India. Further, we can witness the splitting up of joint families. Nuclear families are on the rise. Marketers use family size and structure for evolving marketing programmes. For instance, a 360 litre refrigerator is normally meant for large families and a 165 litre refrigerator is suited for smaller families.

Gender : On the basis of gender, the consumer market may be classified into male market and a female market. A shoe company will have to take a decision whether it wants to offer shoes for men or women or for both.

Social class : Companies design their products and services for particular social classes. Broadly, there are three social classes - upper class, middle class and lower class. A person's social class depends on type of income, type of occupation and place of residence.

Psychographic Segmentation :

Many marketers are turning to psychographic variables to segment their markets. According to Philip Kotler, buyers are divided into different groups on the basis of lifestyle, personality and values.

Lifestyle: The products and services used by the customers exhibit their lifestyles. The marketers of textiles, cosmetics, cigarettes, beer and furniture generally attempt to segment their market on the basis of lifestyle. The Titan watch company has segmented its market for Timex and Titan watches on the basis of lifestyle.

Personality : Marketers try to develop brand personalities that match to consumer personalities. For example, Femina magazine earlier targeted at an older, more traditional and middle class

woman. Later, the magazine is repositioned "for the woman of substance". Another women's magazine Savvy is targetted at the highly liberated, independent and strong woman.

Values : Companies that segment by core values try to appeal to people's inner selves in order to influence their outer selves - their purchase behaviour.

Behavioural Segmentation :

The customers can also be divided into certain segments on the basis of their knowledge, attitude, use, or response to a product. Such behavioural variables are discussed below.

Occasions : Marketers attempt to create certain occasions in order to make customers feel to buy a product or service. For instance, many people buy ornaments and clothes at the time of the marriage of a family member and on the festive occasions. Certain occasions such as Mother's Day, Friendship Day and Valentines Day were established partly to increase the sale of certain products.

Benefits sought : The customers can be divided into certain groups on the basis of the benefits sought from a product. For example, in case of toothpastes in India, Colgate and Close-up offers cosmetic benefit (i.e., white teeth stops bad breath); Forhans and Cibaca provides Therapeutic benefit (i.e. protects gums); and Vicco Vajradanti and Neem gives ayurvedic benefit (i.e. without side effects).

User Status : Buyers can be segmented into non-users, ex-users, potential users, first-time users and regular users of a product.

Usage rate : Marketers segment the market into light, medium and heavy user segments on the basis of usage rate. Marketers normally try to attract a few heavy users rather than many light users.

Loyalty Status : The marketers should examine the loyalty patterns of its customers in order to retain the loyal customers or to attract new customers. According to brand loyalty status, customers can be divided into:

Hard-core loyals : Buyers who buy one brand all the time.

Split loyals : Buyers who are loyal to two or three brands.

Shifting loyals : Buyers who shift from one brand to another.

Switchers : Buyer's who show no loyalty to any brand.

Buyer Readiness : Buyers are at different stages of readiness. There may be buyers who are unaware of the product, some are aware, some are informed, some are interested, some desire the product and some interested to buy.

Attitude: Marketers can classify the customers into five attitude groups, viz., enthusiastic, positive, indifferent, negative and hostile.

EFFECTIVE MARKET SEGMENTATION

To be effective, the size of market segments must be large enough. The requisites for successful market segmentation are :

1. Measurability : The segments must be measurable in terms of their size and purchasing power.

2. Accessibility : The market segments should be reached and served through suitable means of distribution and promotion.

3. Substantiality : The segments must be large and profitable enough. It may not be commercially viable to design cars exclusively for Indian women.

4. Differentiability : The segments must be clearly distinguishable. They must respond differently to different marketing programmes. If men and women react similarly to a brand of toilet soap, they do not constitute different segments.

5. Actionability : To be effective, marker of segmentation should be compatible with the manpower, financial and managerial resources.

5.4 MARKET TARGETING

As observed earlier, target marketing requires marketers to take three major steps: market segmentation, market targeting, and market positioning. In market segmentation, the marketer identifies the distinct groups of buyers who might require separate marketing mixes. Having identified the market segments, the firm has to evaluate the attractiveness of each segment and decide how many of them to target.

EVALUATING THE SEGMENTS :

The selection of market segments depends on the segment's attractiveness and the firm's objectives and resources. The company should forecast the sales, growth, profitability and scale economies of each segment. Certain segments could be dismissed if the company lacks resources

SELECTING THE MARKET SEGMENTS :

Abell identified five patterns of target market selection. They are shown in figure 5.2.

Single - segment concentration

	M ₁	M ₂	M ₃
P ₁			
P ₂			
P ₃			

Selective specialisation

	M ₁	M ₂	M ₃
P ₁			
P ₂			
P ₃			

Product specialisation

	M ₁	M ₂	M ₃
P ₁			
P ₂			
P ₃			

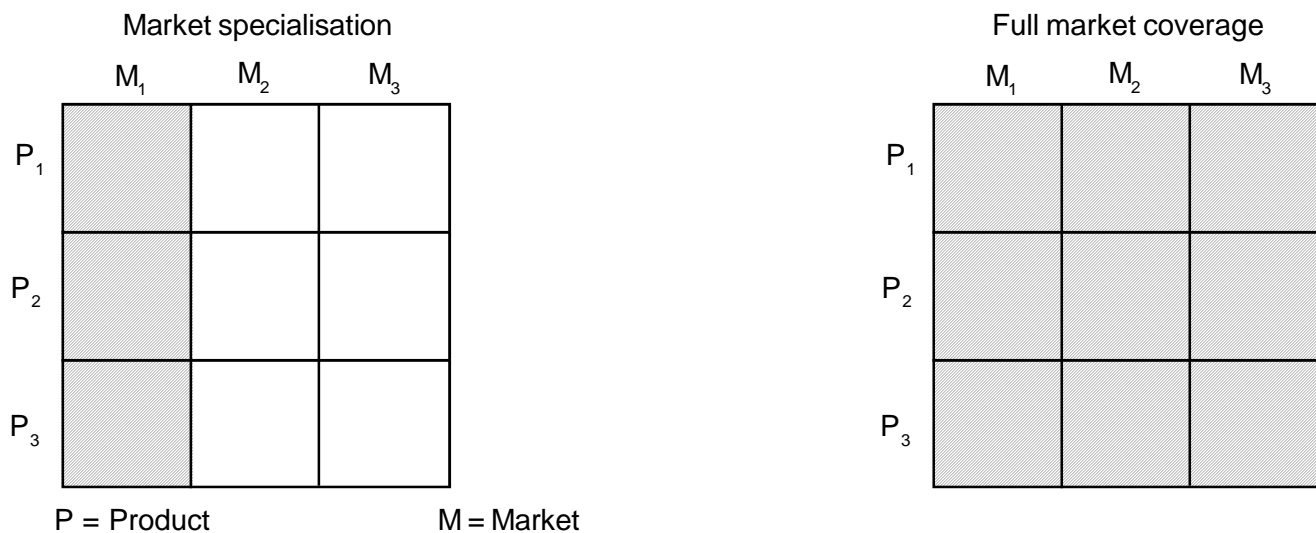


Figure 5.2 Five Patterns of Target Market Selection

Single-segment Concentration : Here the company selects a single segment. For example, Nirma Chemicals selected a price sensitive segment for its washing powder. Through concentrated marketing, the firm can derive operating economies in production, distribution and promotion.

Selective specialisation : The firm can select many attractive segments. This is also known as the multisegment coverage strategy. This strategy will enable the firm to deversify its risk.

Product specialisation : Here the firm specialises in offering its products to several segments. For example, a computer manufacturer can sell PCs to educational institutions, government offices and individual customers.

Market specialisation : The firm can specialise in serving many needs of a specific group of customers. For example, a software company can concentrate in developing suitable software required by banks.

Full market coverage : If the firm tries to serve all segments with different marketing mixes, it is called full market coverage strategy. This strategy is normally adopted by very big companies. Marketers attempt to cover the market through undifferentiated marketing or differentiated marketing.

The firm, in **undifferentiated marketing**, ignores the differences among market segments and attempts to cover the whole market with one market offer. It minimises the costs of production, inventory, distribution and promotion. For instance, Hindustan Motors practised undifferentiated marketing, when it was marketing only one car (Ambassador) to suit all the consumers in one big market. When several firms attempt to practise undifferentiated marketing, it will lead to undersatisfaction of smaller segments. Appealing to the largest market results in what is known as 'majority fallacy'.

Under **differentiated marketing**, a firm operates in several segments and develops different marketing programmes for each segment. BPL offers many models of television sets for different segments. Similarly, Hindustan Lever Limited offers several toilet soaps for different customer groups. By adopting differentiated marketing, the firm hopes to attain higher sales within each market segment. Coca Cola and Pepsi, for instance, could increase the size of soft drinks market as they are being sold in different bottle sizes as well as in cans. However, differentiated marketing increases the costs of: product modification, production, administrative, inventory and promotion.

5.5 MARKET POSITIONING

Positioning is the third step required to be taken for target marketing. Al Ries and Jack Trout popularised the concept of positioning. They said, "Positioning starts with a product. A piece of merchandise, a service, a company, an institution, or even a person... But positioning is not what you do to a product. Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect." According to Philip Kotler, "Positioning is the act of designing the company's offering and image to occupy a distinctive place in the target market's mind." In the words of David A. Aaker and Gary Shansby, "marketing programme positioning consists of integrating strategies for products, distribution price, and promotion. The terms 'position' designates how a company's marketing programme is perceived by the buyer in relation to the programmes of key competitors; in other words, how a firm's brand is positioned against its competition with respect to the product offering, distribution approach, prices, advertising, and personal selling. All elements of the marketing programme can potentially affect the position."

Target market and positioning strategies are like the two sides of a coin. They are inseparable; each depends upon the other. Aaker and Shansby identified several positioning approaches. They are:

Attribute : Use of one or more attributes, product features, or customer benefits associated with the firm's product. For example, Garden Varelli offers to the woman the benefit of looking pretty and fascinating the opposite sex ("You fascinate me").

Price/Quality: Various positions on the price/quality scale may be selected depending upon the positioning objective. Examples range from Surf Ultra at the high end and to Nirma at the low end.

Use or Application : This strategy positions the brand according to how the product is used or applied. For instance, Rasna, the soft drink concentrate, offers convenience (that is so simple to make that even a child can do it).

Product user : This type of positioning focusses on the person using the product. Bikes, textiles and watches are positioned in accordance with the lifestyle of target customers.

Product class : This positioning approach involves association with a product-class, such as mobile phone compared to land line phone.

Competitor : This strategy explicitly positions a firm's brand against the competition. For instance, Hindustan Lever's Wheel detergent powder took a head on position with Nirma and claimed that it was better as it washed whiter and was gentle on the hands, a claim which Nirma fights by showing the user using a spoon to take the washing powder from the bag.

Philip Kotler says that a firm must avoid few major positioning errors:

1. **Under positioning**: This occurs when buyers know much less about the brand or do not know anything special about the brand.
2. **Over positioning**: When buyers have too narrow a view of the brand, e.g., buyers may perceive Titan watches as high priced products, when in reality the company now offers affordable watches standing at Rs.400.
3. **Confused positioning** : Buyers may have a confused image of the brand due to frequent changes in positioning statement.
4. **Doubtful positioning** : This occurs when buyers doubt the credibility of the claims made by the firm.

HOW TO POSITION THE BRAND

To position their brands, marketers use a technique called **perceptual mapping**. It involves understanding the customer perceptions of the competitive brands and identifying vacant slots. To be more specific, perceptual mapping involves:

1. Studying the ideal product perception: The marketer has to identify both tangible and intangible attributes that a customer looks for in a product. The tangible product features include size, colour and packaging. Examples for intangible attributes are: service, quality and manufacturer's prestige.
2. Get the customers' to rank these attributes in order of importance to them.
3. Customers knowledge of the competitors' brands.
4. How do the competitive brands fare on the ideal product map? The customers will assess how close the brands are on each attribute to the ideal product.
5. Marketers identify vacant slots based on the customer's assessment of competitive brands on the ideal product map. Figure 5.3 exhibits the perceptual map of a beer market.

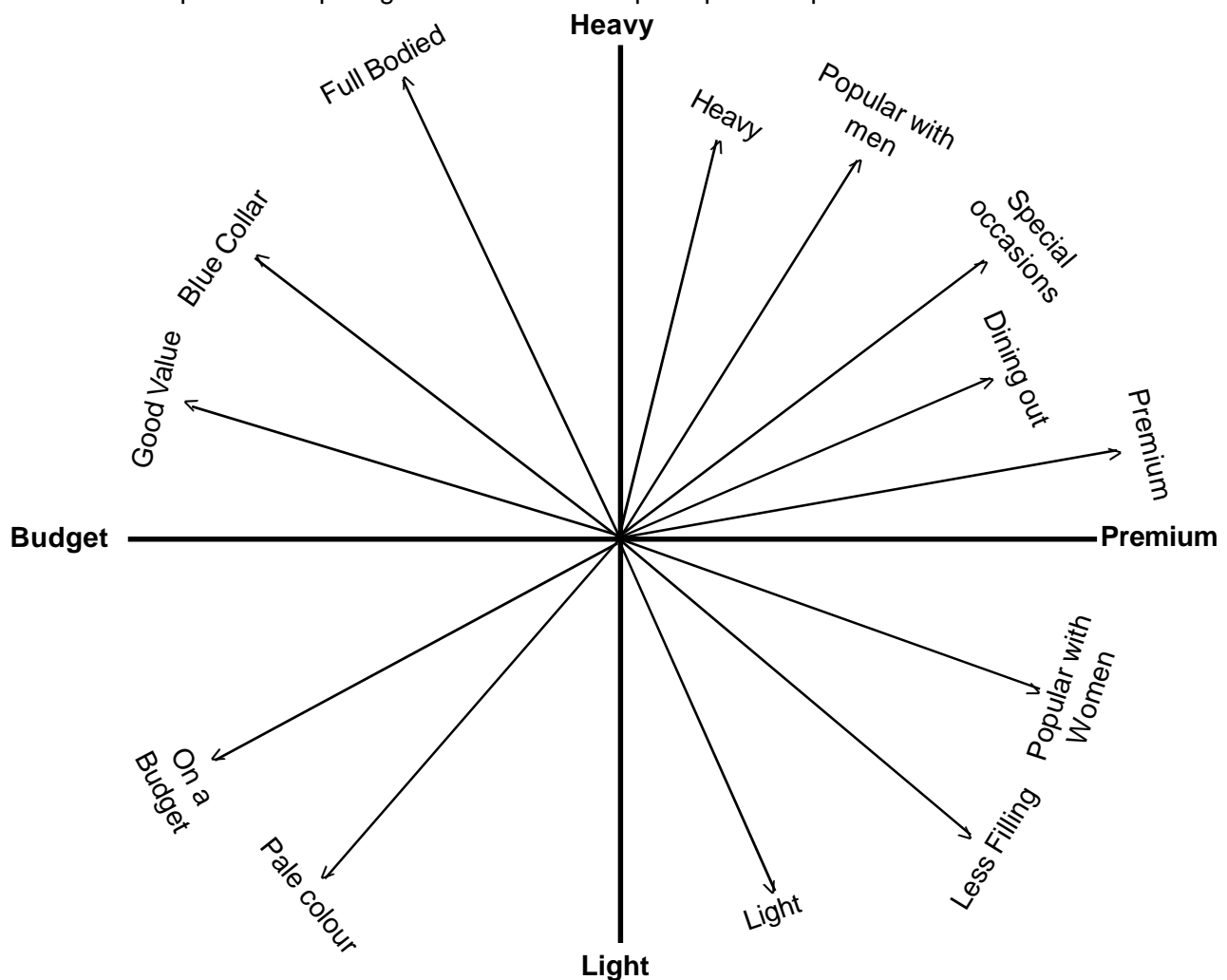


Figure 5.3 Perceptual Map of Beer Market.

Source: Adopted from Rajan Saxena, Marketing Management, Tata McGraw - Hill, New Delhi - p. 202.

5.6 SUMMARY

Target marketing requires marketers to take three major steps: market segmentation, market targeting, and market positioning. Market segmentation is the process of dividing a total, heterogeneous market into homogeneous segments. It offers several benefits over mass marketing. The consumer markets can be broadly segmented on the bases of geographic, demographic, psychographic and behavioural variables.

Having identified the market segments, the firm has to evaluate the attractiveness of each segment and decide how many of them to target. There are five patterns of target market selection: Single-segment concentration, selective specialisation, product specialisation, market specialisation, and full market coverage.

Positioning is the third step required to be taken for target marketing. It is the act of designing the company's offering and image to occupy a distinctive place in the target customer's mind. To position their brands, marketers use a technique called perceptual mapping. It involves understanding the customer perceptions of the competitive brands and identifying vacant slots.

5.7 KEY WORDS

Differentiated marketing : In differentiated marketing, a firm operates in several segments and develops different marketing programmes for each segment.

Market positioning : It is the act of designing the company's offering and image to occupy a distinctive place in the target market's mind.

Market segmentation : It is the process of dividing a total, heterogeneous market into homogeneous segments.

Market targeting: It involves selecting one or more market segments to enter.

Mass marketing : In mass marketing, the firm engages in the mass production, mass distribution, and mass promotion of one product for all buyers.

Perceptual mapping : It involves understanding the customer perceptions of the competitive brands and identifying vacant slots.

Target marketing : In target marketing, the company distinguishes the major market segments, target the most attractive segment(s), and develop products and marketing programmes tailored to each.

Undifferentiated marketing : In undifferentiated marketing, the firm ignores the differences among market segments and attempts to cover the whole market with one market offer.

5.8 SELF ASSESSMENT QUESTIONS

1. What is market segmentation? Explain the bases for segmenting consumer markets.
2. Critically evaluate Hindustan Levers' segmentation strategy with regard to their toilet soaps.
3. What are the different patterns of target market selection? Distinguish between undifferentiated marketing and differentiated marketing.

4. Explain the concept of positioning. What are different positioning approaches? Give suitable examples.

5.9 FURTHER READINGS

1. David W. Cravens, Strategic Marketing, Richard D. Irviwn, Illinois, 1987
2. Philip Kotler, Marketing Management Prentice-Hall of India, New Delhi, 1999
3. Rajan Saxena, Marketing Management Tata McGraw-Hill, New Delhi, 1997
4. S.A. Sherlekar and V.S. Sherlekar, Global Marketing Management, Himalaya Publishing, Mumbai, 2000.

Lesson - VI

UNDERSTANDING CONSUMER BEHAVIOUR

OBJECTIVES

After studying this lesson, you should be able to :

- ◆ understand the importance of consumer behaviour.
- ◆ identify the determinants of consumer behaviour.
- ◆ explain the relevance of models of consumer behaviour.
- ◆ describe the stages involved in consumer buying process.
- ◆ discuss the consumer adoption process.

STRUCTURE

- 6.1 Consumer Behaviour
- 6.2 Determinants of Consumer Behaviour
- 6.3 Models of Consumer Behaviour
- 6.4 Consumer Buying Process
- 6.5 Consumer Adoption Process
- 6.6 Summary
- 6.7 Key words
- 6.8 Self Assessment Questions
- 6.9 Books for Further Reading

6.1 CONSUMER BEHAVIOUR

We are all consumers. What we buy, how we buy, where and when we buy depends on our sociocultural and psychographic factors. The study of consumer behaviour enables the marketers to know how consumers make decisions to spend their available resources (time, money, effort) on products and services. For example, the marketers of a personal computer want to know what types of consumers buy personal computers. What features do they look for? What benefits do they seek? How likely are they to replace their old models when new models with added features become available? The answers to such questions can provide personal computer marketers with important input for formulating a suitable marketing strategy.

Consumer behaviour was a relatively new field of study. Marketing theorists borrowed heavily from concepts developed in other disciplines, such as psychology, sociology, social psychology, anthropology and economics to form the basis of this new discipline.

Consumer behaviour may be defined as the decision making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services. It is a complex, dynamic and multidimensional process. All marketing decisions are based on assumptions about consumer behaviour.

The term 'consumer' is used to describe two different types of consuming entities: the individual consumer and the organisational consumer. The individual consumer purchases goods and services for his or her own use (e.g., a two-wheeler), for the use of the family (a TV), or as a gift for a friend (a pen). In each of these contexts, the products are bought for final use by ultimate consumers. The second kind of consumer is the organisational consumer. The organisations buy products and services in order to run their organisations. This chapter will focus on the individual consumer whereas the next chapter is devoted to the organisational buyers.

6.2 DETERMINANTS OF CONSUMERS BEHAVIOUR

The determinants of consumer behaviour can be classified into internal determinants and external environmental determinants.

The internal or individual factors that influence consumer behaviour are :

- ◆ Motivation
- ◆ Personality
- ◆ Self-Concept
- ◆ Perception
- ◆ Learning
- ◆ Attitudes

The external environmental factors are :

- ◆ Culture
- ◆ Reference groups
- ◆ Family
- ◆ Social class

6.2.1. INTERNAL DETERMINANTS

Motivation : Motivation is the driving force within individuals that impels them to action. Motivation is the reason for behaviour. Consumer motivation can be described as a process through which wants are satisfied. Human behaviour is goal oriented. Goals are the sought after results of motivated behaviour. Goals are of two types : Generic goals and product-specific goals. A generic goal is a general category of goal that may satisfy a certain need. A product specific goal is a specifically branded product that the consumer sees as a way to fulfill a need.

Every person has needs : Some are innate, others are acquired. Innate needs are physiological (biogenic). They include the needs for food, water, clothing, shelter and sex. Acquired needs are those an individual develops after birth. They are primarily psychological (psychogenic) and they include love, acceptance, esteem and self-fulfillment. Maslow's hierarchy-of-needs theory proposes five levels of human needs: physiological needs, safety needs, social needs, self-esteem and

self-actualisation needs. Maslow's theory is a useful tool for understanding consumer motivation and is readily adaptable to marketing strategy.

Personality: The term 'Personality' can be defined as those inner psychological characteristics that determine and reflect how a person responds to his or her environment. The prominent theories of personality in the study of consumer behaviour are: Sigmund Freud's psychoanalytic theory, Neo-Freudian theory and trait theory. **Freud's theory** operates on the premise that human needs are largely *unconscious* in nature. Researchers, therefore, believe that consumers are primarily *unaware* of the true reasons for their buying behaviour. For example, a car can attract someone who seeks status. **Neo-Freudian theory** attempts to emphasise the role of social relationships in the formation and development of personality. For example, some marketers position their products or services as providing opportunity to be appreciated by others. **Trait theory** focuses on the measurement of personality in terms of specific psychological traits. Trait researchers have found that a consumer's personality is linked to the purchase of a broad product category rather than a specific brand. Products generally have personalities which help shape consumer preferences and loyalties.

Self-concept : Self-concept is related to personality. Marketers attempt to develop brand images that match the target customers' self-image. Consumers attempt to maintain, enhance or modify their self-images by purchasing products and shopping at stores they perceive as consistent with their perceived self-concepts.

Perception: Perception is the process by which an individual selects, organises and interprets information inputs to create a meaningful picture of the world. Perception has strategy implications for marketers. Consumers make decisions based on what they perceive. They generally evaluate the quality of a product or service on the basis of a variety of informational clues such as colour, size, price and store image. Products that are perceived positively have a much better chance of being purchased than products with negative images. Consumers often rely on price as an indicator of quality. How consumers perceive a price has a strong influence on purchase decisions.

Consumers often perceive risk in making purchase decisions. Consumers seek increased information and search for well-known brands in order to reduce their perceived risk. They also seek reassurance through money-back guarantees, laboratory test results and prepurchase trial.

Learning : Learning involves changes in a person's behaviour due to past experience. Learning is produced through the interplay of drives, stimuli, cues, responses and reinforcement. If a consumer's experience with a BPL colour television is rewarding, his response to other products of BPL will be positively reinforced. Some of the measures of consumer learning are: recall and recognition tests, attitudinal and behavioural measures of brand loyalty.

Attitudes : As consumers we have many number of attitudes toward products, services and advertisements. Attitudes are relatively consistent. But they are not necessarily permanent; they do change. Marketers are interested to understand how consumer attitudes are formed and how they are changed. *Attitude research* attempts to study a wide range of marketing questions such as whether consumers will accept a new product idea, or to know how the customers are likely to react to proposed change in the firm's pricing policy.

6.2.2. EXTERNAL DETERMINANTS :

Culture : Culture is the most fundamental determinant of a person's behaviour. Culture is acquired as part of social experience. In the context of consumer behaviour, culture is defined as the sum total of learned beliefs, values and customs that serve to regulate the behaviour of consumers of

a particular society. The elements of culture are transmitted by three important social institutions: the family, the place of worship (e.g. church), and the school. A fourth social institution that plays a major role in the transmission of culture is the mass media, both through news and through advertising.

Each culture consists of smaller subcultures such as religions, castes and geographic regions. In India, regional cultures with their local variants stand out distinctly.

Reference Groups : From a marketing perspective, reference groups are groups that serve as *frames of reference* for individuals in their buying decisions. Customers interact with reference groups such as family, friends, neighbours, co-workers and religious and professional groups. The concept of consumer reference groups has been broadened to include groups with which consumers have no direct face-to-face contact such as celebrities and sports people. Marketers are interested to identify the reference groups of their target customers

Family : Family is a fundamental reference group for many consumers. In fact, it is the target market for most products. Marketers distinguish between two types of families in the customer's life. The *family of orientation* consists of one's parents and siblings. On the other hand, *family of procreation* namely, one's spouse and children will have a more direct influence on everyday buying behaviour. The research studies classify family consumption decisions as husband-dominated, wife-dominated, joint, or autonomic decisions. The concept of *family life cycle* (FLC) gives valuable insights into buying behaviour of a family. In recent times, the Indian marketers have seen the emergence of a new woman - one who is career-oriented, more assertive and is very much aware of herself and her family needs.

Social Class : Social classes are relatively homogeneous divisions in a society. Each social class exhibits similar product and brand preferences. Social classes reflect not only income but other indicators such as education, occupation and residential area. Social scientists divide the society into upper upper, lower upper, upper middle, lower middle, upper lower, and lower lower classes. For instance, upper middle class comprises of people who have attained reasonable heights in their careers. They believe in good things of life. Lower middle class comprises small businessmen and non-managerial workers. They generally buy bulk of mass marketed products.

6.3 MODELS OF CONSUMERS BEHAVIOUR

The models which help in the understanding of consumer behaviour are :

Marshallian Model

Freud's Model

Pavlovian Model

Howard-Sheth Model

Marshallian Model : This model is based on the assumption that consumers have complete knowledge of their wants and of all available means to satisfy them. This model is based on the law of diminishing marginal utility. This model states that expenditures vary directly with income (price effect); lesser the price of the substitute product, lesser will be the utility of the product first bought (substitution effect); and more quantity will be purchased when a person's income is increased (income effect). The main criticism of this model is that it assumes the homogeneity of the market and similarity of buyer behaviour. It ignores the aspects such as motivation, perception, learning, attitudes and sociocultural factors.

Freud's Model : This theory has been discussed earlier in brief. Based on his **psychoanalytic theory of personality**, Freud proposed that the human personality consists of three interacting systems: the **id**, the **superego** and the **ego**.

The *id* is conceptualised as primitive and impulsive drives such as thirst hunger and sex. The *super ego* is conceptualised as the individual's internal expression of society's moral ethical code of conduct. The *ego* attempts to balance the impulsive demands of the *id* and the sociocultural constraints of the *super ego*. Researchers who apply Freud's theory to the study of consumer personality that human drives are largely unconscious and the consumers are primarily unaware of their true reasons for their buying behaviour. In other words, they consider the consumer's appearance and possessions (e.g. clothing, jewelry, shoes and so forth) as reflections of the individual's personality.

Pavlovian Model : This model is named after the Russian physiologist Ivan Pavlov. In his experiments, Pavlov sounded a bell and then immediately applied a meat paste to the dogs' tongues, which caused them to salivate. The dogs associated the bell sound (the conditioned stimulus) with the meat paste (the unconditioned stimulus) and, after a number of pairings, gave the same unconditioned response (salivation) to the bell alone as they did to the meat paste. In a consumer behaviour context, an *unconditional stimulus* might consist of a well-known brand symbol (such as the Microsoft windows software programme) which implies technological superiority and trouble-free operation (*the unconditional response*).

Howard-Sheth Model : In this model four sets of variables are deemed to determine consumer behaviour. They are :

1. **Stimulus - Input variables** which are provided by three types of stimuli namely a) significant stimuli (e.g. physical tangible characteristics of a product) b) symbolic stimuli (e.g. a person's perception of product's characteristics) and c) social stimuli (Provided by family, friends, social groups etc.).
2. **Internal variables** that together show the state of the buyer (buyer's motives, attitudes, experiences, perceptions etc.)
3. **Exogenous variables** that affect the buyer indirectly (these include social class, culture, time pressure and financial status of the buyer).
4. **Response-output variables** in terms of buyer's behaviour based upon interaction of the first three sets of variables.

All the four variables are linked in a very systematic and logical manner. Much of consumer behaviour is repetitive. Consumers tend to store information in their memory, and establish a routine in their decision process.

6.4 CONSUMER BUYING PROCESS

This section focuses on how consumers make decisions. Particularly, marketers must identify who makes the buying decisions.

BUYING ROLES : Men normally choose their shaving set and women choose their cosmetics. Marketers distinguish five roles people might play in a buying decisions.

Initiator : A person who first suggests the idea of buying the product or service.

Influencer : A person whose opinion influences the decision.

Decider : A person who decides whether to buy, what to buy, how to buy, or where to buy.

Buyer : A person who makes the actual purchase.

User : A person who actually uses the product or service.

THE PROCESS : The consumer passes through five stages of buying process : problem recognition, information search, evaluation of alternatives, purchase decision, and postpurchase behaviour.

Problem recognition : The need is aroused by internal or external stimuli. In the former case, one of the person's normal needs such as hunger, thirst or sex becomes a drive. In the latter case, a need is aroused by an external stimulus. A person passes a sweet shop and sees freshly made sweets that stimulates his hunger. The smart marketers can develop marketing strategies by identifying the most frequent stimuli that spark an interest in a product category.

Information search : Many consumer decisions are based on a combination of past experience (*internal sources*) and marketing and noncommercial information (*external sources*). Marketing information is provided by advertising, salespersons, middlemen and packaging. The sources of noncommercial information are: family, friends, neighbours and acquaintances. How much information a consumer will gather depends on various situational factors.

Evaluation of alternatives : There is no single evaluation process used by all consumers. Certain basic concepts will help us understand consumer evaluation process. First, the consumer is trying to satisfy a *need*. Second, the consumer is looking for certain *benefits* from the product solution. Third, the consumer perceives each product as a *bundle of attributes*. The attributes vary from product to product. For example, the attributes of a toothpaste include colour, effectiveness, germ-killing capacity, price and flavour. Consumers differ as to which product attributes they see as most relevant. They develop a set of *brand beliefs* about where each brand stands on each attribute. The set of beliefs about a brand make up the *brand image*.

Purchase decision : Consumers make three types of purchases : *trial purchases*, *repeat purchases*, and *long-term commitment purchases*. Unlike trial, in which the consumer uses the product on a small scale and without any loyalty, a repeat purchase usually signifies that the product meets with the customer's acceptance and that he or she is willing to buy it again and again. However, trial is not always possible. For instance, in case of durable products (refrigerators, two-wheelers, or washing machines), a consumer normally moves directly from evaluation to purchase.

In executing a purchase intention, the consumer may make up to five purchase subdecisions: *a brand decision* (brand Titan), *Vendor decision* (Titan showroom), *Quantity decision* (one watch), *timing decision* (next Sankranti) and *payment-method decision* (credit card).

Postpurchase behaviour : After using the product, the consumer will experience some level of satisfaction. If the product performance falls short of expectations, the customer is *dissatisfied*; if it meets expectations, the customer is *satisfied*; if it exceeds expectations, the customer is *delighted*. According to **cognitive dissonance theory**, dissonance or discomfort occurs when a consumer holds conflicting thoughts about a belief. When cognitive dissonance occurs after a purchase, it is known as **postpurchase dissonance**. There is a feeling of uncertainty about whether the right choice is being made. High-involvement, high-risk purchases (e.g., colour television, refrigerator or washing machine) are likely to result in postpurchase dissonance then low-involvement, low-risk purchases (e.g. soft drink, detergent cake or match box). Generally, low priced and frequently purchased items will not produce postpurchase dissonance.

One of the ways consumers seek to reduce dissonance is to reevaluate product alternatives. They may reduce dissonance by seeking additional information in order to reassure themselves of their product choice. Warranties, refund policies, in-store demonstrations, and after-sales service can serve to reduce dissonance. The marketers may seek to alter the customers' perceptions and attitudes through their promotional effort. Sales people can be particularly influential in reducing dissonance by providing information that diminishes the consumer's anxiety about a purchase.

6.5 CONSUMER ADOPTION PROCESS

Consumers normally move through five stages in arriving at a decision to purchase or reject a new product. They are: awareness, interest, evaluation, trial and adoption (or rejection). Table 6.1 explains the five stages in the adoption process.

Table 6.1: The Stages in the Adoption Process

Name of Stage	What happens during this stage
Awareness	Consumer is first exposed to the product innovation.
Interest	Consumer is interested in the product and searches for additional information.
Evaluation	Consumer decides whether this product or service will satisfy the need.
Trial	Consumer uses the product on a limited basis.
Adoption (Rejection)	If the trial is favourable, consumer decides to use the product on a regular basis - if unfavourable, the consumer rejects it.

Classification of Adopters : Rogers identified five adoption groups: innovators, early adopters, early majority, late majority and laggards. *Innovators* are venturesome; they are willing to try new ideas and products. *Early adopters* take a calculated risk before investing and using new innovations. They are opinion leaders in their community. The *early majority* adopt new ideas before the average person. The *late majority* are doubtful about the new products. They adopt an innovation only after a majority of people have tried it. Finally, *laggards* are more traditional and they adopt the innovations with great reluctance.

This classification suggests that an innovating marketing firm should research the demographic, psychographic and media habits of innovators and early adopters. For instance, innovative farmers are likely to be better educated and more efficient.

Some customers adopt products more quickly than others. This has strategy implications. The customers maybe labelled ranging from "innovators" to "laggards" depending on how quickly the customers adopt a product (Figure 6.1). Marketing efforts must be directed to the innovators and early adopters, both to increase an early cash flow and to encourage a faster rate of diffusion into the majority of the market. Marketers should seek to understand common characteristics for early purchasers in their product category. Marketing activity can be partially directed toward helping minimize misperceptions and enhancing strengths. According to Cravens, Hills and Woodruff, important perceived product characteristics are:

Relative advantage: The extent to which potential customers perceive a new product as superior to existing substitutes.

Compatibility : The extent to which potential customers consider a new product to be consistent with their values, needs and behaviour.

Complexity : The degree to which an innovation is difficult to understand or use.

Trialability : The extent to which a new product is capable of being tried on a limited basis by customers.

Observability : The case with which a product's benefits can be seen by, imagined by, or described to potential consumers.

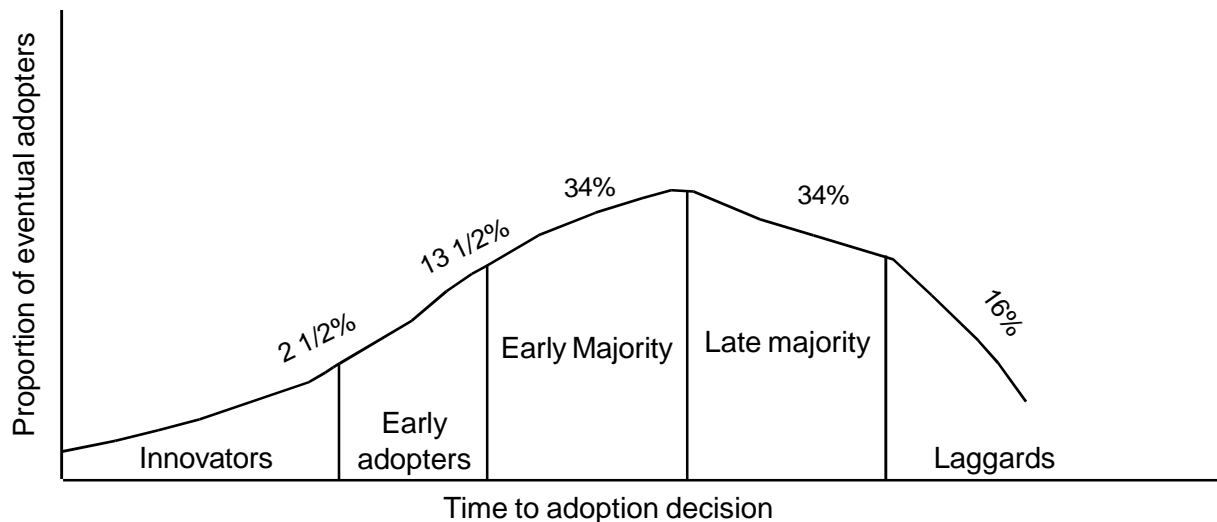


Figure 6.1 Types of Adopters by Adoption Time Required

6.6 SUMMARY

Consumer behaviour may be defined as the decision making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services. The internal factors that influence consumer behaviour are: motivation, personality, self-concept, perception, learning and attitudes. The external factors are; culture, reference groups, family and social class. The theories which help in the understanding of consumer behaviour are: economic model, Freud's model, Pavlovian model and Howard-Sheth model.

The consumer passes through five stages of buying process: problem recognition, information search, evaluation of alternatives, purchase decision and postpurchase behaviour. High-involvement, high-risk purchases are likely to result in postpurchase dissonance or discomfort than low-involvement, low-risk purchases.

Consumers normally move through five stages in arriving at a decision to purchase or reject a new product. They are: awareness, interest, evaluation, trial and adoption (or rejection). Rogers' classification of adopter groups suggests that an innovating marketing firm should research the demographic, psychographic and media habits of innovators and early adopters.

6.7 KEY WORDS

Cognitive Dissonance : The discomfort or dissonance that consumers experience as a result of conflicting information.

Consumer Behaviour : The decision making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services.

Learning : It involves changes in a person's behaviour due to past experience.

Motivation : The driving force within individuals that impels them to action.

Perception : The process by which an individual selects, organises and interprets information inputs to create a meaningful picture of the world.

Personality : Those inner psychological characteristics that determine and reflect how a person responds to his or her environment.

6.8 SELF ASSESSMENT QUESTIONS

1. What is consumer behaviour? Comment on the determinants of consumer behaviour.
2. Explain the models of consumer behaviour in brief.
3. Select a newspaper advertisement that attempts : (a) to provide the consumer with a decision strategy to follow in making a purchase decision or (b) to reduce the perceived risk associated with a purchase.
4. Identify a product or service that was recently adopted by you. What are the characteristics of people who adopted it first?
5. Using your understanding of buyer behaviour, evolve a marketing mix for a new mobile phone.
6. "High-involvement, high-risk purchases are likely to result in postpurchase dissonance than low-involvement, low-risk purchases." Comment with suitable examples.

6.9 FURTHER READINGS

K.K. Srivastava and Sujatha Khandai, Consumer Behaviour in Indian Context, Galgotia Publishing Co., New Delhi, 2002.

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Lesson - VII

ORGANISATIONAL BUYING BEHAVIOUR

OBJECTIVES

After studying this lesson, you should be able to:

- ◆ understand the concept of organisational buying behaviour and several characteristics that contrast with consumer markets
- ◆ distinguish three kinds of buying situations and organisational buyers
- ◆ identify the participants of organisational buying process.
- ◆ discuss the variables influencing buying decisions
- ◆ explain the stages involved in the buying process.

STRUCTURE

- 7.1 The Nature of Organisational Buying Behaviour
- 7.2 Organisational Buyer Vs Household Buyer.
- 7.3 Buying Situations.
- 7.4 Organisational Buyers.
- 7.5 Organisational Buying Process: Participants.
- 7.6 Variables influencing Buying Decisions.
- 7.7 Purchasing Orientations.
- 7.8 The Buying Process.
- 7.9 Summary
- 7.10 Key words
- 7.11 Self Assessment Questions.
- 7.12 Further Reading.

7.1 THE NATURE OF ORGANISATIONAL BUYING BEHAVIOUR

Organisations buy large quantities of raw materials, plant and equipment, processed chemicals, consumables and services. Webster and Wind define organisational buying as "the decision making process by which formal organisations, establish the need for purchased products and service and identify, evaluate, and choose among alternative brands and suppliers,"

Most of the organisational purchases are indirectly linked to the economy's purpose of satisfying consumer demand. For example, consumers' demand for ice cream creates many industrial markets - paper cartons, milk and cream, business insurance, distribution services and so forth (Figure 7.1)

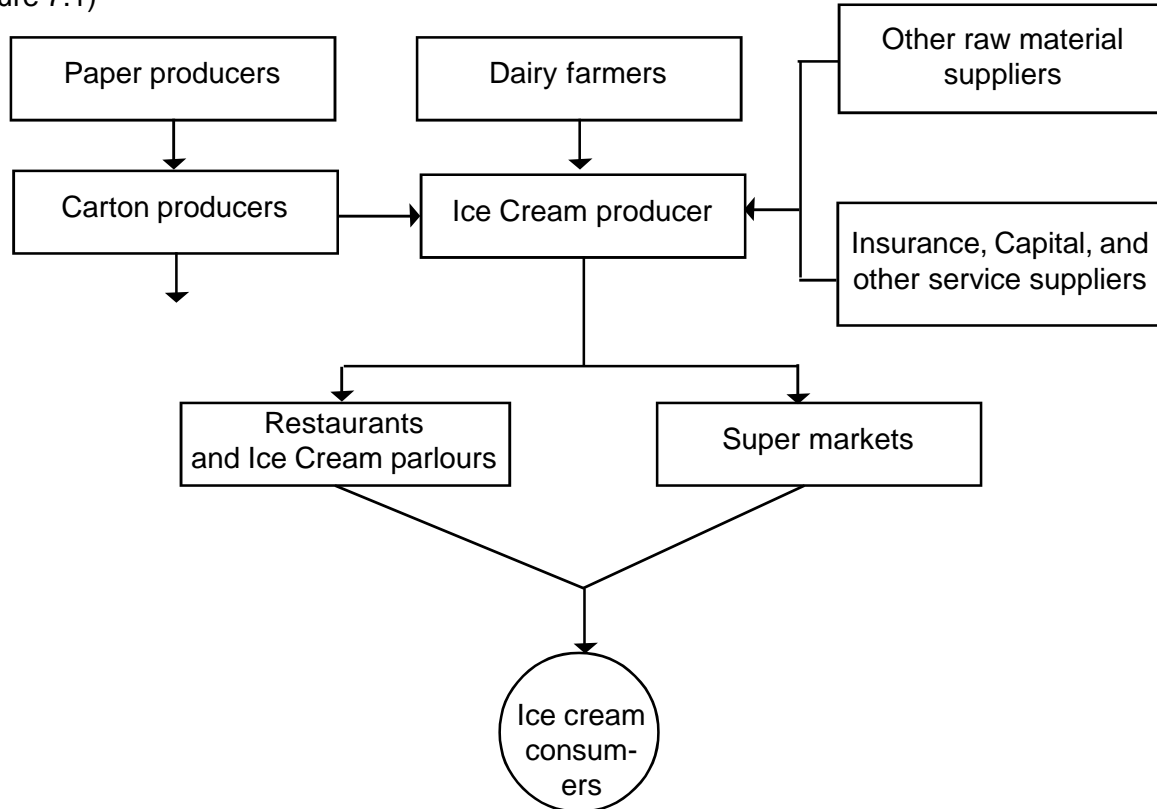


Figure 7.1 Industrial Marketers Created by Consumer demand for Ice Cream

7.2. ORGANISATIONAL BUYER Vs. HOUSEHOLD BUYER

Business markets have several characteristics that contrast sharply with consumer markets.

Fewer buyers: The business marketer generally deals with fewer buyers than the consumer marketer does. For example, an automotive tyre manufacturer, MRF, is interested to get orders from the leading car manufacturers.

Larger buyers: A few large buyers do most of the purchasing such as defence weapons.

Concentration of buyers: Organisational buyers are generally concentrated in the same geographical area

Close relationship: Because of the smaller customer base and the importance and power of the larger customers, suppliers, are frequently expected to customise their offerings.

Derived demand: The demand for industrial goods is derived from the demand for consumer goods. Hence the business marketer must understand the buying patterns of final consumers.

Inelastic demand: Generally, the demand for many business goods is inelastic. For example, tyre producers are not going to buy much more rubber if the price of rubber falls.

Acceleration effect: The demand for business goods tends to be more fluctuating than the demand for consumer goods.

Buying motives: Organisational consumer's motives are more rational than psychological. Many of the buying instruments (e. g. calling for quotations and purchase contract) are not found in consumer buying.

Buying influence: Purchase committees consisting of senior managers and technical personnel are common in purchase of business goods and services.

Multiple sales calls: As more people are involved in the selling process, it takes multiple sales calls to get purchase orders.

Direct marketing: Normally organisational buyers buy directly from manufacturers rather than through intermediaries.

7.3 BUYING SITUATIONS

Robinson and others distinguish three kinds of buying situations: the straight rebuy, modified rebuy and new task.

Straight rebuy: This is a buying situation in which the buyer buys on a routine basis. The suppliers attempt to maintain product and service quality. Generally, they suggest automatic reordering systems so that the buyer will save recording costs and times.

Modified rebuy: In this situation the buyer wants to alter product specifications, price delivery requirements, etc. In such a situation the in-suppliers have to protect the existing buyers. The out suppliers, on the other hand, will have an opportunity to attract the new buyers.

New task: In this buying situation, a purchaser buys a product or service for the first time. The greater the price, the larger the number of decision participants on both sides and the greater their information search.

How industrial buyers decide what to buy seems to depend on the type of situation. Situations differ according to how "new" the purchase is to the organisation and how much information is required to make a choice. New tasks and modified rebuys present the greatest challenges to organisational buyers. In these situations, the buyers should expect to spend more time and exert more effort. Many people from different departments are involved in such decisions. Straight rebuys are much more routine and most likely to be handled by the purchasing department.

7.4 ORGANISATIONAL BUYERS

Organisational buyers can be classified into: government market, industrial market, and reseller market.

Government market: It consists of central, state or local government organisations, which purchase goods or services for carrying out the main functions of government. Government organisations are a major buyer of goods and services. They require suppliers to submit bids, and they award the contract to the lowest bidder. The spending decisions are subject to public review. Therefore, the suppliers, often complain about excessive paperwork, delay in decision making and bureaucracy. The policies of the government will also influence the purchases. For instance, reserving certain items to be purchased from small industrial units.

Industrial market: The industrial market consists of all individuals and organisations who acquire goods and services that involve in the production process. The major types of industrial buyers are: agriculture, forestry, fisheries, mining; manufacturing; construction; transportation; communication, public utilities; banking, finance and insurance; and services. We can distinguish three kinds of industrial goods: materials and parts (e.g. crude petroleum, cement, wires); capital items (e.g. computers, generators); and supplies and business services (e.g. lubricants, nails, cleaning).

Reseller market: The reseller market consists of all individuals and organisations who acquire goods for the purpose of reselling at a profit. The reseller creates place and possession utility rather than form utility. Resellers handle a number of products for resale.

7.5. ORGANISATIONAL BUYING PROCESS: PARTICIPANTS

Webster and Wind call the decision-making unit of a buying organisation the buying centre. The **buying centre** includes all members of the organisation who play any seven roles in the purchase decision process.

Initiators: Those who request that some be bought.

Users: They could be foremen in a factory, chemists in a chemical firm and programmers in a software firm.

Influencers: They influence the buying decision. Generally, technical personnel play an important role.

Deciders: Those who decide on product requirements or on suppliers.

Approvers: People who authorise the proposed actions of deciders.

Buyers: People who have formal authority to select the vendor and then of negotiation.

Gatekeepers: Those who facilitate the flow of information in the organisation. This role could be played by a receptionist or a secretary.

The marketer has to know several participants in the buying process. It is imperative to understand different systems in the client organisation in order to succeed.

7.6. VARIABLES INFLUENCING BUYING DECISIONS

There are four major variables influencing organisational buyers:

- ◆ Environmental
- ◆ Organisational
- ◆ Interpersonal
- ◆ Individual

These influences are shown in Figures. 7.2

Environmental Variables: The environmental influences include the level of demand, investment and the interest rate. Organisational buyers pay close attention to technological, political competitive and socio cultural factors. For example, if the buyer anticipates improved inputs with a better technology, the buyer may not repeat the entire purchase order with the existing suppliers.

Organisational Variables: Marketers must be aware of the clients' goals, structures, systems, policies and procedures. In India, in many family- owned businesses, purchase decisions normally require the family's consent. Policies and procedures like inventory holding policy, bidding or payment procedures also influence buyer's decisions. Organisational buyers need to be aware of the following organisational trends in the area of purchasing:

- Purchasing department upgrading
- Cross-functional roles
- Centralised purchasing
- Decentralised purchasing of small- ticket items
- Purchasing through Internet
- Long-term relations
- Purchasing performance evaluation and buyer's professional development
- Lean production.

Interpersonal Variables: The buying centre includes many individuals with different authority, status and persuasiveness. It is difficult to understand what kind of group dynamics take place during the process of buying decision.

Individual Variables: Buyers are different in terms of their personalities, motives, perceptions, attitudes and so on. Hence, they exhibit different buying styles.

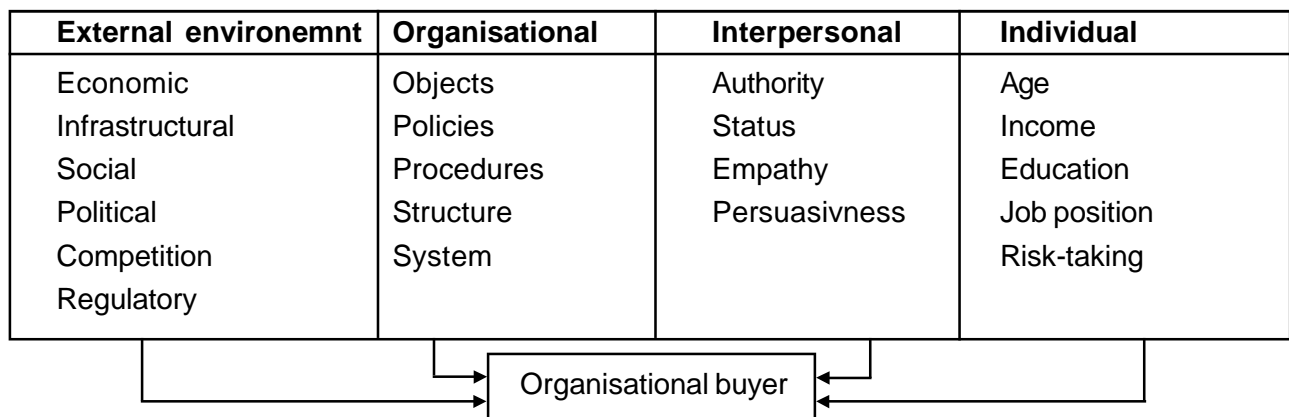


Figure 7.2 : Influences on Buying Decision

Fisher's Model: Fisher's model identified two factors influencing buying decisions. They are product complexity and commercial uncertainty. The levels of product complexity commercial uncertainty gives a combination of four situations as shown in Figure -7.3

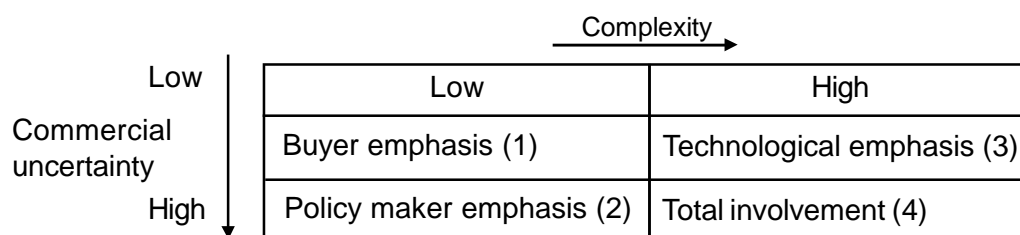


Figure. 7.3: Fisher's Model

The four quadrants shown in Figure. 7.3. require different emphasis:

Quadrant No. 1: There is low product complexity and low commercial uncertainty. In such a situation there should be buyer emphasis.

Quadrant No. 2: There is high uncertainty and low complexity. This situation calls for policy maker emphasis.

Quadrant No.3: The low uncertainty and high complexity require technological emphasis.

Quadrant No.4: When both uncertainty and complexity is high, it requires the total involvement of all the participants of the decision-making unit.

The implications of the levels of product complexity and commercial uncertainty are detailed in Table 7.1

7.7 PURCHASING ORIENTATIONS

Organisational buyers buy products and services to make profit or to reduce costs or to fulfill a social or legal requirement. For instance, a pharmaceutical company will expand its production capacity if it sees an opportunity to make more money. It will computerise its accounting system to reduce its operating costs. The company will install pollution - control equipment to satisfy social obligation.

Table. 7.1 Implications of the levels of product complexity and commercial uncertainty

Low Product Complexity	High Product Complexity	Low Commercial Uncertainty	High Commercial Uncertainty
Standard product Technically simple Established product Previously purchased Easy to install No after sales service.	Different Product Technically complicated New product Not purchased previously Difficult to install After sales service required frequently.	Low investment Small order Short term commitment small effect on profitability Easy to forecast.	High investment order Large Long term commitment consequential adjustment required Large effect on profitability Hard to forecast.

Anderson and Naren distinguished three company purchasing orientations: buying, procurement, and supply management.

Buying: The buyer's focus is short-term oriented. The buyer gives importance to price reduction. The product is considered as a commodity. The buyer taps many sources of supply and make them compete for share of the company's purchases.

Procurement: Instead of compelling lower input prices, procurement orientation calls for better relationships with suppliers. Suppliers will be involved in the acquisition and management of inventory. Ultimately the purpose is to achieve win-win relationships with major suppliers.

Supply Management: This orientation views purchasing a strategic value-adding activity. The organisation emphasises the whole value chain from materials to end users.

7.8. THE BUYING PROCESS

Robinson and associates have identified eight stages of industrial buying process. These stages are also known as buyphases or buygrid framework. These stages are shown in Table - 7.2

Problem Recognition: - In this stage, the buyer perceives a need for the product. The marketers can stimulate external stimuli by advertising, personal selling and telemarketing. The following events may trigger the internal stimuli:

- ◆ The new- product development process requires new materials and equipment.
- ◆ The buyer requires better quality raw materials at lower prices.
- ◆ The automation or computerisation requires new equipment.

General Need Description: Here the buyer determines the required item's characteristics in terms of reliability, durability, price, etc. For complex items, many participants will be involved.

Table 7.2: Buygrid Framework: Major stages (Buyphases) of the Industrial Buying process in relation to major buying situations (buy classes)

		Buy Classes		
		New Task	Modified Rebuy	Straight Rebuy
BUYPHASES	1. Problem recognition	Yes	Maybe	No
	2. General need description	Yes	Maybe	No
	3. Product specification	Yes	Yes	Yes
	4. Supplier search	Yes	Maybe	No
	5. Proposal solicitation	Yes	Maybe	No
	6. Supplier selection	Yes	Maybe	No
	7. Order-routine specification	Yes	Maybe	No
	8. Performance review	Yes	Yes	Yes

Source : Adapted from Patrick J. Robinson and associates, *Industrial Buying and Creative Marketing*, Allyn & Bacon, Boston, 1967, p.14.

Product Specification: Normally 20 percent of the parts account for 80 percent of the costs of manufacturing it. In this stage, the buyer lays down product specifications and service requirements.

Supplier Search: Here the task of the organisational buyer is to identify the suitable suppliers. In this regard, trade directories, trade advertisements, trade shows and Internet will provide necessary direction. Finally, the buyer is able to screen out a large number of suppliers who may not be able to meet the requirements.

Inviting Proposals: This is the stage where sealed proposals are solicited from qualified suppliers. The invitation is either in the form of an open tender notice or the buyer may seek proposals from a few well - known suppliers.

Supplier Selection: Suppliers are now evaluated more closely on their ability in meeting buyer requirements. Negotiations take place in this stage. Sometimes the buyer selects two suppliers in order to ensure uninterrupted supply.

Order-Routine Specification: During this stage, the buyer determines the technical specifications, the quantity required, the expected time of delivery, guarantees and so on. Buyer normally prefer blanket contracts rather than periodic purchase orders. Blanket contracts emphasise a long-term relationship. In this stage, actual placement of order will take place.

Performance Review: This is a critical stage for the supplier. The buyer reviews, and obtains feedback from all the departments using suppliers products and services. The performance review may lead the buyer to continue, alter, or terminate the relationship with the vendor. The repeat purchase is going to be based on these reviews.

A new-task buying situation generally involves all the buying stages we have discussed. In straight-rebuy or modified-rebuy situations, certain stages would be bypassed.

7.9 SUMMARY

Organisational buying is the decision-making process by which formal organisations establish the need for purchased products and services, then identify, evaluate, and choose among alternative brands and suppliers. Business markets have several characteristics that contrast with consumer markets. Business markets generally have fewer and larger buyers, a closer customer-supplier relationship, and more geographically concentrated buyers.

Organisational buyers can be classified into government market, industrial market and reseller market. The decision - making unit of a buying organisations is known as buying centre. It includes all members of the organisation who play an important role in the purchase decision process. Organisational purchase are influenced by four major factors -environmental, organisational, inter-personal and individual variables.

Basing on the price and complexity of the product, three company purchasing orientations are identified: buying, procurement, and supply management. The buying decision goes through an eight -stage process called buyphases and most organisations are confronted with three types of buying situations.

7.10 KEY WORDS

Buying centre: The decision-making unit of a buying organisation is called buying centre.

Buyphases: Eight stages of the industrial buying process are called buyphases.

Government market: It consists of central, state or local government organisations, which purchase goods or services for carrying out the main functions of government.

Industrial market: It consists of all individuals and organisations who acquire goods and services that involve in the production process.

Organisational buying: The decision- making process by which formal organisations establish the need for purchased products and services and identify, evaluate, and choose among alternative brands and suppliers.

Reseller market: It consists of all individuals and organisations who acquire goods for the purpose of reselling at a profit.

7.11 SELF ASSESSMENT QUESTIONS

1. Explain the characteristics of organisational buyer. Briefly discuss about different types of buying situations.
2. Based on buying centre analysis what marketing strategy will you suggest to an industrial valves company?
3. Analyse the four major factors influencing organisational buyers?
4. Discuss the stages of the industrial buying process.

7.12 FURTHER READINGS

David W. Cravens, Strategic Marketing, Richard D. Irwin, Illinois, 1987.

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Lesson - VIII

PRODUCT CONCEPT AND STRATEGY

OBJECTIVES

After studying this lesson you should be able to :

- ◆ To understand the meaning of product and levels of product
 - ◆ To know the various product-mix strategy dimensions
 - ◆ To study product line decisions
 - ◆ To define a product life cycle, and describe the appropriate marketing strategies at each stage of the product life cycle
 - ◆ To study the stages of new product development and understanding the problems involved in it.
-

STRUCTURE

- 8.1 Introduction
 - 8.2 Meaning of product and levels of Product
 - 8.3 Product Mix - Dimensions
 - 8.4 Product Line Decisions
 - 8.5 Product Life Cycle
 - 8.6 Introducing New Products
 - 8.7 Summary
 - 8.8 Key words
 - 8.9 Self assessment questions
 - 8.10 Further readings
-

8.1 INTRODUCTION

Once a company has carefully segmented the market, chosen its target customer groups, and determined the desired market positioning, it is ready to launch appropriate products. Product is the first and most important element of the marketing mix. Other elements of marketing mix are price, promotion and place. Marketers have recognized the need for differentiation of products and services. To the buyer, a product is a complex cluster of value satisfactions. One must enhance value of the offer to be successful in this competitive market situation.

8.2 MEANING OF PRODUCT AND LEVELS OF PRODUCT

A **product** is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. Products include more than just tangible goods. Broadly de-

defined, products include physical objects, services, experiences, events, persons, places, properties, organisations, information, and ideas, or mixes of these entities.

Services:

Because of their importance in the world economy, we should understand services. **Services** are a form of product that consist of activities, benefits, or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything. Examples are banking, tax preparation, hotel, travel and tourism, hospital, house repair services.

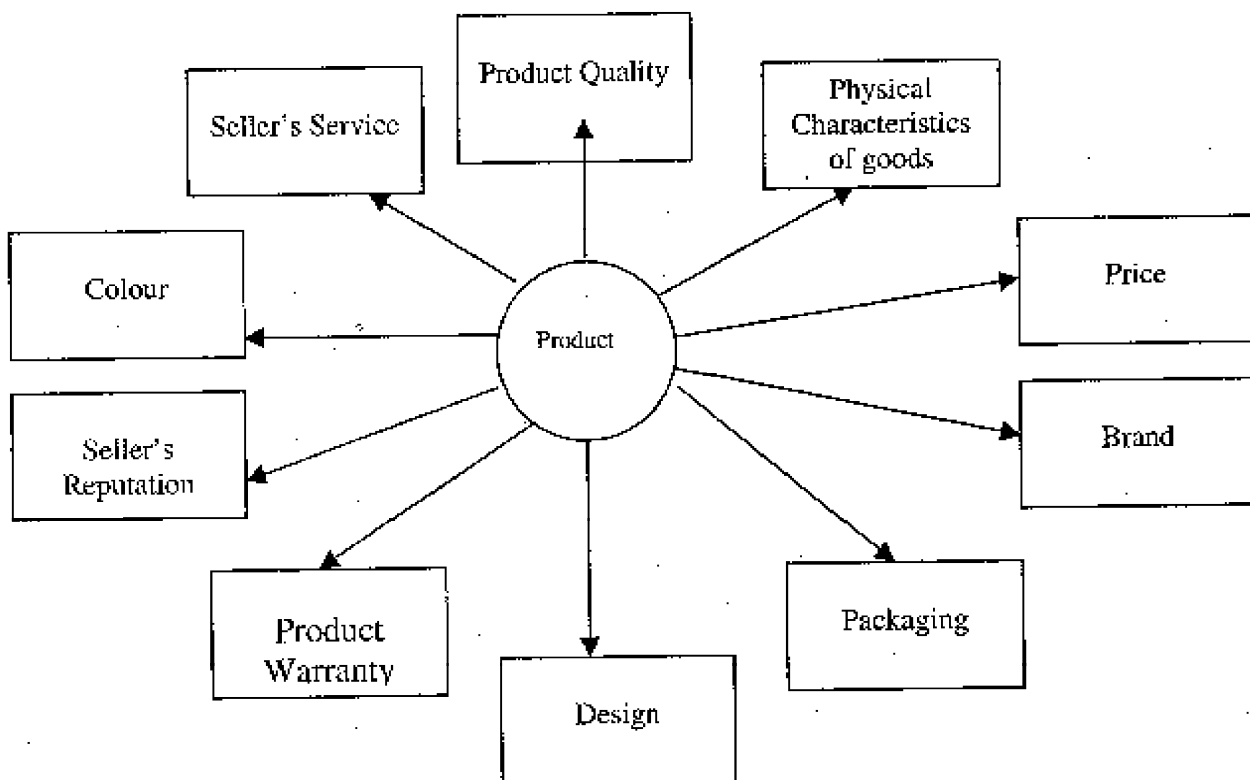


Figure 8.1 A product is more than just a product.

8.2.1 Levels of Product :

According to Theodore Levitt the new competition is not between what companies produce in their factories, but between what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangements, warehousing, and other things that people value.

Product planners need to think about products and services on three levels. The most basic level is the core product, which addresses the question: What is the buyer really buying? As illustrated in **Figure 8.2**, the core product stands at the center of the total product. It consists of the core, problem-solving benefits that consumers seek when they buy a product or service. A woman buying a lipstick buys more than a lip colour. When designing products, marketers must first define the important benefits the product will provide to customers.

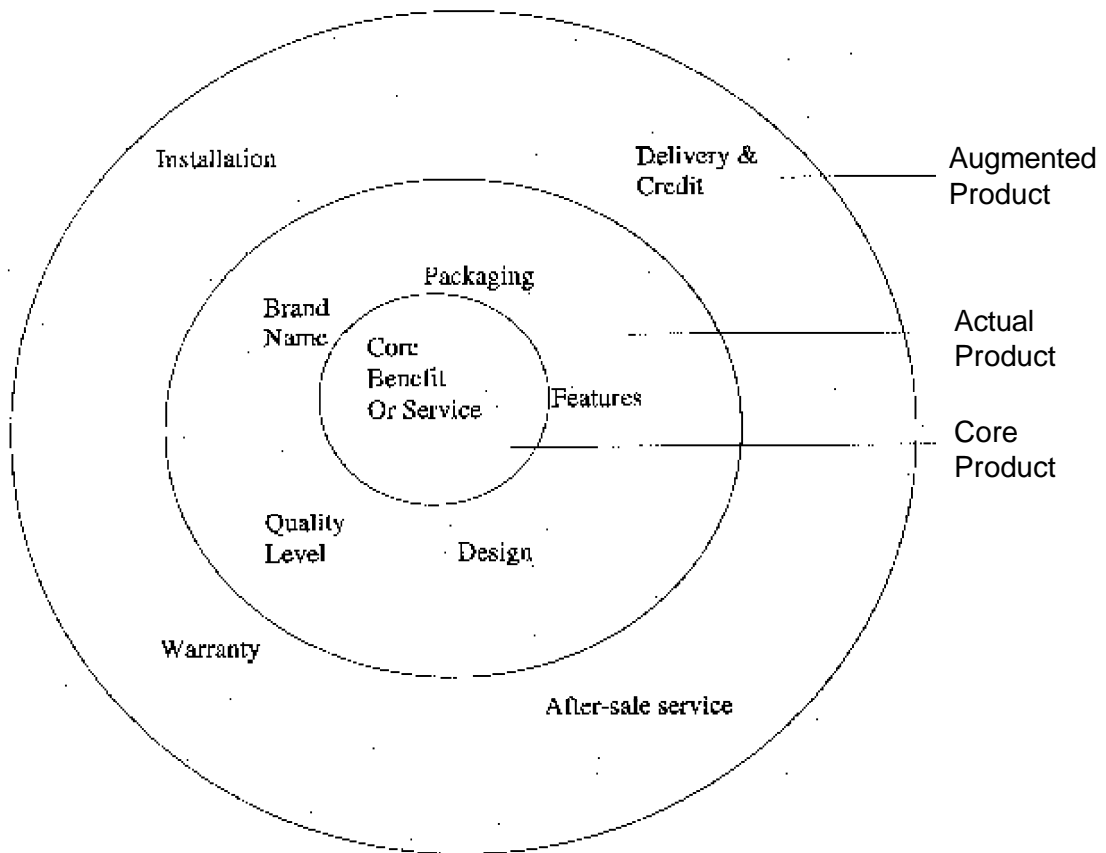


Figure 8.2 Levels of Product

The product planner must next build an actual product around the core product. Actual products may have characteristics like quality, features, design, a brand name, and packaging. For example, Sony television is an actual product. Its name, parts, styling, features, packaging and other attributes have all been combined carefully to deliver the core benefit - a convenient, high quality entertainment.

Finally, the product planners must build an augmented product around the core and actual products by offering additional consumer services and benefits. Sony must offer more than a television. It must provide consumers with complete solutions to their television viewing. Thus, when consumers buy a Sony product, Sony and its dealers also might give buyers a warranty on parts and workmanship, instructions on how to use the product, quick repair services when needed.

Therefore, a product is more than a simple set of tangible features. Consumers look to see products as complex bundles of benefits that satisfy their needs. Consumers want solutions not simply products. When developing products, marketers first must identify the core consumer needs the product will satisfy. They must design the actual product and find ways to augment it in order to create the bundle of benefits that will best satisfy consumers.

8.3 PRODUCT MIX - DIMENSIONS

Product Mix: A product mix (or product assortment) is the set of all products and items that a particular seller offers for sale to buyers.

Product-mix Dimensions:

A company's product mix has a certain width, length, depth, and consistency.

- ◆ The **width** of a product mix refers to how many different product lines the company carries.
- ◆ The **length** of a product mix refers to the total number of items in the mix.
- ◆ The **depth** of a product mix refers to how many variants are offered of each product in the line.
- ◆ The **consistency** of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way.

These four product-mix dimensions permit the company to expand its business in four ways. It can add new product lines, thus widening its product mix. It can lengthen each product line. It can add more product variants to each product and deepen its product mix. At the end, a company can pursue more product-line consistency.

8.4 PRODUCT LINE DECISION

A product mix consists of various product lines. Product-line managers need to know the sales and profits of each item in their line in order to determine which items to build, maintain, harvest, or divest. Some products contribute more to the entire product line's sales and profits. Every company's product portfolio contains products with different margins. The company management has to make a decision whether a product has to be continued or deleted from the product line.

They also need to understand each product line's market profile. The product-line manager must review how the line is positioned against competitors' lines. The management can use techniques like product mapping, which shows how competitors' products are competing against company products. This product mapping also identifies market segments. After performing product-line analysis, the product-line manager has to consider decisions on product-line length, line modernization, line featuring, and line pruning.

Product-line length:

A product line is too short if adding some more items can increase profits; and one can consider the line is too long if dropping some of the items can increase the profits. Company objectives influence product-line length. One objective is to create a product line to induce customers to go for higher end models. For example, Hyundai company introduces Santro Zing a higher version compared to Santro Zip model. A different objective is to create a product line that facilitates cross selling, for example, Hewlett-Packard sells printers as well as computers. Another objective is to create a product line that protects against Economic ups and downs.

Companies seeking high market share and market growth will generally carry longer product lines. Companies that emphasize high profitability will carry shorter lines consisting of carefully chosen items. Product lines tend to lengthen over time. Excess manufacturing capacity puts pressure on the product-line manager to develop new items. The sales people and distributors also pressure the company for a more complete product line to satisfy customers.

A company lengthens its product line in two ways: by line stretching and line filling.

- 1) **Line Stretching:** Every company's product line covers a certain part of the total possible range. Line stretching takes place when a company lengthens its product line beyond its current range. The company can stretch its line downmarket, upmarket, or both ways.

A company positioned in the middle market may want to introduce a lower-priced line for different reasons such as the company may notice strong growth potential as mass-retailer, where customers want more value for money products. To counter attack the competitors who are in lower-end of the market for otherwise they may move Upmarket, or if the middle market is stagnant or declining. This is known as Downmarket stretch.

Companies may wish to enter the high end of the market for more growth, higher margins, or simply to position themselves as full-line manufacturers. This is known as Upmarket stretch. Sometimes companies serving in the middle market might decide to stretch their line in both directions, which is known as Two-Way Stretch.

- 2) **Line Filling:** A product line can also be lengthened by adding more items within the present range. The reasons for line filling are:

- ◆ Reaching for incremental profits
- ◆ Trying to utilize excess capacity
- ◆ Trying to be the leading full-line company
- ◆ Trying to plug holes to keep out the competitors
- ◆ To satisfy dealers who complain about missing items in the line

Line filling is overdone if it results in self-cannibalization and customer confusion. Introducing more and more products in the line may lead to killing their other items. The company needs to differentiate each item in the customer's mind. Each item should possess a just-noticeable difference.

Other important product-line decisions are line modernization, featuring and line pruning.

- a) **Line Modernization:** Product lines are to be modernized. The managers have to take decision whether to overhaul the line piecemeal or all at once. In rapidly, changing product markets, modernization is carried on continuously.
- b) **Line Featuring:** The product-line managers typically select one or a few items in the line to feature. For example, Videocon will announce a special low-priced washing machine to attract customers. At other times, managers will feature a high-end item to lend prestige to product line. Some special emphasis will be made on some items to prop up their sales, these items are called featured items.
- c) **Line Pruning:** Product-line managers must periodically review the line for finding slow items, considered as deadwood, which are affecting profits. The weak items can be identified through sales and cost analysis. Pruning is also done when the company is short of production capacity. Companies normally shorten their lines in periods of high demand and lengthen their lines in periods of slow demand.

8.5 PRODUCT LIFE CYCLE

A product passes through certain distinct stages during its life, and this is called the Product Life Cycle (PLC). A Company's positioning and differentiation strategy must change as the product, market, and competitors change over time. The PLC concept is used to understand the market behaviour at different stages of life cycle and to apply different marketing strategies to get better results.

To believe that a product has a life cycle one has to assume the following things:

1. Products have a limited life.
2. Product sales pass through distinct stages, each posing different challenges, opportunities, and problems to the seller.
3. Profits rise and fall at different stages of the product life cycle.
4. Products require different marketing, financial, manufacturing, purchasing, and human resource strategies in each life-cycle stage.

The PLC is normally presented as a sales curve representing the product's journey from introduction to exit as shown in **Figure 8.3**. Most product life-cycle curves are portrayed as bell-shaped. This curve is typically divided into four stages: introduction, growth, maturity, and decline.

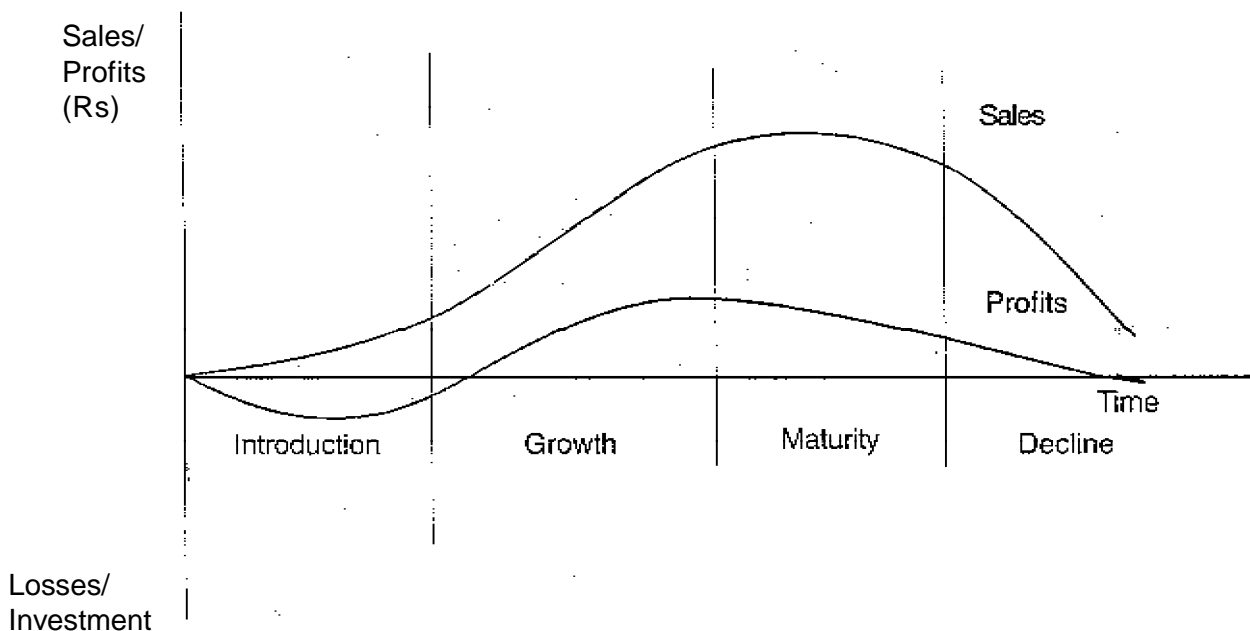


Figure 8.3 Stages in Product Life Cycle

1. **Introduction:** A period of slow sales growth as the product is introduced in the market. Profits are nonexistent because of the heavy expenses incurred with product introduction.

2. **Growth:** A period of rapid market acceptance and substantial profit improvement.
3. **Maturity:** A period of slowdown in a sales growth because the product has achieved acceptance by most potential buyers. Profits stabilize or decline because of increased competition.
4. **Decline:** The period when sales show a downward drift and profits erode.

Table 8.1
Summary of product Life-Cycle Characteristics, Objectives, and Strategies

	Introduction	Growth	Maturity	Decline
Characteristics				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing Number	Stable number beginning to decline	Declining number
Marketing objectives				
	Create product awareness and trail	Maximize market Share	Maximize profit while defending market share	Reduce expenditure and milk the brand
Strategies				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brand and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or best competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain hard-core loyals
Sales Promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

(Adapted from Philip Kotler, Marketing Management: Analysis, Planning, Implementation, and Control, 8th ed., Prentice Hall of India, New Delhi, 1988).

8.6 INTRODUCING NEW PRODUCTS

Every company must develop new products. New-product development determines the company's future. For higher level of growth, a firm has to look beyond its existing products. Customers want new products, and competitors will do their best to supply them. In the year 2000, consumer

product firms developed 31,000 new products including line extensions and new brands. Today a big supermarket in United States stocks 40,000 items.

New products become necessary from the profit angle too. It is necessary for the business firms to bring in new products to replace old, declining and losing products. New products become part and parcel of the growth requirements of the firm and in many cases, new profits come only through new products.

A company can add new products through acquisition or development. The acquisition route can take three forms. The company can buy other companies, it can acquire patents from other companies, or it can buy a license or franchise from another company.

The development route can take two forms. The company can develop new products in its own laboratories, or it can contract with independent researches or new-product development firms to develop specific new product.

8.6.1 Categories of New Products:

1. **New-to-the world products:** New products that created an entirely new market.
2. **New Product Lines:** New Products that allow a company to enter an established market for the first time.
3. **Additions to existing product lines:** New products that supplement a company's established product lines (package sizes, flavours, and so on).
4. **Improvements and revisions of existing products:** New products that provide improved performance or greater perceived value and replace existing products.
5. **Repositioning :** Existing products that are targeted to new markets or market segments.
6. **Cost Reductions:** New products that provide similar performance at lower cost.

Less than 10 percent of all new products are truly innovative and new to the world. These products involve the greatest cost and risk because they are new to both the company and the market place. Most new product activity is devoted to improving existing products.

8.6.2 Why do products fail?

Success requires many factors. Even one reason is good enough for a product failure. The following points give some idea regarding why products fail to get support from the customers.

- 1) **Market size overestimated:** The product idea is good, but the market size is overestimated. Many of the multinational companies overestimated the size of the market in India in the early stages of liberalisation programme and were not able to get enough support.
- 2) **Poor product design:** If the product is not well designed it may not attract the customers. Some designs that are appealing to customers in one country may not be appealing in another country.
- 3) **Top management exuberance:** A high-level executive pushes a favourite idea through in spite of negative market research findings.
- 4) **Marketing Mix:** The company is unable to strike the right marketing mix to reach the target customers. The product is in correctly positioned in the market, not advertised effectively, or over priced.

- 5) **Insufficient distribution:** The product fails to gain sufficient distribution coverage or support from channel members. Customers want to buy the product but it is not available because distribution coverage is inadequate.
- 6) **High product development costs:** Development costs are higher than expected. This requires lot of financial support for introducing the product. For example, in pharmaceuticals industry huge amounts have to be invested to develop products.
- 7) **Competition:** Markets are highly competitive nowadays. Competitors fight back harder than expected. If the products of the competitor are delivering better value to the customers, naturally customers support those products.

8.6.3. Factors affecting growth of new product development:

- 1) **Shortage of important ideas in certain areas:** There may be few ways left to improve some basic products.
- 2) **Fragmented markets:** Companies have to aim their new products at smaller market segments, and this can mean lower sales and profits for each product.
- 3) **Social and governmental constraints:** New products have to satisfy consumer safety and environmental concerns.
- 4) **Cost of development:** A company typically has to generate many ideas to find just one worthy of development, and often faces high R&D, manufacturing and market costs.
- 5) **Capital shortages:** Some companies with good ideas cannot raise the funds needed to research and launch them.
- 6) **Faster required development time:** Companies must learn how to compress development time by using new techniques, strategic partners, early concept tests, and advanced marketing planning.
- 7) **Shorter product life cycles:** When a new product is successful, rivals are quick to copy it.

New-Product Development Process:

By new products we mean original products, product improvements, product modifications, and new brands that the firm develops through its own research and development efforts. Many of the new products fail, companies are very anxious to learn to reduce the failure rate. A new product success depends on whether it offers higher value than the existing products. It should be a unique superior product, one with higher quality, new features, and higher value in use. Prior to the development of a new product a company should carefully define and assesses the target market, the product requirements, and the benefits. In all, to create successful new products, a company must understand its consumers, markets, and competitors and develop products that deliver superior value to consumers.

The following steps are involved in development of a new product:

1. **Idea Generation:** New-product development starts with idea generation. This is nothing but the systematic search for new-product ideas. A company has to develop as many ideas as possible to find few good ones. Many new-product ideas come from internal sources within the company. The company can find new ideas through formal research and development. Companies get ideas from employees, customers, sales people, competitors, distributors and suppliers.

2. **Idea Screening:** The ideas generated through the above step are to be screened to identify the good ones and drop poor ones as soon as possible. Companies want to proceed with only the product ideas that are most likely to turn into profitable products.
3. **Concept Development and testing:** An attractive idea must be developed into a product concept. A product concept is a detailed version of the idea stated in meaningful consumer terms. Concept testing is testing new-product concepts with a group of target consumers to find out if the concepts have strong consumer appeal.
4. **Marketing Strategy:** Marketing strategy development involves designing an initial marketing strategy for a new product based on the product concept.
5. **Business Analysis:** Business analysis involves a review of the sales, costs, and profit projections for a new product to find out whether they satisfy the company's objectives. If they are in line with the company objectives, the product can move to the product development stage. To estimate sales, the company might look at the sales history of similar products and conduct surveys of market opinion.
6. **Product Development:** Developing the product concept into a physical product in order to assure that the product idea can be turned into a workable product. Here, R&D or engineering develops the product concept into a physical product. In this product development stage company has to invest large amount of money. The R&D department will develop and test one or more physical versions of the product concept.
7. **Test Marketing:** The stage of new-product development in which the product and marketing program are tested in more realistic market settings. Test marketing gives the company the experience with marketing of the product before going to launch fully. The amount of test marketing needed varies from one product to the other. If the new product development costs are low and if they are confined to simple line extensions or copies of successful competitor products, the companies do little test marketing.
8. **Commercialization:** Test marketing gives management the information needed to make a final decision about to launch the new product. If the company goes ahead with commercialization - introducing the new product into the market - it will face high costs.

Out of eight stages at any stage the idea of launching a new-product may be dropped.

8.7 SUMMARY

A product is more than just product. Product is the first of the four P's of marketing mix. A product means something more than a physical commodity. Products have an identity or a personality of their own. The starting point of successful marketing is a satisfactory product. The set of all products offered for sale by a company is called a product mix. A broad group of products intended for essentially similar uses and having similar physical characteristics constitute a product line.

Products have life cycles that require different marketing strategies. The sales history of many products follows an S-shaped curve consisting of four stages: Introduction, Growth, and Maturity, Decline. Companies are recognizing the necessity and advantages of regularly developing new products and services. The new-product development process consists of eight stages: idea generation, idea screening, concept development and testing, marketing-strategy development, business analysis, product development, market testing, and commercialization. The purpose of each stage is to

decide whether the idea should be further developed or dropped.

8.8 KEY WORDS

Product is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need.

Services are a form of product that consists of activities, benefits, or satisfactions offered for sales that are essentially intangible and do not result in the ownership of anything.

Product Mix is the set of all products and items that a particular seller offers for sale to buyers.

Product Line refers to group of products, which are closely related as satisfying a class of need.

8.9 SELF ASSESSMENT QUESTIONS

1. "People do not buy a product. They buy benefits" Explain the statement.
2. What is product mix? Explain the dimensions of product mix.
3. What are the important product-line decisions?
4. Discuss the stages in the product life cycle. What is the significance of product life cycle in the marketing mix and in product planning and development?
5. What is a new product? Outline the various stages in new product development.
6. What factors contribute to the success or failure of a new product?

8.10 FURTHER READINGS

- 1) Philip Kotler, Marketing Management (New Delhi: Prentice-Hall India, 2002);
- 2) V S Ramaswamy, S Namakumari. Marketing Management Planning, Implementation & Control (New Delhi: Macmillan India Ltd, Third edition, 2002);
- 3) S A Chunawalla, Marketing Principles and Practice (Mumbai: Himalaya Publishing House, 1997);

Lesson - IX

PRODUCT PLANNING PROCESS

OBJECTIVES

After studying this lesson, you should be able to :

- ◆ know the importance of product planning process
 - ◆ know how to manage existing products
 - ◆ understand the importance of branding
 - ◆ explore the implications of branding related decisions
 - ◆ understand the importance of packaging and its functions
-

STRUCTURE

- 9.1 Introduction
 - 9.2 Product planning process
 - 9.3 Managing existing products
 - 9.4 Importance of Branding
 - 9.5 Branding Decisions
 - 9.6 Importance of packaging
 - 9.7 Summary
 - 9.8 Key words
 - 9.9 Self assessment questions
 - 9.10 Further readings
-

9.1 INTRODUCTION

Markets are dynamic in nature. Customers needs and wants are changing over time. Product life cycles are becoming shorter in duration. It has therefore become necessary for firms to review their product mix on a continuous basis. Customers' awareness levels are high. Technology is also changing very fast and companies, which are more adaptive for change, are surviving in this cutthroat competition.

Companies must be focused and should deliver better value to the customers. In product management branding is becoming a key strategic tool. Majority of the products sold in the market place are branded. Branding decisions are very critical for the success of products. Building global brands is becoming necessary for survival of companies. Revolution in packaging technology has a greater influence on the product strategy. With the developments in packaging companies are offering the products in small quantities thereby reaching larger group of customers. The companies are able to

target new segments in the market. One has to consider other elements in marketing mix like price, promotion, and placement while formulating product strategy.

9.2 PRODUCT PLANNING PROCESS

Product planning is important and is one of the most critical issues of a company's product management function. In designing such strategies companies should have accurate information on the existing products and as well as anticipated performance of its existing products. The product portfolio approach is one of the tools used for product planning. This growth-share matrix popularly known as Boston Consulting Group (BCG) concept explained earlier helps the companies to form the basis for product planning. Market growth rate of the business of which the product belongs and relative market share of the firm in that product category gives idea regarding whether the business is to be continued or discontinued. This analysis helps the product manager to decide about the optimum product mix. Always companies want to have a balanced product portfolio.

Ansoff has proposed a useful framework for detecting new growth opportunities for companies called a 'product-market expansion grid'. The company first considers whether it could gain more market share with its current products in their current markets known as market-penetration strategy. Here with current products the company wants to penetrate more into current markets. Next it considers whether it can find or develop new markets for its current products known as market-development strategy. This is searching for new markets and developing them with the existing products.

Then it considers whether it can develop new products of potential interest to its current markets known as product-development strategy. With new products the current markets should be concentrated. Later it will also review opportunities to develop new products for new markets known as diversification strategy. Product mix decision, product modification / modernization decision, product line pruning / product elimination decision, new product decision, and branding and packaging decision are the important decisions in overall product strategy.

9.3 MANAGING EXISTING PRODUCTS

Once the product is introduced to the market, the product is going to experience various stages. During a product's life, a company will normally reformulate its marketing strategies. Not only products have life cycles but also markets have life cycles. This demands the companies to reformulate their marketing strategies over time. The company must go with stage specific marketing strategies to maintain the sustainability of the existing product in the market place. The various stages include introduction, growth, maturity and decline.

I. Introduction Stage:

In introduction stage sales growth is slow. Delays in expansion of production capacity, technical problems, delays in obtaining adequate distribution through retail outlets, and customers reluctance to change established behaviour are the reasons for slow growth in the introduction stage. In this stage profits are also very low or negative because of the low sales and more promotion and distribution expenses. Promotion expenditures are high in relation with sales, as high level of promotional effort is required inform potential consumers of the new and unknown product. Prices are also on high side because costs are high due to relatively low output rates, technology problems may not be fully rectified, and high margins are required to support the promotional expenditure which is necessary to achieve growth. While launching product, organizations can emphasize more on any one of

the marketing variables, such as product, price, promotion, and distribution. Considering price and promotion, firms can pursue one of the four strategies shown in the Figure 9.1.

Strategies in the introductory stage:

- ◆ **Rapid skimming strategy:** Introducing the product at a high price and a high promotion level. The firm charges a high price in order to recover as much gross profit per unit as possible. A firm spends large amounts on promotion to convince the market even at the high price. This high spending on promotion speeds up the rate of market penetration.
- ◆ **Slow skimming strategy:** Introducing the product at a high price and low promotion. The high price makes firm to realise high gross profit per unit, and low level of promotion keeps firms' marketing expenditure down. When the market size and potential competition is low, this particular strategy works.
- ◆ **Rapid penetration strategy:** Launching the product at low price spending high amount on promotion. This strategy brings us fastest market share and market penetration. This strategy is suitable for large markets particularly when buyers are price sensitive, when there is a strong potential competition, and the market is unaware of the product.

		Promotion	
		High	Low
Price	High	Rapid Skimming Strategy	Slow Skimming Strategy
	Low	Rapid Penetration Strategy	Slow Penetration Strategy

Figure 9.1 Introductory Marketing Strategies

- ◆ **Slow penetration strategy:** Launching a product at low price and low level of promotion. Low price may encourage high product acceptance, and low level of promotion helps firms to realize more net profit. This approach is suitable for large markets, price sensitive and with some potential competition.

The pioneer, who introduces the product in the market, must choose a launch strategy that is consistent with its intended product positioning. This is the first step in a grand plan of life-cycle marketing.

II. Growth Stage:

The growth stage in which a product's sales start climbing quickly. The early buyers who have shown interest in product will continue to buy, and the new buyers also support the product especially if they hear favourable news about the product. Here word of mouth communication plays an impor-

tant role. At this stage new competitors will enter into market. Profits starts increasing with sales raise. With experience gained in production procedure, cost of manufacturing falls. Promotional expenditure is distributed over more number of units. However the growth rate may not be sustained forever, companies must watch the downtrend in this growth rate to prepare for the new strategies.

Strategies in the growth stage: Following steps are going to help the firm to sustain market growth as long as possible.

1. **Improve product quality:** Companies has to focus on improving product quality to sustain in the market.
2. **Adding new product features:** New features for the existing products should be added to make the product more appealing and contemporary to attract and retain customers.
3. **Adding new models:** New models must be added continuously to make the existing product portfolio look attractive. This will make company to occupy more shelf space at retailer's outlet.
4. **Entering new market segments:** As the product fared well in one particular market segment, to sustain its growth, companies have to enter into new markets.
5. **Decreasing price to attract lower segment:** The price of the product is to be decreased to attract lower class segment. In this segment majority of the customers are price sensitive. This helps the company to enter into new markets.
6. **Distribution channels:** Company has to increase distribution coverage and look for new distribution channels to make the product easily available to its target customers.

III. Maturity Stage:

The stage in the product life cycle in which sales growth slows or levels off and the product will enter a maturity stage. This stage normally stays longer than the previous stage and it throws serious challenge to marketing management. The company seeks innovative strategies to renew sales growth including market, product, and marketing mix modification.

Strategies in the maturity stage:

1. **Market modification:** The company has to increase sales volume for their matured brands by expanding the number of brand users as well as usage rate per user. The company has to convert nonuser into user, enter new market segments, and winning competitors' customers. Making the current customers to increase their annual usage of the brand can also increase sales. The company can try to make customers to use the product more frequently, more usage per occasion, and identify the new uses for the product and convince the customer to use the product in more varied ways.
2. **Product modifications:** By modifying the product's characteristics marketers try to increase the sales. Improving product quality aims at increasing the functional performance of the product like its durability, reliability, and taste. This makes buyers to accept the new and improved version of the product and they might be ready to pay more prices for it. Feature improvement of the product for example, size, weight and other accessories also make product more attractive. Style improvement of the product makes it more aesthetic and novel.
3. **Marketing mix modification:** Product managers might also try to stimulate sales by changing one or more marketing-mix elements. Change in the composition of the marketing mix may help company to reach the target customers. However, these changes are easily imitated by the

competitors. For instance, if a company decrease the price of the product, the competitors may also propose for price decrease. This leads to price war among the companies and none of them will get any benefit out of this situation.

IV. Decline stage

It's a stage in which a product sales decline. The sales decline might be slow. Sales decline for a number of reasons. When a product enters into a decline stage in which little can be done to stop the deterioration of sales and profits. The company has to identify the weak products, develop for each one a strategy of continuation, focussing, milking, and finally phase out weak products in a way that minimizes the problems for the company as a whole.

Strategies during decline stage:

1. **Identifying the weak products:** The company has to identify the weak products and if possible company should try to modify them if not discontinue them. Appointing product review committee with representatives from marketing, R&D, manufacturing, and finance. This committee has to identify weak products with the help of data regarding market size, market share, prices, costs, and profits. The review committee examines this information and makes recommendation for each doubtful product whether to continue it, change marketing strategy, or drop it.
2. **Determining Marketing Strategies:** In declining markets some firms withdraw their products earlier than other. There are some exit barriers which make the product withdrawal a little difficult. If there are few exit barriers, it is easy for the firms to leave the market. The remaining firms in the market try to attract the customers of the withdrawing firms. Harrigan distinguished five decline strategies available to firm:
 - ◆ increasing the firm's investment to strengthen its competitive position,
 - ◆ maintaining the firm's investment level until the uncertainties about the industry are resolved,
 - ◆ decreasing the firm's investment level selectively,
 - ◆ harvesting the firm's investment to recover cash quickly, and
 - ◆ divesting the business quickly by disposing of its assets as advantageously as possible.
3. **Product withdrawal:** When a company decides to drop a product, it has to take several other decisions. If the product has residual goodwill and strong distribution, the company can sell it to a smaller firm. If the company can't find buyers, it must decide whether to liquidate the brand slowly or quickly. It also should take a decision how to service the past customers, how much stock of spare parts to be maintained to support the past customers.

9.4 IMPORTANCE OF BRANDING

In marketing the term, branding occupies a significant role. A brand is defined as 'a name, term, sign, symbol, or design or a combination of these intended to identify the goods or services of one seller or groups of sellers and to differentiate them from those of competitors'. The skill of the marketer will be revealed through the ability to create, maintain, and protect brands of their products and services.

Branding helps both consumers and sellers. Consumers get confidence that the branded goods and services are high in quality. Majority of the products sold in the market are branded products.

Even water, salt, rice, fruits, vegetables, poultry products are branded nowadays. Customers feel some sense of security when they buy branded products. They feel that the entire company is backing the branded products. Companies' plan their promotional strategy around the brand name and customers can easily identify the products. Branding gives the product some respectability in the market place.

Brand Equity:

Brand equity is the value of a brand, based on the extent to which it has high brand loyalty, name awareness, perceived quality, strong brand associations, and other assets such as patents, trademarks, and channel relationships. A brand with high brand equity is an asset to the company. The valuation of brand equity is difficult but companies are respected if they have powerful brands.

9.5 BRANDING DECISIONS

Branding decisions are very important and they are challenging in nature. The branding decisions include brand name selection, brand sponsor, and brand strategy.

I. Brand Name Selection: The company has to select suitable brand name and it should protect it. One has consider cultural, social, and religious factors before fixing a brand name. The brand name should consist of the qualities like distinctiveness, product benefits and most importantly easy to pronounce, recognize, and remember. When the product is associated with brand names, psychologically customers attribute value to their purchase. For example, Raymond, Godrej, Zodiac etc. If brand name is easy to spell, with words in common use brand remembering is easy. For example, Sony, Usha, Vimal, Nirma are very easy to remember. Brands describe about the product and its characteristic features. For example, Fair & Lovely, Glucose, Protinex, Fair Glow, Fair Ever. The brand name when translated into a foreign language, should not give a wrong meaning. For example, the brand name Nova goes well with Indian car buyers but not with Spanish customers because meaning of the word Nova in Spanish language is 'it doesn't go'. Brand name should not infringe with the existing brands.

II. Brand Sponsor: The product may be introduced as manufacturers brand, private brand, licensed brand, and co brand. The company's name itself acts as a brand name, for example, Godrej, BPL, Tata. A brand created and owned by distributors or retailers is known as private brand. For example, Spencer's at Chennai, Nilgiris at Bangalore have become popular private brands in south India. The practice of using the established brand name of two different companies on the same product is known as co-branding. For example, Thomas Cook- Master Card International, ECIL-BDPS, Indian Oil Corporation-Citi Bank International. In co-branding both the brands will get the benefit of each other.

III. Brand Strategy: There are four different brand strategies. They are Line Extension, Brand Extension, Multi brands, and New brands.

- ◆ **Line Extension:** When a company introduces additional items in a related product category with the same brand name it is called line extension. Products with new flavours, sizes, colours, shapes, ingredients in the same category with the same brand name will be introduced.
- ◆ **Brand Extensions:** A brand extension is using a successful brand name to launch new or modified products in a new category. Here the brand name is same but the product category is new. A brand extension gives a new product immediate recognition and faster acceptance. As the brand awareness is already there, the costs of advertising to build a new brand can be

saved. However the brand extension is risky when the failure of a new product will dilute the image of an existing brand.

- ◆ **Multibrands:** This strategy is about introducing additional brands in the same category. P&G, HLL, Godrej follows multibranding strategy in soaps and detergents category. It helps companies to occupy more shelf space at retail level. The same company may launch separate brands in different countries. P&G dominates in US detergent market with Tide brand and it leads in other countries with Ariel brand. This multibranding strategy is costly because each brand has to be promoted by the firm separately. Each brand might obtain only a small market share.
- ◆ **New Brands:** A company may go in for a new brand when it enters a new product category for which none of the company's current brand names are suitable. If a company wants to enter into a new product category and the existing brands may not be suitable, then the company has to go in for a new brand. Sometimes the company may acquire new brands through acquisitions.

9.6 IMPORTANCE OF PACKAGING - PACKAGING DECISIONS

Packaging is another important element in product strategy. Packaging involves designing and producing the container or wrapper for a product. It provides basically the convenience and adds value to the product. The main function of package is to contain and protect the product. It will enhance the sales appeal of the product. Packaging is becoming a powerful promotional tool in this competitive marketing environment.

In the last decade, India is witnessing the packaging revolution in the form of sachets, pouch packaging, it has changed the market dynamics. More over than this the customers are looking at decent packaging with aesthetic appeal. Due to the media explosion, changing life styles, attitudes, tastes, and needs packaging occupied a prominent role. For that matter Froot's, success can be attributed to packaging. It was the first of its kind in India to introduce tetra pack technology. Even today Frooti is enjoying its exclusivity value and is the market leader. Packaging provides handling convenience to the customers and provides operational flexibility to the company.

With proper packaging the firm achieves the following functions:

1. **Creating customer satisfaction:** A good packaging provides the customer convenience and in turn it leads to customer satisfaction. For example, edible oil offered in poly packs provides greater convenience to customers to carry the product.
2. **Protecting the contents:** Packaging protects the product and enhances its longevity. It prevents contamination of products like medicines, cosmetics, and other food products.
3. **Knowing about the product attributes and ingredients:** It provides product information, advantages, instructions, contents, and statutory warnings.
4. **Promoting the product:** Packaging can be effectively used by the marketers to promote the products. Labeling will provide an opportunity to the seller to influence the buyer.
5. **Provides differentiation:** Marketers can use the packaging to differentiate their product. Novel packaging designs, styles create perceptual differentiation in the mind of the customers.
6. **Building image:** Quality packaging enhances the product's image to position it as premium product. In the process, the firm can charge high prices.

Labeling:

Labeling, the printed information appearing on or with the package is also part of packaging. Label provides the information regarding place of manufacture, date of manufacture, contents,

producer's name, and instructions on usage and warnings. Labels may vary from simple tags to complex designs. Labels can be designed with attractive colours and different typographical styles.

Other Product Related Strategies:

A) Product Positioning:

According to Al Ries and Jack Trout marketing is the battle of perceptions not products. They popularized the concept of positioning. A product's position is the way the product is defined by consumers on important attributes - the place the product occupies in consumers' minds is relative to competitor products. Well-known Products generally hold a distinctive position in consumer's minds. It is difficult for the competitors to occupy the same space in the mind of the customer.

Companies have to strengthen their own position in the consumer's mind rather than trying to occupy the competitor's space. Companies can try to occupy the unoccupied space. Sometimes the companies may try to re-position the competitor products by their promotional efforts. Positioning is done through communication. Here advertising plays an important role in positioning the product. The tangible aspects of product, place, price, and promotion should support the positioning strategy of the firm.

Michael Treacy and Fred Wiersema, proposed a positioning model known as value disciplines. According to them, a firm could aspire to be the product leader, operationally excellent firm, or the customer intimate firm. A firm should become best at one of the three value disciplines and should achieve an adequate performance level in the other two disciplines. Generally companies must promote only one central benefit of the product to the customer through positioning strategy. According to Rooser Reeves a company should develop a unique selling proposition for each brand and promote it continuously on that count.

B) Product differentiation:

The process of adding a set of meaningful and valued differences to distinguish the company's product from competitors' product. Product differentiation helps the company to gain competitive advantage. A market offering can be differentiated in the following ways:

- a) **Product differentiation:** The product differentiation can be offered by the seller by changing parameters including form, features, performance quality, durability, reliability, repairability, style, and design.
- b) **Service differentiation:** When the physical product cannot easily be differentiated, companies look towards service differentiation. The main service differentiators are ordering ease, delivery, installation, customer training, customer consulting, and maintenance and repair.
- c) **Personnel differentiation:** Companies gain advantage through having better-trained people who have the skills like competence, courtesy, reliability, responsiveness, and communication.
- d) **Channel differentiation:** By designing their distribution channels in a better way companies want to achieve competitive advantage. Channel members can add value to the product.
- e) **Image differentiation:** Image is the way the public perceives the company or its products. A company can build its brand image through creating or sponsoring various events. The seller's space with its ambience and good-looking atmosphere also creates some image.

9.7 SUMMARY

Product is the first and most important element of the marketing mix. Product strategy calls for making coordinated decisions on product mixes, product lines, brands, and packaging and labelling. Product life cycles are becoming shorter in duration. It has therefore become necessary for firms to review their product strategy on a continuous basis. Product planning is important and is one of the most critical elements of a company's product management function. In designing such strategies companies should have accurate information on the existing products, as well as anticipated performance of its existing products. During a product's life, a company will normally reformulate its marketing strategies. Not only do products have life cycles, but markets also have life cycles. This demands the companies to reformulate their marketing strategies over time. The company must go with stage specific marketing strategies to maintain the sustainability of the existing product in the market place.

9.8 KEY WORDS

Brand A name, term, sign, symbol, or design or a combination of these intended to identify the goods or services of one seller or groups of sellers and to differentiate them from those of competitors.

Co-branding The practice of using the established brand name of two different companies on the same product is known as co-branding.

Packaging involves designing and producing the container or wrapper for a product.

Labeling the printed information appearing on or with the package. It is also part of packaging.

9.9 SELF ASSESSMENT QUESTIONS

1. Explain in detail the stage specific marketing strategies to maintain the sustainability of the existing product in the market place.
2. What is brand equity? Discuss various branding strategies.
3. Discuss the importance of packaging as a tool of market cultivation.
4. Briefly explain the following concepts.
 - a) Product positioning
 - b) Product differentiation

9.10 FURTHER READINGS

- a) Philip Kotler, Marketing Management (New Delhi: Prentice-Hall India, 2002);
- b) V S Ramaswamy, S Namakumari. Marketing Management Planning, Implementation & Control (New Delhi: Macmillan India Ltd, Third edition, 2002);
- c) S A Chunawalla, Marketing Principles and Practice (Mumbai: Himalaya Publishing House, 1997);
- d) R S N Pillai, Bagavathi, Modern Marketing Principles and Practices (New Delhi: S.Chand & Company Ltd, 1998);

Lesson - X**PRICING DECISIONS****OBJECTIVES**

After studying this lesson, you should be able to :

- ◆ explain the meaning and significance of pricing in marketing decisions.
- ◆ identify the pricing objectives of different firms.
- ◆ analyse the factors influencing pricing decision.
- ◆ understand different pricing policies and strategies adopted by marketers.
- ◆ learn the concepts of price Vs non-price competition and resale price maintenance.

STRUCTURE

- 10.1 Introduction
- 10.2 Factors Influencing Pricing
- 10.3 Pricing Policies and Strategies
- 10.4 Price Vs Non-price Competition
- 10.5 Changing Prices and Responding to Competitions
- 10.6 Resale Price Maintenance
- 10.7 Summary
- 10.8 Key words
- 10.9 Self Assessment Questions
- 10.10 Further Readings

10.1 INTRODUCTION

Pricing constitutes one of the four Ps of marketing. The marketing process cannot be summated without the mechanism of pricing. The right pricing strategy can optimise the revenue and thus maximise the profits. Pricing is the only element in marketing mix that generates revenue. Other elements namely, product, distribution and promotion are cost factors.

Till now, many firms had no problem in getting their products accepted at their price levels. It is because they were in protected market and the customers had no choice except to buy from very limited number of sellers. But in the post liberalisation era, most firms find themselves caught in a price war. The marketing war between Hindustan Lever and Nirma also brings to the fore dilemmas that marketers confront in pricing their products.

Economists define price as the exchange value of a product or service expressed in money. From the customer's point of view, it represents sacrifice and hence it is the perceived value of the product. From the marketer's view point, price is the amount charged for the product including any guarantees, delivery, discounts, services or other items that are part of the conditions of sale and are not paid separately.

Unlike product and distribution decisions, the pricing decisions can be changed quickly. According to Philip Kotler, "..... price competition is the number-one problem facing companies. Yet many companies do not handle pricing well. The most common mistakes are these; Pricing is too cost oriented; price is not revised often enough to capitalise on market changes; price is set independent of the rest of the marketing mix rather than as an intrinsic element of market-positioning strategy; and price is not varied enough for different product items, market segments, and purchase occasions."

10.2 FACTORS INFLUENCING PRICING

The marketer has to consider many factors in setting the pricing policy. Philip Kotler described it as a six-step procedure consisting of the following steps (Figure 10.1) :

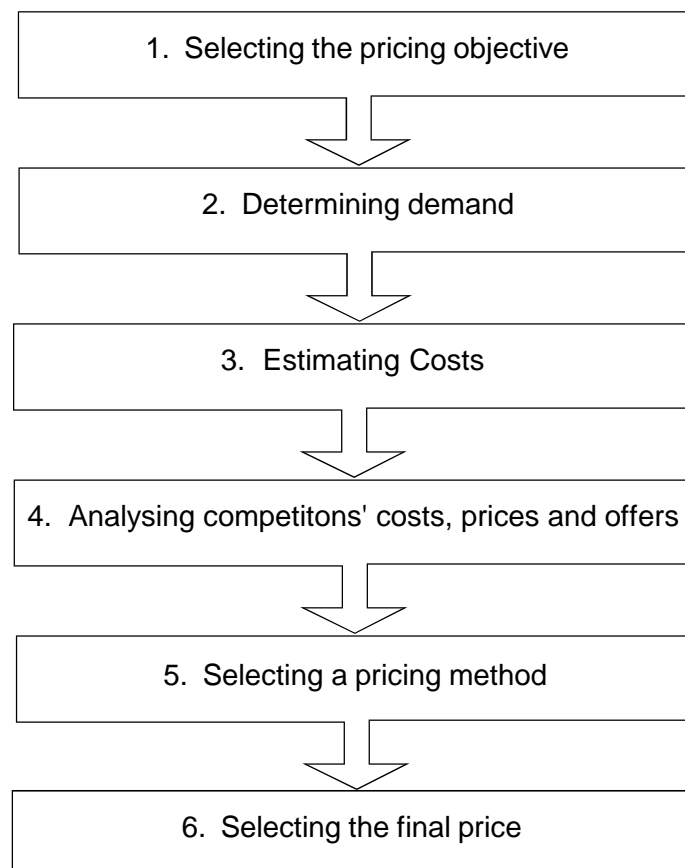


Figure 10. Factors Influencing Pricing

1. selecting the pricing objective;
2. determining demand;
3. estimating costs;
4. analysing competitors' costs, prices, and offers;
5. selecting a pricing method; and
6. selecting the final price.

Selecting the Pricing Objective

Some of the objectives are long-run, while others are short-run. In fact, pricing strategies emanate from the pricing objectives. A firm can pursue any of the five major objectives through pricing; survival, maximum current profit, maximum market share, maximum market skimming, or product-quality leadership.

But no firm can remain satisfied with a single objective in pricing. V. S. Ramaswamy and S. Namakumari listed the following objectives which the firms sought to achieve through pricing:

- ◆ Profit maximisation in the short term,
- ◆ Profit optimisation in the long term,
- ◆ A minimum return on investment,
- ◆ A minimum return on sales turnover,
- ◆ Target sales volume,
- ◆ Target market share,
- ◆ Deeper penetration of the market and finding new markets,
- ◆ Target profit on the entire product line irrespective of profit level in individual products,
- ◆ Keeping competition out, or keeping it under check,
- ◆ Keeping parity with competition,
- ◆ Fast turn around and early cash recovery,
- ◆ Stabilising prices and margins in the market,
- ◆ Providing the commodities at prices affordable by weaker sections,
- ◆ Providing the commodities/services at prices that will stimulate economic development in the country,

Determining Demand

The marketer has to estimate demand at different price levels. For some products the demand is inelastic to price changes. For example, food and other essential commodities belong to this product group. But, for most of the branded products, the demand is elastic. The marketer has to examine what affects price sensitivity. Nagle has identified nine factors that contribute to price sensitivity. They are:

Unique Value Effect: More unique the product, lower is the price sensitivity.

Substitute Awareness Effect : Buyers' price sensitivity will be high, if they are aware of substitutes.

Difficult Comparison Effect : Price sensitivity will be low if the buyer has difficulty comparing two alternatives.

Total Expenditure Effect: If the expenditure on the product represents a low proportion of the consumer income, then the price sensitivity will be less visible for such a product.

End-Benefit Effect : Buyers are less price sensitive where the expenditure on the product is low compared to the total cost of the end product.

Shared Cost Effect : If the cost of the product is shared by another party, the buyer will be less prone to price sensitivity.

Sunk Investment Effect : Price sensitivity is low in products which are used along with assets previously bought.

Price Quality Effect : Higher the perceived quality of the product, lower the price sensitivity.

Inventory Effect: If the product cannot be stored, the buyer will be less price sensitive.

Estimating Costs

It is important to estimate the costs of manufacturing and marketing the product. Different firms, within the same industry, operate at different levels of efficiency reflecting their cost structure. More the quantity produced, lower is the cost. The firm can pass this benefit to the customers in the form of lower prices. Many market leaders use this strategy.

Some costs do not change over the production volumes (e.g. rents, salaries, depreciation, R & D cost). These costs are called fixed costs. Certain costs vary directly in proportion to the volume of the product produced. These are raw material and wages. Such costs are called variable costs.

Analysing Competitors' Costs, Prices, and Offers

Competition affects price decisions. The firm has to examine competitors' costs, prices and competitive reactions to a price change.

Philip Kotler summarises the three Cs - the customers' demand schedule, the cost function, and competitors' prices in the form of three Cs model for price setting. Costs set a floor to the price. Competitors' prices and the price of substitutes provide an orienting point. Customers' assessment of unique product features establishes the ceiling price. (Figure 10.2)

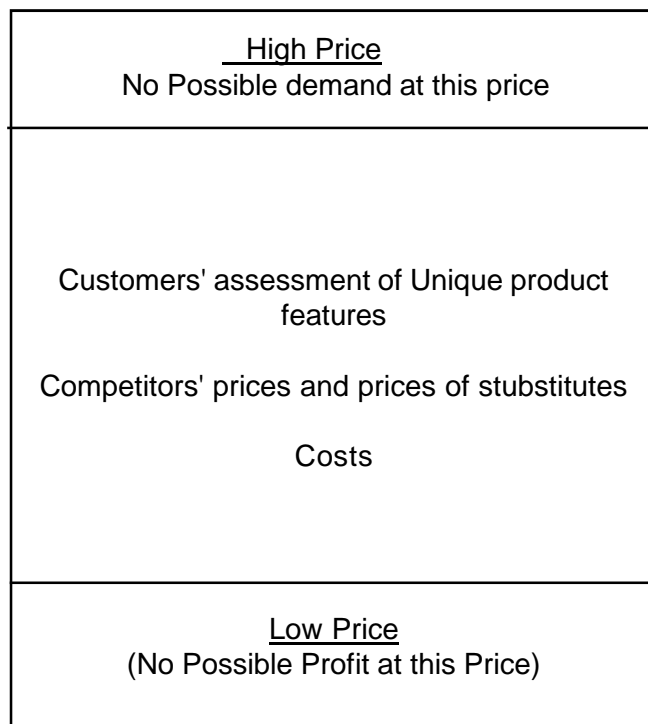


Figure 10.2. The three Cs Model for Price Setting.

Selecting a Pricing Method

Marketing managers follow certain techniques of setting price. We will examine these techniques in brief :

Full Cost or Mark Up Pricing : The marketer estimates the total cost of producing the product and then adds to it a mark up that the firm wants. This is the most elementary pricing method. This method ensures the firm to make a profit. But, it does not consider the value perception of the customer and the competitors' reaction.

Marginal Cost Pricing : In this method, the company works on the premise of recovering its marginal cost and getting a contribution towards its overheads. As long as the firm is able to recover this cost and get a contribution towards its overheads, it is an acceptable pricing method.

Going-Rate Pricing : This method is competition-oriented. This method is generally used in an oligopolistic market. Despite its advantage of preventing price wars, the method suffers from certain limitations. It is not always true that a decision taken in collective wisdom is the best.

Sealed - Bid Pricing : This is another form of competitive-oriented pricing. Here, the suppliers are asked to submit their quotations, as a part of a tender.

Perceived-value Pricing : Many marketers price their offerings on the basis of customers' perception of their value. This method takes into account the overall marketing strategy and the positioning strategy. Marketing research will play an important role here.

SELECTING THE FINAL PRICE

While selecting the price, the marketer must consider the following additional factors :

- ◆ The final price is influenced by other marketing mix variables such as quality of the product, product features (e.g., packaging, size, guarantee, service), promotion effort, distribution channels used and margins offered to distributors.
- ◆ The product's price must be consistent with the pricing policies of the firm.
- ◆ The company should also consider the reactions of certain groups such as distributors, suppliers, salesmen, competitors and government to the contemplated price.

10.3 PRICING POLICIES AND STRATEGIES

Having considered the factors affecting the pricing decisions, let us now examine different pricing policies and strategies adopted by the marketers.

Skimming Pricing

This involves setting up of high initial price for the new product. In other words, it is a premium price strategy. This pricing delivers results under the following situations:

- i) When the target market associates quality of the product with its price;
- ii) When the product is intended for high-income customer group;
- iii) When the product is a really innovative one for which competition is weak.

Here, the firm's objective is to achieve an early break even point.

Penetration Pricing

As the name suggests, penetration pricing seeks to achieve greater market penetration through relatively low prices. This is an effective pricing strategy:

- i) When the product is an imitative one for which there is a strong competition.
- ii) When the market is very price sensitive,
- iii) When the size of the market is large and a growing one.

Nirma Chemicals adopted penetration pricing strategy in the case of its washing powder. Of late, Anchor toothpaste employed this strategy as an entry strategy.

Skimming Vs penetration pricing strategies are often known as new product pricing strategies.

Geographical Pricing

Here, the company has to decide how to price its products to different customers in different locations. For instance, should the company charge higher prices to distant customers to cover the additional transportation costs. In geographic pricing, a firm may charge a premium in one market and penetration price in another. Pricing policies may be evolved whereby the buyer pays all the freight, the seller bears the entire costs, or the two parties share the expense.

Discounts

Discount is an allowance made to the buyers. Discount can be of three types: trade, quantity and cash. The purpose of trade discount is to compensate the distributors for their services rendered. A quantity discount is a price reduction to those buyers who buy large volumes. A cash discount is a price reduction to buyers who pay their bills promptly.

Jack Trout provided the following directives to the marketers known as commandments of discounting:

- ◆ You should not offer discounts because everyone else does.
- ◆ You should be creative with your discounting
- ◆ You should use discounts to clear stocks or generate extra business.
- ◆ You should put time limits on the deal.
- ◆ You should make sure the ultimate customer gets the deal
- ◆ You should discount only to survive in a mature market.
- ◆ You should stop discounting as soon as you can.

Product -Line Pricing

A multi-product company can evolve a set of pricing strategies in order to manage its product line effectively. They are :

Price Bundling : This strategy is used by a firm to even out the demand for its product or service. For example, stereo music equipment like the disc player, equaliser, speakers and amplifiers may be sold at different prices individually which taken together may amount more than what a customer has to pay if he were to buy it as a composite music system.

Optional -Feature Pricing: Certain companies offer optional products and services along with the main products. For example, a car company has to decide which items to include in the price and which to offer as options.

Captive-Product Pricing : Marketers of razors and cameras normally offer them at a low price and set high markups on razor blades and film. For instance, Gillette offered two twin blades free with its razor to make the buyer purchase its blades. Similarly Kodak offered a film roll free to all buyers who bought its camera.

Two - Part Pricing : Here, the product can be divided into two distinct parts. Telephone companies charge a minimum monthly fee and charge for calls beyond a certain limit.

10.4 PRICE VS NON-PRICE COMPETITION

The marketer has to decide whether to engage in price competition or in non-price competition. Companies initiate price cuts to meet or prevent competition. Of late, many English newspapers in India reduced their cover price in order to boost up their circulations. But according to Philip Kotler, price cuts involve possible traps:

- ◆ Low-quality trap: Consumers will assume that the quality is low.
- ◆ Fragile-market-share trap: A low price buys market share but not market loyalty.
- ◆ Shallow-pockets trap: The higher-priced competitors may cut their prices and may have longer staying power because of deeper cash reserves.

In non-price competition, marketers maintain stable prices. But they attempt to compete by highlighting non-pricing elements of their marketing-mix. Promotion and product differentiation are two principal methods of non-price competition.

10.5 CHANGING PRICES AND RESPONDING TO COMPETITIONS

When competitors make price changes, there is often little time for careful research on competitors' actions or on likely customer responses. Knowing why the competitor made the price change is more critical in determining the most appropriate response. Other questions are :

How will customers interpret and respond to the price change? The marketer has to understand the price elasticity in a particular market. Just as the marketer can misperceive a pricing move by competitors, so can customers. This can be to a firm's advantage or disadvantage. How will other competitors respond to the price change? An extreme response is "following the leader." Other responses include no change, a limited change, or a move to match or exceed the change made by the competitor sometimes, the price response may be combined with nonprice factors, such as an increase in advertising or improving product quality and features. How will customers and competitors respond to our response? The marketers must assess the impact of price changes on customers and competitors. Will a price increase benefit the industry? If the demand is high and buyers are not price sensitive, a hike in prices may be beneficial to all producers.

10.6 RESALE PRICE MAINTENANCE

The discussion on pricing would be incomplete without reference to the concept of resale price maintenance. It is the policy of establishing the minimum resale price below which the middlemen may not sell the products. The purpose of resale price maintenance is to prevent excessive price reduction by wholesalers and retailers.

Resale price maintenance will enable the firm to gain the co-operation and merchandising support of the retailers. The consumers are protected against over-charges by the retailers. However, the arguments against resale price maintenance are: i) it creates higher prices; ii) It protects inefficient retailers; iii) it retards the much warranted free competition.

Generally, resale price maintenance is practised in case of products such as drugs, liquor, cosmetics, cigarettes and books. The legal position of resale price maintenance is totally different. The MRTP Act of 1969 has declared the contracts of RPM as void, subject to certain exceptions. As it subsidises inefficiency, its abolition is justified on economic and social grounds in the Indian context.

10.7 SUMMARY

Pricing is the only element in marketing mix that generates revenue. Other elements are cost factors. In the post liberalisation era, most firms find themselves caught in a price war. Price-setting as a six-step procedure consists of the following steps: selecting the pricing objective; determining demand; estimating costs; analysing competitors' costs, prices and offers; selecting a pricing method; and selecting the final price.

Some of the pricing policies and strategies adopted by the marketers are: Skimming pricing; penetration pricing; geographical pricing; discounts; and product-line pricing. The marketer has to decide whether to engage in price competition or in non-price competition. Companies initiate price cuts to meet or prevent competition. In non-price competition, the marketers attempt to compete by highlighting non-pricing elements of their marketing mix.

Resale price maintenance is the policy of establishing the minimum resale price below which the middlemen may not sell the products. The MRTP Act of 1969 has declared the contracts of RPM as void, subject to certain exceptions.

10.8 KEY WORDS

Discount: Discount is an allowance made to the buyers.

Fixed Costs: These costs do not change over the production volumes (e.g., rents, salaries, depreciation, R & D cost).

Non-Price Competition: Here, the marketers maintain stable prices and attempt to compete by highlighting non-pricing elements of their marketing-mix.

Penetration pricing : It seeks to achieve greater market penetration through relatively low prices.

Price: It is the exchange value of a product or service expressed in money.

Resale price maintenance : It is the policy of establishing the minimum resale price below which the middlemen may not sell the products.

Skimming pricing: This involves setting-up of high initial price for the new product.

Variable Costs : These costs vary directly in proportion to the volume of the product produced (e.g. raw material costs and wages).

10.9 SELF ASSESSMENT QUESTIONS

1. "Pricing is the only element in marketing mix that generates revenue. Other elements are cost factors." Elucidate the statement. Briefly discuss the pricing objectives.
 2. What are the factors that should be considered while making pricing decisions? Would these change in the case of a new product? Why?
 3. Distinguish between skimming pricing and penetration pricing with suitable examples.
 4. Discuss various pricing policies and strategies.
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10.10 FURTHER READINGS

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Lesson - XI

PLACING PRODUCTS

OBJECTIVES

After studying this lesson, you are able to :

- ◆ understand the role of distribution channel in the overall marketing of products and services
- ◆ understand the channel behaviour and channel designs
- ◆ discuss the nature and importance of physical distribution
- ◆ understand the role and functions of intermediaries in the distribution channel
- ◆ observe the potential channel conflict areas and methods to reduce them

STRUCTURE

- 11.1 Introduction
- 11.2 Importance of Distribution Channels
- 11.3 Distribution Channel Functions
- 11.4 New Developments in Distribution systems
- 11.5 Channel Design Decisions
- 11.6 Physical Distribution and Logistic Management
- 11.7 Channel Conflict
- 11.8 Summary
- 11.9 Key words
- 11.10 Self assessment questions
- 11.11 Further readings

11.1 INTRODUCTION

A marketing channel performs the work of moving goods from producers to consumers. It overcomes the time, place, and possession gaps that separate goods and services from those who would use them. The goal of marketing is the matching of segments of supply and demand. Most of the products are not sold directly to the customers by the firms. Between the company and the final user there are different market intermediaries performing a variety of functions and bearing a variety of names. Wholesalers, retailers, agents, and distributors are some of them. Each channel member generates a different level of sales and costs. Marketing-channel decisions are very important decisions and influence all other marketing decisions. Company's channel decisions often involve long-term commitments to other firms. Once the distribution channels are established then it very difficult

to change them. We have to examine both the management of marketing channels and the management of physical supplies.

11.2 NATURE AND IMPORTANCE OF CHANNELS

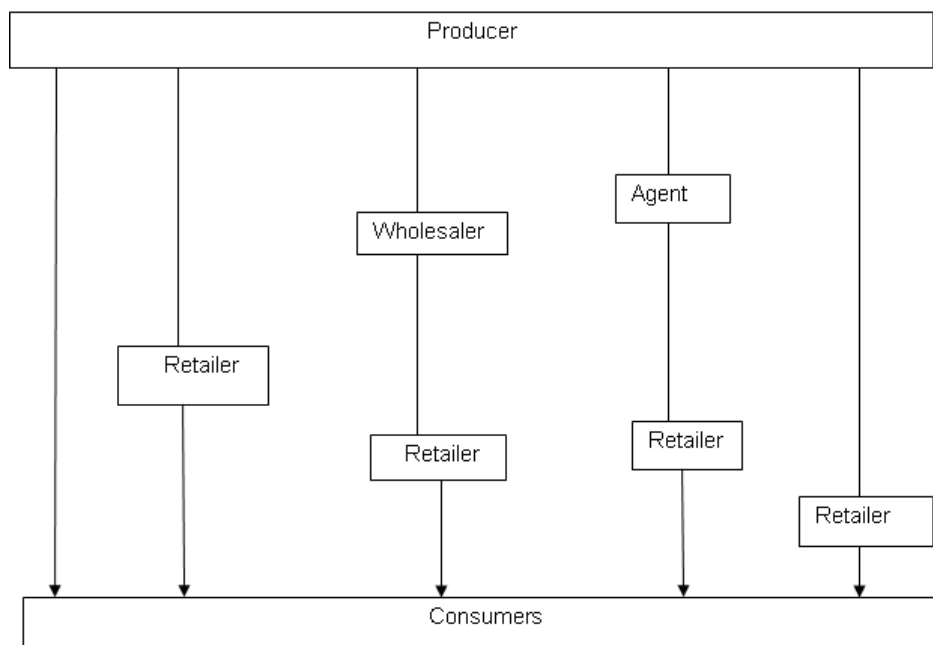
According to American Marketing Association, "A channel of distribution, or marketing channel, is the structure of intra-company organisation units and extra-company agents and dealers, wholesale and retail through which a commodity, product or service is marketed. A product or service must reach the end user. Most of the companies develop distribution channel to bring their products to the market.

We came to understand that distribution channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business use. The intermediaries will reduce the amount of work for both the producers and customers. The intermediaries will add some value to the distribution function with their contacts, experience, specialization, and scale of operation.

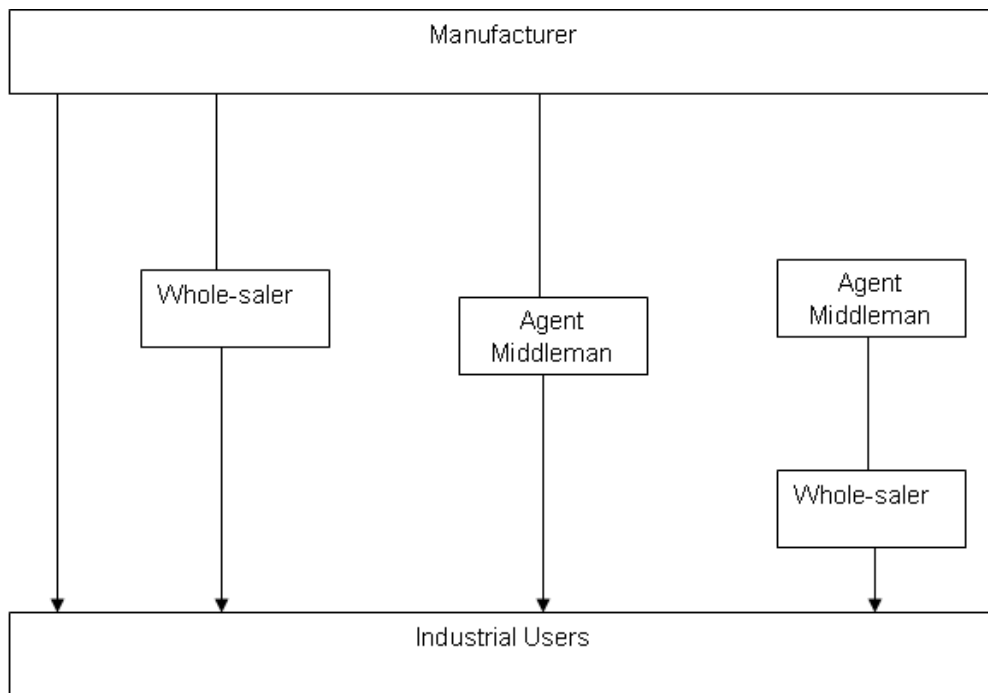
Producers produce fewer products in large quantities and customers want more products in smaller quantities. The intermediaries buy large quantities from different producers and break them into smaller quantities and broader assortments wanted by the customers.

Distribution channel consists of different levels. Each level of marketing intermediaries is representing a channel level. Channel level is a layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer. The number of levels determine the length of the channel; the more the levels, the longer is the channel. A marketing channel that has no intermediary levels is known as direct marketing channel. For example, Eureka Forbes, uses direct marketing channel method. A channel containing one or more intermediary levels is known as indirect marketing channel.

Figure 11.1
Distribution Channels



A. Consumer marketing channels



B. Industrial Goods Marketing Channels

Figure 11.1 depicts some of the possible channels in distributing consumer goods as well as industrial goods. If the goods are distributed directly by the produce to the customer, that channel has no intermediary levels. But channels with middlemen are considered to be having intermediary levels.

11.3 DISTRIBUTION CHANNEL FUNCTIONS

Distribution channel moves the goods and services from producers to consumers. It will create time and place utility for the products and services. The channel members perform many important functions. They are listed below.

1. **Information:** The channel members provide information about customers, competitors, and other parties in the marketing environment. They collect and disseminate market information, which is of great importance.
2. **Promotion:** The intermediaries almost work like company sales people and promote the products and services offered by the company to the customers. They spread favourable communication about the product and service.
3. **Contact:** Finding and communicating with prospective buyers.
4. **Matching:** Shaping and fitting the offer to the buyer's needs including activities such as assembling, grading, and packaging.
5. **Negotiation:** They negotiate with both company and buyers to reach final agreement on price and other conditions so that transfer of ownership or possession can take place.
6. **Ordering:** They provide backward communication regarding the intentions of the buyers and their orders to the manufacturer.

7. **Financing:** The channel members acquire and use funds to cover the costs of distribution.
8. **Risk Taking:** The channel members take the risks of carrying the distribution work.
9. **Physical Flow:** The successive storage and movement of physical products from raw materials to the final customers.
10. **Title:** The actual transfer of ownership from one organization or person to another.

These are the main functions involved in distribution. In allocating these functions to channel members one has to see the costs involved and the level of service which will be performed by these members to the consumers. By and large each channel member should add value to the process of distribution, otherwise there is no use of employing that channel member. Some of the functions like physical, title, promotion constitute a forward flow of activity from the company to the customer; functions like ordering and payment constitute a backward flow from customers to the company. Still other functions like information, negotiation, finance and risk taking occurs in both directions. Generally there are five types of flows that takes place through a distribution channel. They are physical flow, title flow, payment flow, information flow, and promotion flow.

11.4 NEW DEVELOPMENTS IN DISTRIBUTION SYSTEMS

Recently there are some new developments that have taken place in channel management. They are:

- ◆ Vertical Marketing Systems
 - ◆ Horizontal Marketing System
 - ◆ Hybrid Marketing Systems
- a) **Vertical Marketing System:** Vertical marketing systems have emerged in place of conventional distribution channels. In conventional distribution channel producers, wholesalers, and retailers act independently and want to increase their individual profits at the cost of overall channel. No member has control over the other member. There is no proper established mechanism for resolving channel conflicts. Vertical marketing system consists of producers, wholesalers, and retailers acting as one unit. Anyone of the members can dominate the system and act like a leader. The main member owns the other members. This VMS is becoming popular as it can solve channel conflict and control channel behaviour.
 - b) **Horizontal Marketing Systems:** In horizontal marketing systems, two or more companies at one level join together to follow a new market opportunity. The benefits of working together results in the form of using common production facilities combined marketing efforts, and common distribution systems. For example, India Today magazine is distributed through Eenadu marketing network. BPCL gives facility to Coca-Cola Company to sell their products in their petrol stations.
 - c) **Hybrid Marketing System:** Hybrid marketing channel is a multichannel distribution system in which a single firm maintains two or more marketing channels to reach one or more customer segments. In addition to its sales force, IBM sells through distributors, telemarketing, large retailers and its website. In large and complex markets one distribution is not suitable for every segment of the market. For example, tyres can be sold directly by the producer to the original equipment manufacturers (OEMs) and through retailers to retail customers.

Disintermediation:

Disintermediation is the elimination of layer of middlemen from a marketing channel or the displacement of traditional resellers by radically new types of intermediaries. Technology also to some extent facilitated this disintermediation. Growth in direct and online marketing like B2C is having great impact on the design of marketing channel. Consumers can buy books, videos, CDs, and other products from Amazon.com, flowers from 1-800-Flowers.com. HCL-Info Systems selling computers directly to consumers, eliminating middlemen.

11.5 CHANNEL DESIGN DECISIONS

Companies have to take channel decisions by considering practical situations in the market. As the conditions in the market changes dynamically one has to review the channel decision accordingly. Selecting the suitable channel and involving the channel members to work towards the common goal is important. If the company is small and having limited capital and confined to local market may consider selling directly to the customers. In smaller markets, the firm might sell directly through retailers, in larger markets it appoints distributors. According to market conditions channel decision is to be made. In some parts of the market it may sell through franchises, and in other parts it may sell in all available outlets.

The following points are to be considered while designing the channel:

- ◆ Understanding consumer service Requirements
- ◆ Framing channel objectives
- ◆ Identifying Alternatives
- ◆ Evaluating alternatives

A) Understanding Consumer Service Requirements:

The consumer is interested in different services from the company and the channel must deliver value to the customer. The targeted consumer needs must be identified and the channel must be designed to satisfy this targeted group. Consumer convenience, the mode of delivery, credit, service, installation, the place of purchase, type of product assortment all these factors are to be considered in designing the suitable channel. Cost to the company to provide these services and price to the customers is also to be considered.

B) Framing Channel objectives:

The company should set the channel objectives by considering the level of service delivery offered to the target customers. While setting the channel objectives the company should consider the nature of the company, product characteristics, type of channel members, competitors, and the prevailing business environment. Legal conditions and macro economic situation of the country should also be considered while framing objectives and design. Smart companies change their marketing channels over the product life cycle.

C) Identifying Alternatives:

After setting the channel objectives the company should identify channel alternatives in terms of types of intermediaries, number of intermediaries, and the responsibilities of each channel member.

Types of intermediaries:

- a) **Company sales force:** By employing company's direct sales force, firms want to reach the prospective customers.
- b) **Manufacturing Agency:** An independent firm may be appointed as manufacturer's agent, whose sales force handles related products from many companies.
- c) **Industrial distributor:** Appointing exclusive distributors in different regions by giving them good margins, promotional support, and training.

Supermarkets, Exclusive show rooms, Chain stores, Co-operative net work, Public Distribution System (PDS) , Mail order, Vending machine, Home selling are the different alternatives.

Number of Marketing Intermediaries:

At each level in the channel the company must decide the number of channel members. The strategies are:

- ◆ Intensive distribution
 - ◆ Exclusive Distribution
 - ◆ Selective Distribution
- a) **Intensive Distribution:** Stocking the products in as many outlets as possible. Tooth paste, shampoos, and chocolates and other consumer goods available in many outlets. This will increase the convenience for the consumer and exposure to the brand.
 - b) **Exclusive Distribution:** Producers giving a limited number of dealers the exclusive right to distribute the company's products in their territories. For example, exclusive distribution rights will be offered in automobile, readymade garments industries. Exclusive dealerships provide greater control for the companies and value-added services from these distributors.
 - c) **Selective Distribution:** The use of more than one, but fewer than all, of the intermediaries who are willing to carry the company's products. Television, appliances, and furniture brands are distributed in this manner.

D) Evaluating the alternatives:

The company must select the best channel alternative, which will suit its long-term objectives. The company must consider the factors like profitability, share of control, and adaptive nature of each of the channel alternatives. As we said earlier each channel alternative will produce a different level of sales and costs.

Generally the cost per transaction is low for direct marketing channels like internet and telemarketing. At the same time the value addition is also low. With direct sales channels like company sales force the cost per transaction is high and the value addition is also high. Indirect channels like use of retailers, distributors the cost per transaction is moderate and the value addition is also moderate. Using intermediaries means giving them some control over the marketing of the product. The company generally wants to retain as much control as possible. The company wants to maintain long-term relation with the channel and the channel must be flexible enough to suit the changing market conditions.

11.6 PHYSICAL DISTRIBUTION AND LOGISTIC MANAGEMENT

Physical distribution or marketing logistics involves planning, implementing, and controlling the physical flow of materials, final goods, and related information from points of origin to points of consumption to meet customer requirements at a profit. Logistics involves both outbound distribution as well as inbound distribution. Outbound distribution is moving products from factory to customers and inbound distribution is moving products and materials from suppliers to the factory. This is also known as supply chain management (SCM). Suppliers, agents, transport agents, channel members, and customers involved in this chain have to work like a team and should try to eliminate unnecessary bottlenecks and add value at every stage of the chain.

Functions of Logistics Management:

The major functions of logistics management include:

- ◆ Order processing,
- ◆ Warehousing,
- ◆ Inventory management, and
- ◆ Transportation

- a) **Order Processing:** Order processing involve receiving of the orders, storing, and processing of orders. Orders may be received by telephone, through salespeople, by mail, or through internet. The Enterprise Resource Planning (ERP) software packages may also consist of SCM modules which help the organisations to generate order slips, generating bills, updates the inventory records. Order processing must be fast and accurate.
- b) **Warehousing:** Production and consumption cycles are not always matched. Every company requires storage facility to stock the goods, which are to be sold. The number and type of warehouses needed to be identified by each company. Nowadays companies are using distribution centers, which are designed to move goods rather than just store them. These distribution centers are large and highly automated warehouses designed to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers as quickly as possible.
- c) **Inventory:** Optimum inventories are to be maintained. Carrying too much inventories result in additional carrying costs, carrying too little may create stock out situation, and more ordering costs, and may lead to customer dissatisfaction. Just-in-time inventory management helps the companies to reduce the inventory levels.
- d) **Transportation:** The mode of transport affects the pricing of products, condition of the goods, and delivery performance. The companies can choose different modes of transportation like rail, truck, water, air, and pipeline. Intermodal transportation by combining two or more modes of transportation is becoming popular nowadays.

11.6.1 Integrated Logistics Management

The concept of integrated logistics management is emerging very strongly in the marketing world. Integrated logistics management aims at improving customer service, reducing distribution costs, and eliminating unnecessary delays in distribution channel. Integrated logistics concept emphasizes teamwork, both inside the company and among all the marketing channel organizations, to

maximize the performance of the entire distribution system. This requires cross-functional teamwork within the company. Marketing, sales, finance, manufacturing, and purchasing functions are involved in marketing logistics.

Integrated logistics management tries to harmonize all of the company's distribution decisions. Building channel partnerships is the best way to achieve the goals of integrated logistics management. Information sharing is one of the advantages of channel partnership. Companies manage their supply chains through information. The effectiveness of the distribution channel depends on performance of the entire supply chain. One company's distribution system is another company's supply system.

Some of the companies in advanced countries shifted from anticipatory-based distribution system to response-based distribution systems. In anticipatory distribution system according to sales forecast the company produces the goods and pushes them to customers through channel members. It has to build inventories at different supply points, such as plant, depots, distribution centers, and retail outlets. In response-based distribution systems, the producer builds and supplies the stocks after receiving orders. For example, automobile manufacturers take orders from customers then produce them accordingly and then supplies within four days. In this response-based distribution system, company produces what is currently in demand.

Third-party Logistics:

Generally companies perform their own logistic functions, however slowly the trend is towards appointing third part logistics provider to distribute their products and services. Third-party logistics provider is an independent logistics provider that performs any or all of the functions required in bringing their clients' product to market. International courier companies like, UPS Worldwide, Fedex are entering into this third-party logistics business.

11.7 CHANNEL CONFLICT

The success of individual member depends on overall channel success. Each channel member is dependent on the others. All channel members should work together smoothly. They should understand their roles and responsibilities. But channel members are more concerned with their own short-run goals. They often disagree on the roles they should play and this behaviour results in channel conflict.

- ◆ **Horizontal channel conflict** occurs among firms at the same level of the channel. Different dealers of the company in same city may complain among themselves because some of them may undersell to attract more sale or selling outside their assigned sales territory.
- ◆ **Vertical channel conflict** is conflict between different levels of the same distribution channel. Dealers may have conflict with the company itself if the company insists them with some extra stipulations to comply with. Hindustan Lever Ltd came into conflict with distributors in Kerala regarding commission.
- ◆ **Multichannel conflict** is the type of conflict that exists when the manufacturer has established two or more channels that sell to the same market. If the company starts selling through internet the existing dealers may have conflict with the company.

The channel conflict arises because of non-congruence of objectives of the manufacturer, the wholesaler and retailer. It also occurs because of role ambiguity and differences in perceptions of the

market. Conflict among some channel members may sometimes lead to healthy competition. But sometimes conflict can damage the channel.

The channel as a whole to perform well, each member's role must be specified and channel conflict must be managed. Cooperation among channel members must be developed. Improving customer satisfaction by adding value to the delivery process should be the objective of each and every channel member.

11.8 SUMMARY

Distribution is one of the key elements in marketing mix. A company's channel decisions directly affect every other marketing decision. Each channel system will have different levels of intermediaries and generate different levels of revenues and costs and reach different segment of target consumers. The role of market intermediaries is to provide market information, maintains price stability, promote the company's product, part finance the manufacturing operations and take title to the goods and services. The distribution decision is influenced by factors like market characteristics, product characteristics, consumer profile, middlemen characteristics and intensity of the competition in the industry. Each firm identifies alternative ways to reach its market. Direct selling is where a company directly selling to customer without any intermediaries and indirect selling involves one or more intermediaries to reach customers.

Marketing logistics involves coordinating the activities of the entire supply chain to deliver maximum value to the customers. The integrated logistics concept recognizes that improved logistics requires teamwork in the form of close working relationships across functional teams inside the company and across various organizations in the supply chain. The channel conflict arises because of non-congruence of objectives of the manufacturer, the wholesaler and retailer. It also occurs because of role ambiguity and differences in perceptions of the market.

11.9 KEY WORDS

Direct Marketing Channel: A marketing channel that has no intermediary levels.

Indirect marketing channel: A channel containing one or more intermediary levels is known as indirect marketing channel.

Vertical Marketing System (VMS): A distribution channel structure in which producers, wholesalers, and retailers act as a unified system.

Hybrid Channels: Multichannel distribution system in which a single firm maintains two or more marketing channels to reach one or more customer segments.

Intermodal Transportation: Combining two or more modes of transportation.

SCM: Supply Chain Management

11.10 SELF ASSESSMENT QUESTIONS

1. "One of the major assets of a firm is its channel of distribution" Discuss.
2. List and briefly discuss the functions of distribution channel.

3. Discuss the future of vertical and horizontal marketing systems in India.
4. Discuss the distribution alternatives available to a firm. Where and how will you use each of these alternatives?
5. Highlight the role of Integrated Logistics Management in competitive business world?
6. How physical can distribution contribute to the creation of time, place, and possession utilities?

11.11 FURTHER READINGS

1. Philip Kotler, *Marketing Management* (New Delhi: Prentice-Hall India, 2002);
2. V S Ramaswamy, S Namakumari. *Marketing Management Planning, Implementation & Control* (New Delhi: MacMillan India Ltd, Third edition, 2002);
3. S A Chunawalla, *Marketing Principles and Practice* (Mumbai: Himalaya Publishing House, 1997);
4. R S N Pillai, Bagavathi, *Modern Marketing Principles and Practices* (New Delhi: S.Chand & Company Ltd, 1998);

Lesson - XII

PROMOTION OF PRODUCTS

OBJECTIVES

After studying this lesson, you are able to :

- ◆ understanding meaning, and importance of advertising
 - ◆ knowing the specific objectives of advertising
 - ◆ learn different methods of setting advertising budget
 - ◆ describing the important decisions related with message and media
 - ◆ observing the various parameters for measuring advertising effectiveness
-

STRUCTURE

- 12.1 Introduction
 - 12.2 Meaning and importance of advertising
 - 12.3 Objectives of advertising
 - 12.4 Advertising budget
 - 12.5 Advertising message
 - 12.6 Methods of advertising evaluation
 - 12.7 Summary
 - 12.8 Key words
 - 12.9 Self assessment Questions
 - 12.10 Further reading
-

12.1 INTRODUCTION

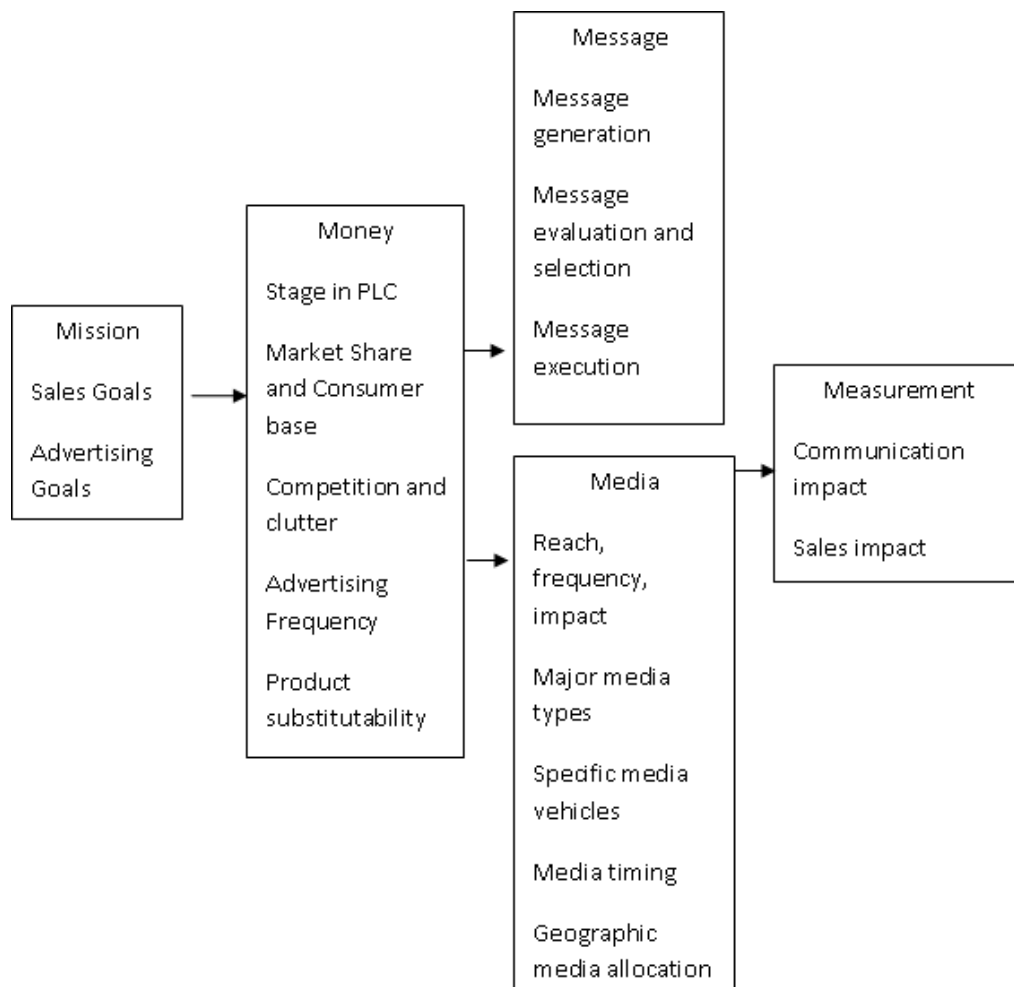
Advertising and other elements of promotion are an integral part of the marketing process in most organizations. Promotion is best viewed as the communication function of marketing. It is accomplished through a promotional mix that includes advertising, personal selling, publicity, public relations, sales promotion, direct marketing, and interactive marketing. Over the years, the promotional function in most companies was dominated by mass-media advertising. However, more and more companies are recognizing the importance of integrated marketing communications, coordinating the various marketing and promotional elements to achieve more efficient and effective communication programs.

12.2 MEANING AND IMPORTANCE OF ADVERTISING

Advertising is defined as any paid form of non personal presentation and promotion of ideas, goods, or services by an identified sponsor. Business firms, charitable organisations, and govern-

ment agencies use advertising to promote their products, services, ideas, and concepts. The types of advertising includes, brand, retail, political, business - to - business (B2B), institutional, public service, interactive, etc.,. Advertising plays four different roles in business and in society. They are Marketing, Communication, Economic and Societal in nature.

Figure 12. 1 Major Advertising Decisions



The important decisions to be made in developing an advertising program are depicted in the Figure 12.1 and described in the following sections. The major advertising decisions are:

1. Setting advertising objectives (Mission)
2. Setting advertising budgets (Money)
3. Message decisions (Message)
4. Media decisions (Media)
5. Evaluating advertising campaigns (Measurement)

12.3 OBJECTIVES OF ADVERTISING

An advertising goal or objective is a specific communication task and an achievement level to be accomplished with a specific audience in a specific period of time. Advertising objectives like, organizational objectives, should be operational. They should provide standards with which results can be compared. Operational objectives provide criteria for decision-making, and serve as a communication tool.

Russell Colley lists 52 possible advertising objectives in his book titled *Defining Advertising Goals for Measured Advertising Results*, popularly known as DAGMAR in which he outlines a method for turning objectives into specific measurable goals.

Advertising objectives can be classified into four categories. They are:

1. **Informative advertising:** This type of advertising aims to create awareness and information of new products or new features of existing products. Repeatedly the name of the product will be promoted. These ads include informing the market about price changes, explaining the customers how the product works, describing available services, correcting false impressions, reducing buyers' fears, building a company image.
2. **Persuasive advertising:** Aims to create liking, preference, conviction, and purchase of a product or service. These types of ads will persuade the customers to purchase now, building brand preferences, encouraging switching to their brands, changing customer perceptions of product attributes. Some persuasive advertisers use comparative advertising, which makes comparison of attributes of two or more brands.
3. **Reminder advertising:** This type of advertising aims to stimulate repeat purchase of products and services. Reminding customers that the product may be needed in the near future, reminding customers where to buy the product, keeping the product in customers' minds during off seasons, maintaining top-of-mind product awareness are some of the objectives of reminder advertising. For example, Pepsi and Coca-Cola ads on television are designed primarily to remind people about their brands, not to inform about the brand.
4. **Reinforcement advertising:** Aims to convince current purchasers that they made the right choice. These ads will reduce post purchase dissonance in the minds of customers. Hero Honda has recently issued ads in newspapers that it's Hero Honda CD Dawn vehicles sold 1,00,000 in 100 days. This will reinforce the existing owners as well as prospective customers.

12.4 ADVERTISING BUDGET

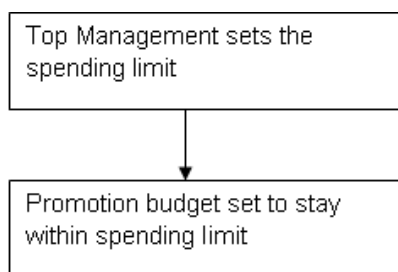
After determining its advertising objectives, the company thinks about the advertising budget. There are five specific factors to consider when setting the advertising budget:

1. **Stage in the product life cycle:** Products, which are in their initial stage of their life cycle, requires large amounts of advertising budget. New products generally require more budgetary support. Mature brands require less advertising budget.
2. **Market Share:** Brands with high market share require less advertising expenditure as a percentage of sales. Usually more advertising budget is required to build market as well as improving the market share.

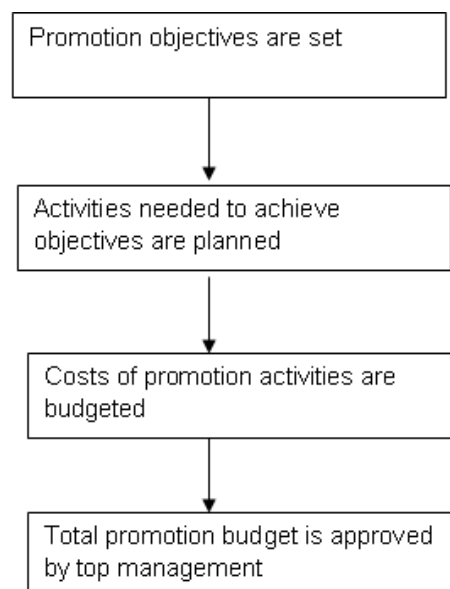
3. **Competition and clutter:** If in the market there are many competitors and advertising spending is more, a brand must be advertised more heavily to be noticed.
4. **Advertising Frequency:** If the number of repetitions to convey the message is more the budget requirement is more.
5. **Product substitutability:** If the brand belongs to commodity class like soft drinks, detergent, cigarettes, etc., it requires more advertising spending. If the product offers unique physical benefits then there is a scope for more advertising.

Many advertisers implement a number of budgeting methods developed through practice and experience. Many firms employ more than one method, and budgeting approaches vary according to the size and nature of the firm. There are basically two approaches in setting the budget for advertising. They are Top-Down Budgeting and Bottom-Up Budgeting. They are illustrated in Figure 12.2.

Top-Down Budgeting



Bottom-Up Budgeting



Top-down versus bottom-up approaches to budget setting
Figure 12.2

I. Top-Down approach:

In Top-Down approach budgetary amount is established at top management level and the money will be allotted to various departments. These budgets are predetermined and have no theoretical basis. The methods in this approach are:

- ◆ Affordable method
- ◆ Arbitrary Allocation method
- ◆ Percentage of sales method
- ◆ Competitive Parity method
- ◆ Return on Investment (ROI) method

II. Bottom-Up approach:

Bottom-Up Budgeting also known as Build-Up Approach budget appropriation is linked to the objectives and strategies designed to accomplish them. In this approach first the companies consider the firm's communications objectives and then allocate the budget to achieve these objectives. The methods in this approach are:

- ◆ Objective and Task Method
- ◆ Quantitative models

Now we examine these methods in detail.

A. Top-down approach:

- a) **Affordable Method:** In the affordable method (also known as "all-you-can-afford method"), the firm determines the amount to be spent in various areas such as production and operations. Then it allocates left over amount to advertising and promotion, considering this to be the amount it can afford. The task to be performed by the advertising is not considered. There is every chance that the firms may over- or underspend on advertising. The firms, which are not marketing driven and do not understand the importance of advertising, will follow this method.
- b) **Arbitrary method:** In this method management determines the budget solely on the basis of what is felt to be necessary. In this method no theoretical basis is considered and the budgetary amount is set by fiat. The arbitrary allocation approach has no obvious advantages. The concept and purpose of advertising is ignored in this approach.
- c) **Percentage of Sales Method:** This is a very popular method used by the large firms to set their budgets. The advertising and promotions budget is based on sales of the product. In this method the management determines the amount either by taking a percentage of sales value or assigning a fixed amount of the unit product cost to promotion and multiplying this amount by the number of units sold. A variation of the percentage-of-sales method is using projected future sales of the coming year as a base instead of sales of completed year.
- d) **Competitive parity Method:** In this method, managers establish advertising budget amounts by matching the competition's percentage-of-sales expenditures. It is always an advantage to know what competitors are doing and how much they are spending. In a market with many competitors and high advertising spending, one should compete with them on similar lines. However this method has limitations, even though spending similar amounts does not have the same results. Creative presentation and media choice play an important role. There is no guarantee that the competitors will continue the same policy and strategies.
- e) **Return on Investment (ROI):** In the ROI budgeting method, advertising and promotions are considered investments, like plant and equipment. The investment should result in generation of return. The basis for this method is incremental investments in advertising and promotions leading to increase in sales. However it is very difficult to assess the returns provided by the promotional effort. This is the less popular method used in setting advertising budgets.

B. Bottom-UP approach:

The major limitation of Top-Down methods is that these judgmental approaches lead to predetermined budget appropriations often not linked to objectives and the strategies designed to accomplish them. In Bottom-Up approach the idea is to make objective setting and budgeting go hand in hand.

- a) **Objective and task method:** The objective and task method of budget setting uses a buildup approach consisting of three steps: (1) defining the communications objectives to be accomplished, (2) determining the specific strategies and tasks needed to attain them, and (3) estimating the costs associated with performance of these strategies and tasks. The total budget is based on the accumulation of these costs. It is important that objective setting and budgeting go hand in hand rather than sequentially.
- b) **Payout Planning:** Payout determines the investment value of the advertising and promotion appropriation. The basic idea is to project the revenues the product will generate, as well as the costs it will incur, over two to three years. Based on an expected rate of return, the payout plan will assist in determining how much advertising and promotion expenditure will be necessary.
- c) **Quantitative Models:** These methods employ computer simulation models involving statistical techniques such as multiple regression analysis to determine the relative contribution of the advertising to sales. Because of the problems associated with these methods, their acceptance has been limited.

There is no universally accepted method of setting advertising budget. Limitations in each method may make it unfeasible or inappropriate. Each firm has to decide its own advertising budget by considering pros and cons of each method.

12.5 ADVERTISING MESSAGE

Advertising strategy consists of two major elements: creating advertising messages and selecting advertising media. The message decision involves generating messages, evaluating and selecting among them, and executing them effectively. Advertising effectiveness to a very large extent is dependent on the type of message and copy selected for communication, and the way it is executed. Well conceived advertising objectives guide in the development of effective message and copy.

The creative people develop advertising messages. Advertising agencies get reputation for their creative ability. It is the job of creative people to turn all of the information regarding the product features and benefits, marketing plans, consumer research, and communication objectives into a creative concept that will bring the advertising message to life. Advertising creativity is the ability to generate fresh, unique, and appropriate ideas that can be used as solutions to communications problems. Some people argue that advertising is creative only if it sells the product. Some others judge the creativity of an ad in terms of its artistic or aesthetic value and originality.

12.5.1 Advertising Campaigns:

Majority of ads are part of a series of messages that belongs to a particular advertising campaign. Advertising campaign, which is a set of interrelated and coordinated marketing communication activities that center on a single theme or idea that appears in different media across a specified time period. A campaign theme should be a strong idea, as it is the central message that will be communicated in all the advertising and other promotional activities. Some of the examples of successful long-running advertising campaigns themes are listed down in Table 12.1. A creative strategy that focuses on what must be communicated will guide the selection of the campaign theme and the development of all messages used in the ad campaign.

An important part of creative strategy is determining the central theme that will become the **major selling idea** of the ad campaign. There are different creative approaches that have emerged over the years and widely used by ad agencies throughout the world. They are:

- ◆ Using a unique selling proposition.
- ◆ Creating a brand image.
- ◆ Finding the inherent drama.
- ◆ Positioning.

Table 12.1 Examples of successful long-running advertising campaigns

Company or Brand	Campaign Theme
Hero Honda	"Fill it, shut it and Forget it"
Intel	"Intel inside"
Nike	"Just do it"
DHL	"We move the world"
De Beers	"A diamond is forever"
BMW	"Ultimate driving machine"
Pepsi	"Generation Next"

1. **Unique Selling Proposition (USP):** The concept of USP was developed by Rosser Reeves and is described in his influential book 'Reality in Advertising'. He noted three characteristics of unique selling proposition;
 - a) the proposition must involve a specific product benefit
 - b) the proposition must be unique
 - c) the proposition must sell

There must be a truly unique product or service attribute, benefit, or inherent advantage that can be claimed as unique selling proposition. The USP should dominate the ad and be emphasized through repetitive advertising.
2. **Brand Image:** David Ogilvy popularized the idea of brand image in his famous book 'Confessions of an Advertising Man'. He believes in developing prestige image of the brand. Image advertising has become increasingly popular and is used as the main selling idea for a variety of products and services, including soft drinks, liquor, cars, airlines, perfumes, and clothing.
3. **Inherent Drama:** Leo Burnett proposed this approach and he said "inherent drama is often hard to find but it is always there, and once found it is the most interesting and believable of all advertising appeals." He believed advertising should be based on a foundation of consumer benefits with an emphasis on the dramatic element in expressing those benefits.
4. **Positioning:** Jack Trout and Al Ries introduced the concept of positioning as a basis for advertising strategy in the early 1970s and has become a popular basis of creative development. The basic idea is that advertising is used to establish or position the product or service in a particular place in the consumer's mind. Positioning is often the basis of a firm's creative strategy when it has multiple brands competing in the same market. For example, HLL markets more than 10 brands of toilet soaps and positions each one differently.

The USP, brand image, inherent drama, and positioning approaches are often used as a basis of the creative strategy for ad campaigns. An advertising message can be presented or executed in the following ways:

- ◆ Straight sell or factual message
- ◆ Scientific/ technical evidence
- ◆ Demonstration
- ◆ Comparison
- ◆ Testimonial
- ◆ Humour
- ◆ Dramatizations
- ◆ Fantasy
- ◆ Personality symbol
- ◆ Animation

12.5.2 Ad Copy:

The verbal or written material of an advertisement including the headline, illustration, name and address of the advertiser and his signature. It refers to every single element that appears in an advertisement. Message and source are the basic elements of ad copy. The basic components of a print ad are the headline, the body copy, the visual or illustrations, and the layout. The copywriter has to write the message in such a way that it holds the interest of reader. Some of the David Ogilvy's principles of good ad copy are:

- ◆ "Never write an advertisement you wouldn't want your own family to read."
- ◆ "Big ideas are usually simple ideas."
- ◆ "Every word in the copy must count."

12.5.3 Media Planning & Strategy:

Media planning is the series of decisions involved in delivering the promotional message to the prospective purchasers and/or users of the product or brand. The media plan acts like a guide for media selection. It requires development of specific media objectives and specific media strategies designed to attain these objectives. The media strategy must be designed to supplement and support the overall marketing and communications objectives. The media strategy is to determine the best matching of media to the target market, within the budget.

The advertising message is communicated through the medium, which includes broadcast media like TV and radio, print media like newspapers and magazines, direct mail, outdoor advertising, and other support media. Internet is becoming a new media and is slowly getting acceptance from market participants.

Media selection is finding the most cost-effective media to deliver the desired number and type of exposures to the target audience. The effect of exposures on audience depends on the exposures' reach, coverage, frequency, and impact.

Reach is a measure of the number of different audience members exposed at least once to a media in a given period of time. **Coverage** refers to the potential audience that might receive the

message through a vehicle. Coverage relates to potential audience; reach refers to the actual audience delivered. **Frequency** refers to the number of times the receiver is exposed to the message in a specified time. **Impact** is the qualitative value of an exposure through a given medium.

Major Media Types:

Media planners should have knowledge about the capacity of the major media types to deliver reach, frequency, and impact. Different media available now for promoting products, services, and concepts like, newspapers, television, direct mail, radio, magazines, outdoor, yellow pages, newsletters, telephone, internet, etc., are having their own advantages and disadvantages.

One has to consider the target audience media habits, product or service characteristics, message characteristics, and cost to select appropriate medium to reach the consumers.

12.5.4 Cost of Advertising:

One of the important decisions in the development of media strategy is cost estimating. Advertising and promotional costs can be categorized in two ways.

1. **Absolute cost:** The absolute cost of the medium is the actual total cost required to place the message.
2. **Relative cost:** The 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 different media to optimize audience delivery within budget constraints.

Advertisers must compare the relative costs of media as well as vehicles within these media to evaluate various alternatives for promoting their products and services. The following cost bases are used to calculate advertising costs.

- ◆ **Cost per thousand (CPM):** Over the years the magazine industry has provided cost breakdowns on the basis of cost per thousand people reached. The formula to calculate CPM is

$$\text{CPM} = \frac{\text{Cost of ad space (absolute cost)}}{\text{Circulation}} \times 1,000$$

- ◆ **Cost per ratings point (CPRP):** The broadcast media provided a different comparative cost figure, known as cost per ratings point or cost per point. The formula to calculate CPRP is

$$\text{CPRP} = \frac{\text{Cost of commercial time}}{\text{Program Rating}}$$

- ◆ **Daily inch rate:** For newspapers, cost effectiveness is based on the daily inch rate, which is the cost per column centimeter of the paper. Normally a newspaper consists of 8 columns. Depending on the number of columns and centimeters booked in the newspaper the cost will be calculated. Nowadays like magazines, newspapers now use the cost-per thousand formula to determine relative costs.

It is difficult for the media planners to make comparisons across various media, as there is no standardized relative costing procedure. The broadcast and newspaper media have begun to provide costs per thousand, using the following formulas:

$$\text{Television} = \frac{\text{Costs of 1 unit of time} \times 1,000}{\text{Program rating}}$$

$$\text{Newspapers} = \frac{\text{Cost of ad space} \times 1,000}{\text{Circulation}}$$

The comparison of media on a CPM basis is important. However inter media comparisons can be misleading as different media have different advantages and disadvantages. Now we see the profiles of various media types to understand their advantages and limitations.

12.5.5. Media Profiles:

A) Television:

Television and radio comes under broadcast media category. The ability of TV to combine visual images, sound, motion, and colour presents the advertiser with the opportunity to develop the most creative appeals than in any other medium.

Advantages:

1. **Creativity and impact:** The interaction of sight and sound offers tremendous creative flexibility. Television is an excellent medium for demonstrating a product or service. Emotions, moods can also be depicted.
2. **Coverage and cost effectiveness:** Television advertising makes it possible to reach large audiences. Companies selling mass - consumption products are benefited by TV coverage. The cost of reaching large sections of the mass market is relatively low.
3. **Captivity and attention:** Television ads impose themselves on viewers as they watch their favorite programs. TV ads have an effect on consumers simply through heavy repetition and exposure to catchy slogans and jingles.
4. **Selectivity and Flexibility:** Television is basically a nonselective medium because through TV it is difficult to reach a specific market segment. But nowadays some selectivity is possible due to variations in the composition of audiences as a result of program content, broadcast time, and geographic coverage. Growth of Cable TV and regional channels is offering wide opportunity to the advertisers.

Limitations:

1. **Costs:** Absolute costs are very high. Despite the efficiency of TV in reaching large audiences, it is an expensive medium in which to advertise. Producing quality commercial is also quite expensive.
2. **Lack of Selectivity:** Some selectivity is possible in television through variations in programs and cable TV. But television still does not offer as much audience selectivity as radio, magazines, newspapers, or direct mail for reaching precise segments of markets.

3. **Fleeting Message:** TV ads usually of 30 seconds or less duration does not leave tangible evidence for viewer to consider. Ads are becoming shorter and shorter as the demand for limited amount of broadcast time has increased and advertisers try to get more impressions from their media budget.
4. **Clutter:** Advertiser's message is only one of many spots along with other non programming material seen during a commercial break; So it may not be noticed by viewers.
5. **Limited Viewer Attention:** The size of the viewing audience is getting reduced during commercial breaks. The increased usage of remote control has led to the problems of zipping and zapping. Zipping occurs when customers fast forward through the commercials of recorded programs. Zapping refers to changing channels to avoid commercials. With remote control on hand viewers surf channels when the advertisements are telecasted.

B) Newspaper

Newspapers are one of the major forms of print media and are the largest of all advertising media in terms of total money spent.

Advantages:

1. **Extensive Penetration:** Newspapers provide high degree of market coverage or penetration. The extensive penetration makes newspaper a truly mass medium and provides advertisers with an excellent opportunity for reaching all segments of the market with their message.
2. **Flexibility:** Newspaper ads can be written, and prepared in short time. These ads can be produced in various sizes, shapes, and formats. Scheduling can be done in many ways.
3. **Geographic Selectivity:** Newspapers offer advertisers more geographic selectivity. For example, Malayalam Manorama in Kerala, Eenadu in Andhra Pradesh with their local supplements offer more selectivity to the advertisers.
4. **Involvement and Acceptance:** Consumers generally read newspapers to make some consumption decisions. Consumers use newspapers as a source of information.
5. **Services Offered:** The services offered by newspapers in the form of consumer surveys, readership studies, free copy writing and art services, merchandising services makes this medium more popular.

Limitations:

1. **Poor Reproduction:** The newsprint used to publish newspapers is generally of poor quality and may not be suitable for producing good effect.
2. **Short Life Span:** Daily newspaper life span is very short and is less than a day. Beyond the day of publication it may not have any impact. Repeat exposure is very unlikely. Some sections of the newspapers may not be opened by the readers.
3. **Clutter:** like most other advertising media, newspapers suffer from clutter. More than 50% of the newspaper is devoted to advertising the advertiser's message and must compete with other ads for getting consumers' attention.
4. **Lack of selectivity:** Newspapers can offer geographic selectivity, but they are not a selective medium in terms of demographics or lifestyle characteristics.

C) Magazines

Magazines have a number of characteristics that make them attractive as an advertising medium.

Advantages:

1. **Selectivity:** Magazines are the most selective of all media except direct mail. Different magazines are published for different groups. For example in India Woman's Era and Femina are for women, Gentleman for men, Business World, Business Today offers selective reach.
2. **Reproduction Quality:** Magazines offer high reproduction quality. The magazines are generally printed on high quality paper with latest printing technology and provide excellent reproduction.
3. **Creative Flexibility:** Magazines offer advertisers a great deal of flexibility in terms of type, size, and placement of advertising material.
4. **Permanence:** Magazines offer another advantage in the form of long life span. Magazines are generally read over several days and can be referred back.
5. **Prestige:** The product or service may gain from advertising in publications with certain image. By seeing ads in prestigious magazines, consumer's confidence in a particular brand may increase.
6. **Consumer Receptivity and involvement:** Magazines are generally purchased because the information they contain and ads provide additional information that may be of value in making a purchase decision.

Disadvantages:

1. **Costs:** The absolute costs of advertising in magazines are high. Advertisers with limited budgets may not consider relative costs.
2. **Long Lead Time:** One of the important limitations of magazines is the long lead time needed to place an ad. Space must be purchased and the ad must be prepared well in advance of the actual publication date.
3. **Clutter and Competition:** The more successful a magazine becomes, the more advertising pages it attracts, and this leads to clutter.

Other media types include direct mail, radio, outdoor, internet, yellow pages have their own advantages and limitations.

12.6 METHODS OF ADVERTISING EVALUATION

The measurement of advertising effectiveness is done to test both the communication effects and sales effects of an ad. The fundamental research on effectiveness is very little.

Communications-Effect:

Communication-effects of an ad tell whether the ad is communicating well. Copy testing is the method used to test this effect. This can be done before an ad is put into media and after it is printed or broadcast. These are known as pre testing and post testing of an ad.

Consumer Feedback: The consumer feedback method asks consumers certain questions for their reactions on a proposed ad.

Portfolio Tests: Consumers are exposed to a number of advertisements, and are then asked to recall all the ads and the content, aided or unaided by the interviewer. Recall level indicates the ad's effectiveness.

Laboratory Tests: These tests use equipment to measure physiological reactions like heart-beat, blood pressure, pupil dilation, galvanic skin response, perspiration to an ad. These tests measure attention power but reveal nothing about impact on beliefs, attitudes, or intentions.

Post-testing the communication impact of a completed ad campaign is also useful to advertisers. The advertiser can measure how the ad affected consumers recall or product awareness, knowledge, and preference.

Sales-Effect:

Measuring the sales effect of an ad is more difficult than the measuring the ad's communication effect. There are many factors which influence the sales other than advertising at the same time, such as, price, product's features, availability, competition, etc., One method of measuring the sales effect is the **historical approach** which involves correlating past sales with past advertising expenditures using statistical techniques. Another method is **experimental approach**. By altering ad spending in similar markets the advertiser tries to measure the impact on sales by advertising.

12.7 SUMMARY

Advertising is one of the important elements in promotional mix of a firm. Advertising is any paid form of non personal presentation and promotion of ideas, goods, or services by an identified sponsor. The major objectives of advertising are communication and sales. The important players in developing the advertising program are advertiser, advertising agency, media, and audience. With the development of technology different media options are available to the advertiser. Internet is fast becoming one of the important media vehicles especially in business-to-business model. Companies are recognizing the importance of integrating their marketing communications and following integrated marketing communications (IMC). Advertising along with direct mail, personal selling, publicity, and sales promotion plays a crucial role in achieving the promotional objectives.

12.8 KEY WORDS

Advertising goal is a specific communication task and achievement level to be accomplished with a specific audience in a specific period of time.

DAGMAR Defining Advertising Goals for Measured Advertising Results, is a model developed by Russell Colley in 1950. According to DAGMAR, advertising has to perform a specific communication task; the task has to be accomplished among a well-defined audience within a specified time period.

Ad Copy The verbal or written material of an advertisement including the headline, illustration, name and address of the advertiser and his signature.

Advertising agency: A marketing services firm that assists companies in planning, preparing, implementing, and evaluating all or portions of their advertising programs.

AIDA The letters in the acronym denotes Attention Interest Desire Action. The model suggest that any effective impersonal sales presentation should attract attention, gain interest, arouse a desire and result in action.

CPM Cost per reaching thousand

12.9 SELF ASSESSMENT QUESTIONS

1. It is said that advertising is a waste of scarce resources in a developing country like India. Do you agree?
2. Classify the different advertising objectives and explain DAGMAR method.
3. Describe the methods of setting up of advertising budget.
4. Describe the important advertising media and mention their advantages and limitations.
5. Explain how advertising messages are created?
6. What are the different methods of advertising evaluation?

12.10 FURTHER READINGS

1. George E. Belch & Michael A. Belch., Advertising and Promotion An integrated communications perspective (2001), Tata McGraw-Hill Publishing Company Limited, New Delhi.
2. William Wells, John Burnett, Sandra Moriarty, Advertising Principles & Practice (2002), Prentice-Hall of India Private Limited, New Delhi.
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Lesson - XIII**SALES PROMOTION****OBJECTIVES**

After studying this lesson, you are able to :

- ◆ understand the role of sales promotion in a company's promotion mix
- ◆ examine sales promotion tools and the factors to consider them
- ◆ recognize the role of publicity in the promotional mix
- ◆ understand the role of personal selling in the integrated marketing communications program
- ◆ know ways to determine the effectiveness of the personal selling effort

STRUCTURE

- 13.1 Introduction
- 13.2 Meaning and importance of sales promotion
- 13.3 Growth of sales promotion
- 13.4 Sales Promotion Tools
- 13.5 Evaluation of sales promotion
- 13.6 Publicity
- 13.7 Personal Selling
- 13.8 Summary
- 13.9 Key words
- 13.10 Self assessment Questions
- 13.11 Further readings

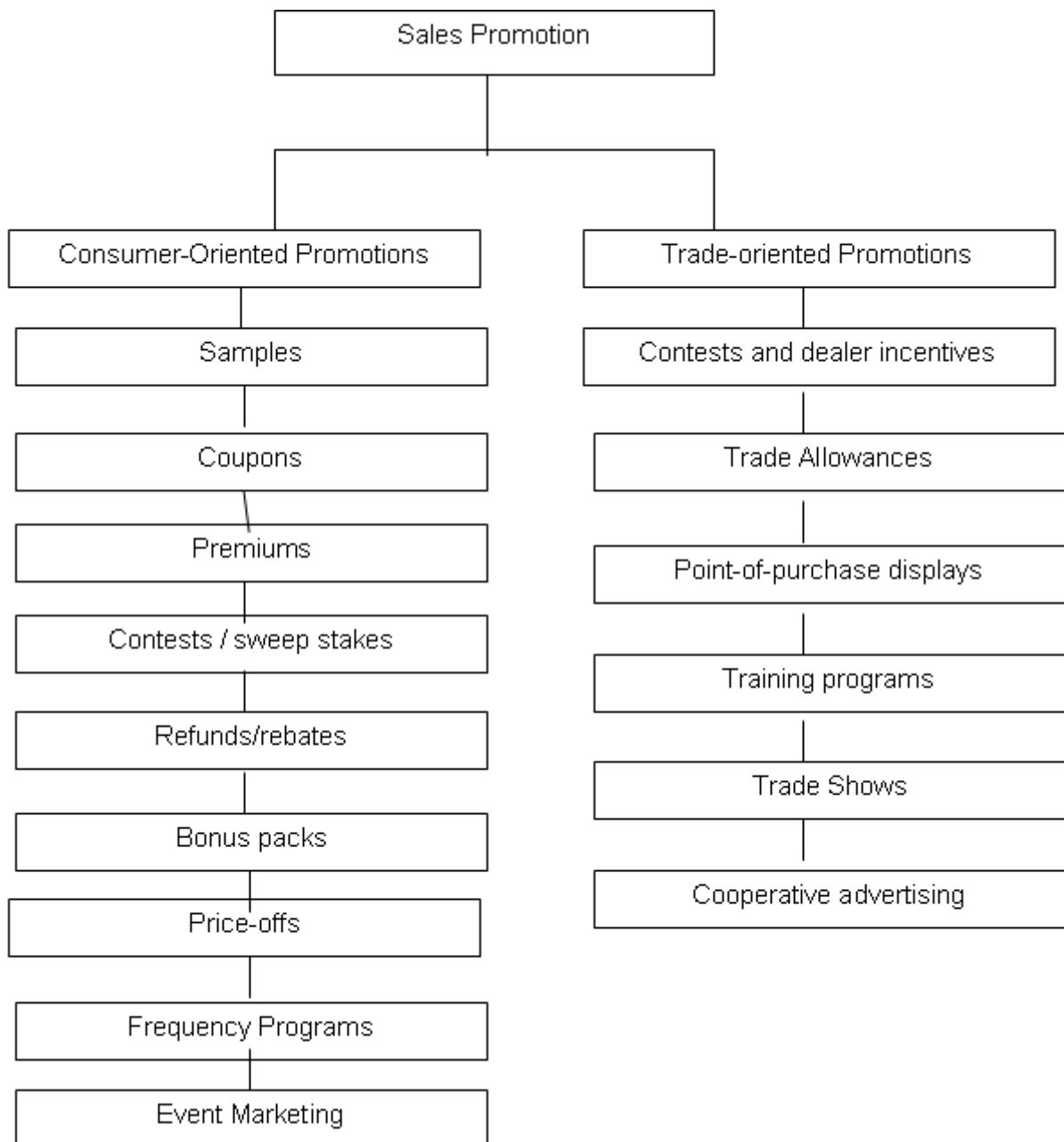
13.1 INTRODUCTION

Marketers have come to recognize that advertising alone is not always enough to move their products into the hands of consumers. Companies also use sales promotion methods targeted at both consumers and the wholesalers and retailers that distribute their product to stimulate demand. Advertising appeals to the mind and emotions to give the consumer a reason to buy sales promotion appeals more to the pocket and provides an incentive for purchasing a brand. Advertising tells what products to buy and sales promotion tells when to buy. Sales promotion programs oriented towards both consumers as well as trade. Integrated marketing communications programs include consumer and trade promotions that are coordinated with advertising, direct marketing, and publicity / public relations campaigns as well as sales force efforts.

13.2 MEANING AND IMPORTANCE 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."

Figure 13.1
TYPES OF SALES PROMOTION ACTIVITIES



According to American Marketing Association, sales promotion refers to those activities other than personal selling, advertising and publicity, that stimulate consumer purchasing and dealer effectiveness, such as display shows and exhibitions, demonstrations, and various other non-recurrent selling efforts not in ordinary routine.

According to Council of Sales Promotion Agencies "Sales promotion is a marketing discipline that utilizes a variety of incentive techniques to structure sales-related programs targeted to consumers, trade, and/or sales levels that generate a specific measurable action or response for a product or service." These definitions suggest that sales promotions are short-term incentives to encourage purchase or sale of a product or service.

Sales promotion involves some type of inducement that provides an extra incentive to buy. This incentive is usually the main element in a promotional program. For example price reduction, coupons, contests, rebate, money-back, extra amount of a product, free sample of the product. Sales promotion can also provide an inducement to marketing intermediaries such as wholesalers and retailers.

Sales promotion is essentially an accelerating tool, designed to speed up the selling process and maximize the sales volume. Sales promotion programs encourage customers and dealers to take immediate action. This will shorten the purchase cycle. Sales promotion attempts to motivate consumers who have not responded to advertisement. Sales promotion activities can be targeted into two categories: consumer-oriented and trade-oriented promotions. These activities are illustrated in Figure 13.1.

Consumer-oriented sales promotions are part of a promotional **pull** strategy. They work along with advertising to encourage consumers to purchase a particular brand and thus create demand for it. Trade-oriented sales promotions are part of **push** strategy designed to motivate distributors and retailers to carry a product and make an extra effort to push it to their customers.

13.3 GROWTH OF SALES PROMOTION

As there is pressure on management to earn short-term profits, and other changes in the market place companies are spending more and more money on sales promotion programs. The following factors also contributed to the shift in spending to sales promotion from media advertising.

- 1. The Growing Power of Retailers:** The growing influence of retailers is forcing the companies to listen to them and declare several sales promotional programs. Companies that fail to support retailers with trade support are losing shelf space for their products.
- 2. Declining Brand Loyalty:** Consumers have become less loyal to brands and are purchasing more on the basis of price, value, and convenience. Consumers are looking for better deals and switch back and forth among a set of brands. They feel that brands are interchangeable and purchase whatever brand is on special offer.
- 3. Increased Promotional Sensitivity:** Companies are using sales promotion programs because consumers respond favourably to the incentives it provides. An obvious reason for this is that they save money. Consumers who are time-sensitive make many purchase decisions at the point of purchase where sales promotion offers are more appealing.
- 4. Brand Proliferation:** The market has become saturated with new brands, which often lack any significant advantages that can be used as the basis of an advertising campaign. Thus, companies increasingly depend on sales promotion.

5. **Fragmentation of the Consumer Market:** As consumer market becomes more fragmented and mass-media-based advertising less effective, companies are turning to sales promotion to reach effectively the targeted segments.
6. **Short-term Focus:** The marketing plans and reward systems are oriented towards short-term performance and the immediate generation of sales through sales promotion is becoming an important element in promotional mix.
7. **Increased Accountability:** Many companies are demanding to know what they are getting for their promotional expenditure. Sales promotion is economically accountable than advertising. Sales promotion provides measurable and accountable ways to relate promotional expenditure to sales and profitability.
8. **Competition:** As the markets for many products are mature and stagnant it is difficult to increase sales through advertising. Many companies in collaboration with retailers are designing promotional programs to achieve mutual objectives.
9. **Clutter:** A sales promotional offer in an ad can break through the clutter that is prevalent in most media today. An offer will attract consumer's attention.

13.4 SALES PROMOTION OBJECTIVES AND TOOLS

Consumer-oriented Sales Promotion:

Companies must consider what they want to achieve through their consumer-oriented sales promotion programs and how to mix these with other promotional activities such as advertising, direct marketing, and personal selling. Marketers have to consider the impact of sales promotion on brand's image in the long term while designing sales promotion programs. The basic goal of most consumer-oriented sales promotion programs is to induce purchase of a brand. However the marketer may have a number of different objectives for example:

- ◆ obtaining trial and repurchase,
- ◆ increasing consumption of an established brand,
- ◆ defending current customers,
- ◆ targeting a specific market segment, or
- ◆ enhancing advertising and marketing efforts.

13.4.1 Consumer-oriented Sales Promotion Techniques:

Marketers use various sales promotion techniques to meet the objectives. The following are the sales promotion techniques.

1. **Sampling:** Consumers are given some quantity of a product for no charge to induce trial. Although it is expensive sampling is generally considered the most effective way to generate trial. Manufacturers of packaged goods products such as food, health care items, cosmetics, and toiletries are using this method.
2. **Couponing:** Coupon is one of the oldest and most effective sales promotion tools used by marketers. These coupons may be mailed directly to customers or by publishing ads in newspapers and magazines along with Re off coupon offer customers will get them. Re off coupon is most

appealing to price sensitive consumers. Coupons encourage nonusers to try a brand, encourage repeat purchase among current users, and make users to try new, improved version of a brand.

3. **Premiums (Gifts):** 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. Free premiums are usually free gifts or merchandise included in the product package. For example, Hindustan Lever Ltd, offering with their Brooke Bond BRU 50 gm coffee pack an attractive glass bowl.
4. **Contests and Sweepstakes:** A contest is a promotion where consumers compete for prizes or money on the basis of skills or ability. A sweepstake is a promotion where winners are determined purely by chance; it cannot require a proof of purchase as a condition for entry.
5. **Refunds or Rebates:** Refunds also known as rebates are offers by the manufacturer to return a portion of the product purchase price, usually after the consumer supplies some proof of purchase. Products such as cameras, sports goods, appliances, television, audio and video equipment, computers, and cars frequently use rebate offers to appeal to price-conscious consumers.
6. **Bonus packs:** Bonus packs offers the consumer an extra amount of a product at the regular price by providing larger containers or extra units. Bonus packs provide more value for consumers as they get extra product for the money they spend. Colgate offers 25gm extra on their 200gm pack at the same price.
7. **Price-off deals:** This is the direct price-off deal offered by manufacturer by reducing the price of a brand. Price-off reductions are typically offered right on the package through specially marked price packs. For example, on Palmolive shaving brush Rs 8/- reduction is offered. Nature Fresh edible oil 1 liter pack is available at Rs.55/- where as the MRP is Rs.70/-.
8. **Frequency Programs:** One of the fastest growing areas of sales promotion is the use of frequency programs also known as continuity or loyalty programs. Consumers get points on every purchase and get the offers from the companies as points accumulate. Airline companies introduced frequent flyer programs, where the customer gets points on every trip and gets discount in the form of extra miles or in the form of price reduction.
9. **Event Marketing:** Event marketing is a 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.

These are some of the sales promotion techniques adopted by the marketers to accomplish the desired objectives.

13.4.2 Trade-Oriented Sales Promotion:

Trade-oriented sales promotion programs are designed to get the trade support. These trade promotions are targeted to marketing intermediaries such as wholesalers and retailers. The objectives of this program are:

- ◆ Obtaining distribution and support for new products,
- ◆ Maintaining support for established brands,
- ◆ Encouraging retailers to display established brands, and
- ◆ Building retail inventories.

Types of Trade-Oriented Promotions:

- 1. Contests and Incentives:** Manufacturers may develop contests or special incentive programs to stimulate greater selling effort and support from resellers. Contests or incentive programs can be directed toward managers, salespeople who work for a wholesaler, distributor as well as retailer. 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.
- 2. Trade Allowances:** A discount or deal offered to retailers or wholesalers to encourage them to stock, promote, or display the manufacturer's products. These allowances may be in the form of buying allowances, promotional or display allowances, and slotting allowances. Buying allowances are offered to resellers in the form of price discounts on the goods ordered during a fixed period. Retailers get promotional allowances for merchandising support. Slotting allowances also known as stocking allowances, or introductory allowances, are fees received by retailers for giving a slot to accommodate the new product.
- 3. Displays and Point-of-purchase Materials:** Point-of-purchase (POP) displays are an important promotional tool because they are more effective in store merchandising efforts. These POP materials include banners, posters, shelf cards, motion pieces, end-of-aisle displays, and stand-up racks. Manufacturers helping retailers in using their shelf space with the help of computer based programs.
- 4. Sales Training Programs:** Another form of manufacturer-sponsored promotional assistance is conducting sales training programs for reseller personnel. Many products sold at the retail shops require knowledgeable sales people who can provide consumers with information about the features, benefits, and advantages of various brands and models.
- 5. Trade Shows:** A trade show is a forum where manufacturers can display their products to current as well as prospective buyers. In many industries, trade shows, exhibitions are a major opportunity to display products and interact with the customers.
- 6. Cooperative Advertising:** In cooperative advertising the cost of advertising is shared by more than one party. The most common form of cooperative advertising is the trade-oriented form, vertical cooperative advertising, in which a manufacturer pays for a portion of the advertising and retailer shares the other portion.

13.5 EVALUATION OF SALES PROMOTION

Many observers noted that overuse of sales promotion can be detrimental to a brand in several ways. A brand that is constantly promoted may lose perceived value. Consumers purchase the brand because it is on discount sale, or they get a free gift, or have a coupon, rather than a favourable attitude towards the brand. When several competitors use promotions extensively they may fall into a sales promotion trap. If a company is successful its sales promotion efforts attract other competitors also into the same lines and no one gets good profits. This may lead to price wars and companies have to pay penalty for that. Promotions can be more expensive than they appear. Some benefits are distributed to wrong customers. Retailers may demand extra trade allowances or refuse to cooperate if the promotions are more consumer-oriented. Companies must consider short-term impact of promotion and its long-term effect on the brand. If the sales are falling the companies are tempted to resort to sales promotion techniques, but the other factors like channel relation, price, packaging, product quality, or advertising must also be considered.

13.6 PUBLICITY

Publicity refers to the generation of news about a person, product, or service that appears in broadcast or print media. For many people in business publicity and public relations are synonymous. In fact, publicity is really a subset of the public relations effort. But there are several major differences. Publicity is typically a short-term strategy, while public relations are a long-term program. Public relations is designed to provide positive information about the firm and is usually controlled by the firm or its agent. Publicity, on the other hand, is not always positive and is not always under the control of organization. Both positive and negative publicity originates from sources outside the firm.

Publicity can make or break the product or even a company. For example, the Cola majors Pepsi and Coke getting lot of publicity for the wrong reason and the companies do not have any control over the news items published in the media. The allegation is that the Cola companies are using contaminated water for producing their products, which consist of pesticide residues, and immediately their sales were dropped by 30-40% in India.

Publicity is much more powerful than advertising or sales promotion because it is highly credible. People believe news items that appear in the media than the advertisements in the same media. Consumers perceive this information as more objective and have more confidence in it. Publicity information may be perceived as endorsed by the medium in which it appears. For example publicity in the form of a news item appearing in Eenadu telugu daily is perceived by readers as an endorsement from the daily.

Publicity is free of cost unlike advertising which is a paid form of promotion. Publicity is news, and people like to pass on information that has news value. Publicity thus results in a significant amount of free, credible, word-of-mouth information regarding the firm and its products.

But however timing of the publicity is not always completely under the control of the marketer. The media has the control over the timing of press release. A major way to get publicity is the press release. But sometimes the information gets lost in translation. We may observe the difference between the press release and news item which appeared in the media. But if the marketers produce video news release of a publicity piece and give it to television stations they may air it as a news item.

13.7 PERSONAL SELLING

Personal selling involves selling through a person-to-person communications process. This directs and inter personal communication gives immediate feedback from the receiver. This communication process, known as dyadic communication helps companies to tune the message suitable to the respective buyers. Personal selling often plays an important role in industrial firms. The role of personal selling varies from firm to firm depending on a variety of factors, including the nature of the product or service, size of the organization, and type of industry. The role of personal selling is constantly changing along with the changes in the marketing environment. The distinct stages of personal selling evolution are as follows.

1. **Provider stage:** Selling activities are limited to accepting orders of the available products of seller and delivering them to buyer.
2. **Persuade stage:** Selling involves an attempt to persuade market members to buy the supplier's offerings.
3. **Prospector stage:** Reaching the prospective buyers who are interested in the company offering and having the resources and authority to buy it.

- 4. Problem-solver stage:** Selling involves matching the available offerings to solve customer problems.
- 5. Procreator stage:** Selling defines the buyer's problems or needs and their solutions through active buyer-seller collaboration and then creates a market offering to match the customer need.

Firms evolving through these five stages have to adopt different promotional strategies, each integrated with personal selling to achieve the maximum communications effect. Personal selling evolves into a much broader role to establish a long-term, symbiotic relationship with clients, working closely with them as a solutions provider. Relationship marketing is defined as "an organization's effort to develop a long-term, cost-effective link with individual customer for mutual benefit." The personal selling efforts help the companies to build relationships with customers effectively.

Personal Selling Responsibilities:

The job responsibilities of sales people include:

- 1. Locating prospective customers:** The process of locating new customers known as prospecting involves the search for and qualification of prospective customers. Sales people must follow up the leads (those who may become customers) and prospects (those who need the product or service). They must also determine whether these prospects are qualified prospects that means whether they are able to make the buying decision and pay for the product.
- 2. Determining customers' needs and wants:** The sales person must determine what the customer needs and wants are and in some cases they may have to assist the customer in determining what he or she needs.
- 3. Recommending a way to satisfy the customer's needs and wants:** Here the sales person recommends a possible solution to the problem of potential customer.
- 4. Demonstrating the capabilities of the firm and its products:** The sales person demonstrates the capabilities of the firm and the product and show the prospect why their offer is the best.
- 5. Closing the sale:** The important element in any sales presentation is closing the sale. Managers have to work with their sales force to close the sale and help reluctant or uncertain buyers make a decision.
- 6. Following up and servicing the account:** The responsibilities of the sales force do not end once the sale has been made. Maintaining customer loyalty, generating repeat sales, and getting the opportunity to cross sell - that is, sell additional products and services to the same customer - are some of the advantages of keeping customers satisfied through follow-up activities.

Personal selling helps the company sales people an opportunity to assess the situation first-hand and choose appropriate sales message accordingly. No other promotional element provides this opportunity.

Advantages and Disadvantages of Personal Selling:

Advantages:

- 1. Allowing for two-way interaction:** The ability to interact with the receiver allows the sender to determine the impact of the message. This gives immediate feedback to the company. In mass communication this direct feedback is not available.

2. **Tailoring of the message:** Because of the direct interaction, message can be tailored to the receiver. The specific message addresses the consumer's specific problems, concerns, and needs.
3. **Lack of distraction:** In many personal-selling situations, a one-to-one presentation is conducted. The likelihood of distractions is minimised and the buyer is paying close attention to the sales message.
4. **Involvement in the decision process:** Through building relationship marketing and consultative selling, the seller becomes more of a partner in the decision process. This leads the buyer to rely more on the salesperson and his or her products and services.
5. **Sources of research information:** Sales representatives can collect information on competitors' products and services, promotions, pricing, and so on, firsthand. They understand about the buying needs and wants of customers and potential customers.

Disadvantages:

1. **Inconsistent message:** Sometimes the lack of standardized message can become a disadvantage. The message is generally designed with some specific communications objective by marketing staff. But the salesperson may alter this message in a way that the marketer did not intend.
2. **Conflict between sales and marketing staff:** The marketing staff may not understand the problems faced by the sales staff, or the sales people may not understand why marketing people do things the way they do. The communication is not effective due to internal conflicts.
3. **High cost:** The cost per sales call is high when compared to cost per message delivered through other media. In majority of the cases one sales call is not enough to close the deal. Overall, personal selling is an expensive way to communicate. However the returns may be bigger.
4. **Poor reach:** Personal selling cannot reach as many members of the target audience as other elements of promotional mix. Because of time limitation and limited sales force the reach may not be sufficient. Further, the frequency of reaching the buyers is also low.
5. **Poor ethical problems:** As sales personnel incentives are directly related to the sales that they generate, sometimes the sales people may bend the rules. They may give false promises and do things, which are not ethical.

Personal selling is rarely used alone. This promotional tool supports and is supported by other promotional element.

Criteria for evaluating Personal selling:

The following criteria may be used to evaluate the contribution of the personal selling effort to the promotional program.

1. **Provision of marketing intelligence:** The ability of the sales force to feed back information regarding competitors programs, customer reactions, market trends, and other factors that may be important in the development of promotional program.
2. **Follow-up activities:** The distribution of promotional brochures, and correspondence with new and existing customers, feed back on the effectiveness of various promotional programs.
3. **Program implementations:** The number of promotional programs implemented, the number of counter displays used, the implementation and assessment of cooperative advertising programs.

4. Attainment of communication objectives: The number of presentations made to prospective customers, the number of trial offers accepted etc.,

By using the above criteria the promotional manager along with the sales department should be able to assess the effectiveness of the personal selling program. This requires inter departmental cooperation.

13.8 SUMMARY

Sales promotion techniques provide consumers with an extra incentive or reward for engaging in a certain form of behaviour such as purchasing a brand. For some type of sales promotion tools the incentive the consumer receives is immediate, while for others the reward is delayed and is not realized immediately. Marketers often evaluate sales promotion tools in terms of their ability to accomplish specific objectives. Publicity is basically a subset of public relations and is often not under the control of the company. Both positive and negative publicity originates from sources outside the firm. Personal selling involves selling through a person-to-person communications process. All these promotional elements like sales promotion, publicity, and personal selling along with advertising should compliment each other. Direct mail, tele marketing, internet also helping the organizations in developing a suitable promotional strategy.

13.9 KEY WORDS

Relationship Marketing: An organization's effort to develop a long-term, cost-effective link with individual customer for mutual benefit.

Dyadic Communication: One-to-one communication between two people or groups

CRM Customer Relationship Management

Publicity: Refers to the generation of news about a person, product, or service that appears in broadcast or print media.

Public relations: The management function which evaluates public attitudes, identifies the policies and procedures of an organization with the public interest, and executes a program of action to earn public understanding and acceptance.

13.10 SELF ASSESSMENT QUESTIONS

1. Discuss how sales promotion can be used as an acceleration tool to speed up the sales process and maximize sales volume.
2. Why companies are shifting to sales promotion from media advertising? Discuss the pros and cons of this reallocation of marketers' advertising and promotion budgets.
3. What are the differences between consumer-oriented and trade-oriented sales promotion?
4. Many companies are now trying to generate as much free publicity as they can. Cite some examples of this, discuss the advantages and disadvantages associated with this strategy.
5. Explain the role of personal selling in promotional strategy of a firm.

13.11 FURTHER READINGS

1. George E. Belch & Michael A. Belch., Advertising and Promotion An integrated communications perspective (2001), Tata McGraw-Hill Publishing Company Limited, New Delhi.
2. V S Ramaswamy, S Namakumari, Marketing Management Planning, Implementation & Control (2002) , Mac Millan India Ltd, New Delhi.
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Lesson - XIV

MARKETING CONTROL

OBJECTIVES

The objectives of this lesson are to :

- ◆ provide an insight into the concept and scope of marketing control
- ◆ highlight the significance of marketing control
- ◆ present the types and techniques of marketing control

STRUCTURE

- 14.1 Introduction
- 14.2 Marketing Control - Defined
- 14.3 Scope of Marketing Control
- 14.4 Process of Marketing Control
- 14.5 Significance of Marketing Control
- 14.6 Techniques of Marketing Control
- 14.7 Essentials of Marketing Control
- 14.8 Summary
- 14.9 Self Assessment Questions
- 14.10 Further Readings

14.1 INTRODUCTION

Marketing control is the last step in the planning and implementation of marketing activities. Marketing Planning is the decision making with reference to various marketing strategies. Implementation of marketing strategies is a part of analysis of marketing performance. Analysing marketing performance is the part of the continuing process of developing plans for marketing activity centres, implementing those plans, controlling the performance and adjusting plans with the performance. In this lesson, efforts are made to present various aspects of marketing control viz., concept, scope, significance and techniques.

14.2 MARKETING CONTROL - DEFINED

The marketing control may be defined by Cravens and other two authors as "concerned with analysing the performance of marketing decisions, uncovering the performance problems of opportunities and taking corrective actions to resolve the problems or to take advantage of the

opportunities." In the words of Philip Kotler "Marketing Control is the process of taking steps to bring actual results and desired results closer together." Marketing control is expected to identify and measure all deviations from the marketing plan to identify the roots of the problem and to provide a mechanism for corrective action. It is to monitor and get feedback of marketing performance and its measurement and the evaluation against standard performance. It is also understood as a multi-dimensional activity. It analyses the past performance and directs future improvements.

14.3 SCOPE OF MARKETING CONTROL

The scope of marketing of control can be understood from four important aspects viz.,

a) Annual Plan Control : Annual plan control is related to those steps taken by the management to check the performance against the marketing plan over a period of a year and to suggest corrective steps to solve the deviations. The major aspects of annual plan control are as under :

- i Establishment of clear goals for each responsibility centre.
- ii. Periodic measurement of performance to find out gaps.
- iii. Analysis of performance gaps to find out a change in the standards fixed.
- iv. Taking corrective measures to reduce the gaps between the goals and performance. The performance measurement is done by using the tools like market share analysis, financial analysis and consumer attitude change.

b) Profitability : Periodic research is also undertaken to determine profitability of the different components of the marketing inputs. Thus, profitability is ascertained relating to the firm's products, territories, customer groups, trade channels, salesmen and other marketing variables. Profitability analysis is basically concerned with the task of marketing the marketing and non-marketing costs to specific marketing activities to have a clear view of the performance in terms of contribution. This analysis helps the marketing executive to make decisions relating to different marketing activities.

c) Efficiency Control: This is the outcome of profitability analysis, poor profitability results for improving the efficiency of marketing activities like personal selling, sales promotion and physical distribution. The marketing manager has to judge the efficiency of various marketing activities like personal selling, sales promotion and distribution. Many ratios and percentages are designed to measure improvements in the efficiency.

d) Strategic control : This is the task of ensuring that the firm's marketing objectives, policies and strategies are optimally adopted to the present and future marketing environments. Two important tools are used for this purpose viz., rating review and marketing audit. Rating review takes into account the ratings on customer philosophy, integrated marketing information, adequacy of marketing information, strategic orientation and operational efficiency. The marketing audit is designed to evaluate the overall marketing strategy through the study of the components of marketing mix.

Development of a viable marketing control system is only a part of developing a successful marketing system. Marketing control system is necessary to check at regular intervals whether the organisations are moving in the right direction at the expected speed and accuracy. The three major aspects of marketing control are :

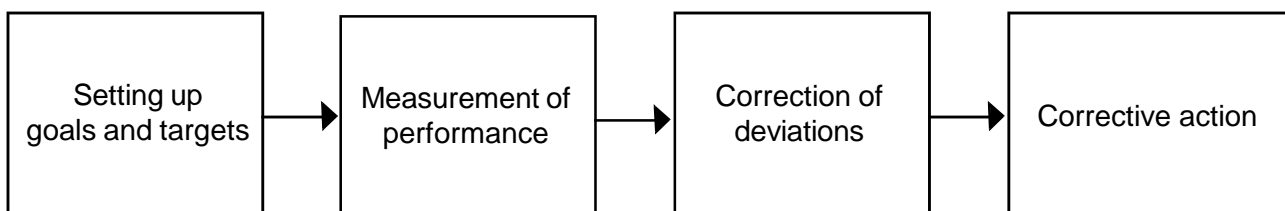
1. Implementation of Sales plan

2. Utilisation of marketing opportunities.
3. Profitability of marketing actions.
4. Process of marketing control.

The process of marketing control consists of different steps which may be explained as under :

1. **Setting Performance Standards :** The performance standards are the parameters of expected performance against which the actual marketing performance is evaluated. The standards are the expectations of managers over a plan period. It is the basis or the acknowledged measure of comparison. These can be quantitative or qualitative. Quantitative standards define performance expectations in physical or monetary terms. The qualitative standards are those defined in intangible and behavioural values like level of consumer satisfaction, relations among sales force, change in consumer attitudes and brand image etc., The former standards are difficult to define and easy to apply while the latter standards are easy to define and difficult to apply.
2. **Appraisal of Performance :** This calls for collecting and coordinating the information about performance, analysing it and relating it to the standards with a view to find out deviation and the causes thereof. This can be achieved only when the organisations have installed a management information system which receives, stores, and presents authentic, adequate and timely feedback from the market performance of different components of marketing mix. This appraisal of performance may be made continuously or periodically. It is however not an easy task of measurement of performance because it deals with many intangibles such as consumer satisfaction, consumer attitudes, brand image etc., which is not possible through marketing efforts.
3. **Correction of Deviations :** It is the performance appraisal that reveals the deviations or variations from the standard performance. These deviations may be favourable or unfavourable. Favourable deviations are acceptable while the unfavourable deviations need to be corrected. Under both cases, correction is required as equal performance is to be equated or near equated to the standard performance. Whether the performance is continuous or periodic, corrections are to be introduced through implementing various strategies.
4. **Reformulating the plans :** The final step in the process of marketing control is to reformulate the plan on the basis of information provided by the marketing performance, analysis and evaluation. This feed back of performance makes the personnel more wise and to make practical application of policies, strategies, resources and targets etc., more relevant and effective.

The following is the diagram which shows the process of marketing control :



14.5. SIGNIFICANCE OF MARKETING CONTROL

Marketing control implies adoption of plans, laying down standards, review and analysis of performance to rectify actions. It is the natural sequence of marketing planning, organising and implementation of marketing plans. Marketing control as a matter of establishing a logical process

for monitoring, evaluating and improving performance in each marketing activity and area, provides the following benefits :

- a) **Places the organisation in the right direction** : A well designed and properly implemented marketing control system helps the management in tracing the deviations from the expected course. It keeps the programme of plan implementation in the right direction. Thus the organisation is placed in the right direction.
- b) **Identifies Responsibility** : Marketing control helps to identify the responsibility for the actions of the executives. It is also useful to identify the strengths and weaknesses of the various executives. The executives can also change their attitudes and makes an attempt to use their efforts to achieve organisational goals.
- c) **Respond to Changes in Environment** : The continuous feedback of marketing performance makes an attempt to match the efforts of marketing to the changes in the environmental forces like economic, social, political, cultural etc., The response of the organisation is updated and adjusted to the maintain the balance between variables of environment and marketing strategies.
- d) **Absorbs organisational complexity** : The organisations of today are expanding in size and more complex in nature. This size in growth created problems of control and co-ordination has become more complex. The complex systems in the organisation can be offset by developing, designing and implementing a control system that is simple in nature and more effective.
- e) **Changes in formulation of plans** : A well developed and effectively operated marketing system is capable of introducing changes in the formulation of plans. The control system makes the appraisal of performance in an easier way. The control system also provides the benefits of realistic formulation of marketing plans. It considers the facilities available, competencies of staff, and an evaluation of the constraints in the implementation of the control system.

14.6. TECHNIQUES OF MARKETING CONTROL

The techniques that are used to assess the marketing performance over a given period are classified into four broad categories viz.,

1. Annual Plan Control
2. Profitability Control
3. Efficiency Control
4. Strategic Control

The techniques help in the measurement of marketing performance and also bring out the deviations in the performance to suggest suitable measures to rectify them.

1. **Annual Plan Control** : This is designed to monitor current marketing efforts and result to ensure that the annual sales and the profit goals are achieved. This also makes verification of continuous performance against the annual plan to take the necessary corrective actions. The purpose of this control is to examine whether planned results are being achieved in terms of sales, profits, costs, finance, attitudes of participants in marketing operations. The major technique of annual plan control is the management by objectives. This implies the following steps :

1. Setting up periodic goals in the annual plan

2. Monitoring the actual performance of plans
3. Determining of causes for deviations
4. Taking necessary corrective action.

This process also helps in changing original plans, and goals,. For the effective implementation of this technique, five important tools are being used :

- a) **Sales Analysis** : It refers to a detailed study of sales performance under taken to develop a detailed understanding of its multi-dimensional aspects and its overall behavioural pattern. The objective of this analysis is to trace and understand sales pattern over a period of time, compare it with target pattern, analyse deviations and suggest corrective action. This analysis may be undertaken into different segments like total sales, sales by areas, products and customers. This analysis estimates the increase or decrease in the sales over a period of time to provide guidelines for necessary corrective action.
 - b) **Market share analysis** : It is the study of firm's sales in relation to its competitors performance. The objective of this analysis is to identify the company's hold in the industry. If this is used with sales analysis, market share analysis will provide certain useful limits relating to the firm's marketing performance. This technique also helps to understand the rank in the industry in relation to competitors.
 - c) **Marketing expense analysis** : The purpose of this analysis is to make sure that the managers are not spending more than the set limits on marketing expenses to achieve the sales goals. The expenses are determined with reference to sales achieved or expected to be achieved. The components of these expenses are sales force expenses, sales promotion expenses, marketing research expenses and sales administration expenses. This technique is used with the help of control charts. Control of costs implies control of profits.
 - d) **Financial Analysis** : Financial Analysis is under taken with the objective of using profitable strategies through sales analysis. Ratio analysis is popularly used for this purpose. Financial analysis reveals the nature of relationship between two marketing variables. Some of the important ratios are related to profitability ratios and turn over ratios. These include Gross Profit ratio, Rate of Return on Net worth, Net profit ratio, debtors turnover and creditors turnover ratios.
 - e) **Customer Attitude tracking** : It is a qualitative measure that monitors changes in market share. It is a process of identification of the attitudes of customers, dealers and other employees in the marketing activity. This is done with the help of the following :
 - i) Complaint suggestion system - to record, analyse and respond to the oral and written complaints and suggestions from customers.
 - ii) Customer panel - consists of a group of customers who have agreed to share their views periodically on different aspects of marketing.
 - iii) Customer surveys - surveys conducted periodically to get responses from customers for various marketing efforts.
2. **Profitability Control** : This control is to determine the actual profitability of the firm's products, territories, market segments and intermediaries. This is exercised to examine where the company is gaining or losing. This is very much important as it helps the management to expand, diversify or to cancel marketing activities which are unprofitable. This analysis involves a definite methodology consisting of three steps viz.,

- i) Identification of functional expenses
- ii) Assigning the expenses to marketing divisions
- iii) Preparation of income statement for each marketing division

The validity of this analysis depends on the validity of sales and marketing costs analysis

3. **Efficiency Control:** It is the task of improving the efficiency of different marketing activities like advertising, personal selling, sales promotion and distribution. This is undertaken to evaluate and improve the spending efficiency and impact of marketing expenditure on the marketing operations. There is a close association between profitability and efficiency. If the profits are less, the marketing activities are not efficient. The efficiency control is exercised in different areas viz., sales, advertising, sales promotion and distribution.
4. **Strategic Control :** This is the crucial task of making sure that the company's marketing objectives, strategies and systems are optimally adopted to the current and forecasted marketing environment. This control refers to the indepth study undertaken to examine whether the company is pursuing its best opportunities with respect to markets and products. This analysis is necessary because the marketing objectives, policies, strategies and programmes are to be reviewed and changed periodically. This is done with the help of two important tools :
 - a) **Marketing effectiveness rating review :** The marketing effectiveness of an organisation is reflected in the degree to which it exhibits the major attributes like marketing orientation, customer philosophy, integrated marketing organisation, adequate marketing information, strategic orientation etc., in the marketing efforts. For this purpose, a marketing effectiveness rating instrument was devised based on five attributes which include the above aspects. The total scores are summarised in six point ranking and evaluated accordingly.
 - b) **Marketing Audit :** Marketing audit is an indepth assessment of the marketing function. In the words of Professor Philip Kotler "Marketing audit is a comprehensive, systematic, independent, and periodic examination of company's or business units marketing environment, objectives, strategies and activities with a view to determining problem areas and opportunities and recommending a plan of action to improve the company's marketing performance". Thus, it is an independent and critical appraisal of the marketing operations of a company so as to ascertain their effectiveness and suggest the future course of action to improve upon them. It is a systematic, critical and unbiased review and appraisal of the basic objectives and the policies of the marketing function and of the organisation, methods, procedures and personnel employed to implement those policies and to achieve those objectives.

The Basic Features of Marketing Audit :

There are four basic features of marketing audit that emerge from the definitions and descriptions given above. These are :

1. It is comprehensive. The phrase 'marketing audit covers all the major activities of a business and business house, it is not spot - lighting on only the trouble points. It covers the thorough and critical analysis of total environment - its objectives, strategies and the systems and the sub-systems. A comprehensive marketing audit is more effective in locating the real source of the firm's marketing problems as nothing is left to chance.
2. It is systematic. Marketing audit is not a haphazard activity. It involves orderly sequence of diagnostic steps covering the firm's marketing activities. Further diagnosis is followed

by a corrective action plan involving both short-run and long-run proposals to improve the firm's overall marketing effectiveness.

3. It is independent. Marketing audit is an independent activity in that it can be conducted at least in six alternative ways as - self audit, audit from across, audit from above, company auditing office, company task - force audit and outsider audit. The experience has proved beyond doubt that best results have been achieved through outsider audit - consultants who have necessary objectivity and independence, broad and requisite experience and undivided time and devotion.
4. It is periodic. A sound marketing audit is one which is conducted periodically as a weapon to signal the dangers or the signs of success. It is unfortunate that the market audits are ordered only when sales have dwindled or sales - force morale has fallen or any other such unavoidable problem has cropped up. It is wrong because, periodic marketing audit promises benefits for all types of firms - namely those doing very well, those doing so so and those which are in trouble. What is important is the firm, should learn from the adage "precaution is better than cure" that pays.

The components of Marketing Audit : The marketing audit consists of the detailed examination of six major components of the company's marketing situation. Each component is semi autonomous in status in case the firm want less than total marketing audit. These six major components are made up of sub-components which can be outlined as under :

1. **Marketing Environment Audit :** It is divided into two broad groups as macro and task environment. Macro environment audit is the analysis of forces relating to demography, geography, economy, politics and culture. Task environment audit-refers to audit of marketers, customers, competitors, distributors, and public etc.,
2. **Marketing Strategy Audit :** This audit requires critical review of the marketing strategies like objectives and goals and to analyse how these are adopted to the present and future environment.
3. **Marketing organisation Audit :** It is an appraisal of the marketing organisation in implementing the necessary marketing strategies to review the structure and efficiency of the marketing organisation.
4. **Marketing System Audit :** It is an analysis of the marketing information system, planning system and control system to study the quality of these systems and to make necessary changes in these systems.
5. **Marketing Productivity Audit :** It is a critical examination of the profitability and effectiveness of different types of marketing expenditure.
6. **Marketing functional Audit :** This is a functional audit which covers a variety of marketing functions like assembling, branding, distribution, promotion etc.,

14.7. ESSENTIALS OF MARKETING CONTROL

The following are the essentials for a successful implementing of marketing control.

- i) **Set matching standards :** The control system is to provide the standards for measuring the performance in each branch or functional area of marketing. Being distinct, they need specific and matching standards of performance. An acceptable standard keeps up the morale of the employees and helps to improve productivity.

- ii) **Early detection of deviations** : An effective control system is expected to detect the deviations and reports them quickly. Any delay in detection results in making the control system an ineffective one.
- iii) **Make it understandable** : Any control system can be effective only if it is properly understood and used by the people in the organisation. Each marketing function needs to be defined in clear terms.
- iv) **Flexibility in implementation** : The control system should be made more flexible. Adaptability should be in terms of standards of performance and techniques of performance appraisal. It should be an open system to accommodate any unforeseen circumstances that obstructs its smooth functioning.
- v) **Economical in cost** : The control system developed must be economical so that the company can afford it. The control system should provide for the desired benefits with least cost.

14.8. SUMMARY

Marketing control is to do with monitoring and getting feedback of marketing performance and its measurement and the evaluation against the standard performance to identify the deviations so as to correct them as and when they take place. The scope of marketing control includes annual plan control, profitability control, efficiency control and the strategic control. The marketing control is a process which consists of a series of steps. The marketing control provides a number of benefits to the organisation. The control is organised with the help of a number of techniques like annual plan control, profitability control, efficiency control and strategic control. The marketing control can be effective if it is flexible, economical and easily understandable.

14.9. SELF ASSESSMENT QUESTIONS

1. Define Marketing control. Explain the process of marketing control?
2. What are the various techniques of marketing control?
3. Explain the significance of marketing control? What are the essentials of marketing control?

14.10. FURTHER READINGS

1. Philip Kotler "Marketing Management - Analysis, Planning and Control: Pearson Education (Asia) New Delhi. 11th Edition.
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Lesson - XV

MARKETING INFORMATION SYSTEM

OBJECTIVES

The objectives of this lesson are to :

- ◆ explain the importance of information to the company
- ◆ define the marketing information system and discuss its components
- ◆ outline the process of Marketing Research

STRUCTURE

- 15.1 Introduction
- 15.2 Importance of information
- 15.3 Need for Marketing information
- 15.4 Marketing information system - Defined
- 15.5 Components of Marketing Information system
- 15.6 Essentials of good marketing information system
- 15.7 Marketing Research - Defined
- 15.8 Scope of Marketing Research
- 15.9 Marketing Research - Process
- 15.10 Role of Marketing Research
- 15.11 Summary
- 15.12 Self assessment Questions
- 15.13 Further Readings

15.1. INTRODUCTION

This is an era of information revolution. Information is of central importance for any organisation. The quality of the decisions made will be influenced by the quality of information. The managers are particularly concerned with having complete and high quality information available since their job of planning and controlling the organisation's activities involves a steady stream of complex choice situations. Success of any organisation is dependant on sound decisions and sound decisions are the outcome of relevant, clear, complete, accurate, timely, objective and authentic information.

15.2. IMPORTANCE OF INFORMATION

The term 'information' consists of evaluated data, data being expressed in words, symbols, numbers, graphs and other form of presentation. It stands for the cues or the guidelines which have the potential of influencing the decisions. Information is any perceived fact, opinion, or thought. Information means relevant data that help managers to reduce uncertainty. Organisations also need information on competitors, consumers, suppliers, Government and other groups for appropriate decision making. During the century, many factors have necessitated the need for more and more information. As organisations became national or international, in scope, they need more information on larger, more distant markets. Fortunately, increasing information requirements have been met by an explosion of information technologies. During the last twenty years, the emergence of computers, fax machines, video conferencing, Internet etc., have revolutionized information handling and processing.

15.3. NEED FOR MARKETING INFORMATION

Marketing of today operates in a dynamic and highly competitive environment. The ever changing environmental forces do affect the internal situation and such an adaptive system can survive successfully when it takes warranted decisions on the basis of marketing information. The need for marketing information can be outlined as under :

- a) **Consumer expectations :** The consumer expectations are ever changing and no marketer can afford to succeed without the perfect knowledge of consumer's needs, tastes, likes and dislikes, actions and reactions which are constantly changing. Whatever, the marketer decides for the consumers should be based on facts, and not on guesswork.
- b) **Complexity in marketing :** With the growth and expansion of marketing activities, the marketing system has become complicated. The complexities require more marketing intelligence. Marketing Intelligence is an organised feed back process of marketing communication regarding the marketing environment. The organisations need census data, trade associations data, data from news papers and other media, trade fairs and exhibitions etc.
- c) **Changes in economic Parameters :** The forces of demand and supply determine the price of inputs and outputs and hence the general market and marketing conditions. Hence a study of changes in economic conditions by observing changes in the economic parameters like national income, population, price level, money flow, growth rate changes and so on. This is possible when the relevant and up-to-date economic data is available.
- d) **Changes in competitive conditions :** Modern marketing efforts and activities are not only on mass scale but are highly sensitive to the changing forces of keen competition. A successful marketer is one who estimates the nature, extent and size of competition. Such exercise is based on relevant, authentic and latent market information regarding competition.
- e) **Growing Consumerism :** Mass marketing efforts have widened the gap between the marketers and consumers. The marketers are not able to understand the consumers and the consumers have not been able to understand the marketers. This gap has led to Consumer dissatisfaction resulting in consumer movement. The consumerism also necessitated the marketers to establish an information system.
- f) **Improvements in science and technology :** The improvements in science and technology have led the marketers to introduce new products, services with the help of changes in science and

technology, keeping pace with the technological change is a challenge to which all firms will have to respond in shaping the availability, cost and consumption of goods.

- g) Improve credibility :** Any organisation expects to impress their image in the market and to improve credibility in the society. This requires collection of latest information so as to plan and implement necessary strategies to boost their goodwill in the society.

15.4. MARKETING INFORMATION SYSTEM - DEFINED

Marketing Information system is an internal arrangement designed to support management - decision making and action. Marketing Information system is to provide management with current or conditional future states of the marketing environment and the marketers responses to company and or competitors. It is an interacting, an going and future oriented structure of persons, machines and procedures designed to generate an orderly flow of evaluated data from internal and external sources for the use of managerial decision making in the dynamic area of marketing. It collects, roots out, classifies, analysis and evaluates the data and stores for using in the future for decision making. In the words of Prof. Alder Lee "marketing information system is an interacting, continuing, future oriented structure of people, equipment and procedure designed to generate and process an information flow which can aid business executives in the management of their marketing programmes."

15.5. COMPONENTS OF MARKETING INFORMATION SYSTEM

The different components of marketing information system will have the following four :

- 1) Internal marketing information
- 2) Marketing Intelligence.
- 3) Marketing Research
- 4) Management Science

These components will help in planning and implementing an effective marketing information system. These can be outlined as under :

- 1) Internal Marketing Information system :** The internal marketing information can be designed with the help of information collected from internal sources. The internal sources include accountants, sales force, production staff, human resource division etc, forms the basis for internal marketing information system. The internal accounting system involves using marketing data available from within the company as a means of indicating cost effectiveness of the firm. The internal forces and their relationship influences the decision making of marketers . The details on internal sales, cost, inventories, accounts receivables and payables. The data from sales force indicates the sales according to area, region, products, marketer, and consumers. Both cash sales and credit sales are also observed.
- 2) Marketing Intelligence system :** Marketing Intelligence system involves the collection of qualitative and quantitative data on changing conditions in the marketing and projects the changes in the macro environment variables. The information relating to competition, customers, demographic, socio -cultural factors which influence the marketing decisions. In addition to these, an estimation of national and international political and legal environments will also be judged by the experts in the marketing field. The intelligence system acts as the

mirror of marketing environment which reflects the changes that will take place in the marketing. It is a systematic and organised effort in the marketing process which provides a projected information on the marketing system.

- 3) **Marketing Research** : Marketing Research is a very important component of the marketing information system. Marketing Research offers special indepth information on the problems relating to marketing of goods and services. The marketing reserch covers a wide range of marketing decisions which include markets, products, pricing, promotion, distribution,, competetion and the consumers etc., A systematic survey is organised to collect information on the problems releting to marketing. The data so collected, is analysed, tabulated and interpreted with the help of statistical tools and techinques and a structured report is prepared and presented.
- 4) **Management Science system** : The management Science involves use of latest quantitative techniques like operations Research, game theory, queueing theory etc. Operations Research is the application of scientific methodology and quantitative techniques to business problems. The marketing executives are assisted in the various complex decisions like new product devolopment, selection of locations for warehouses, allocation of marketing expenses etc.

Thus marketing information system provides a link between the variables of the marketing environment and the marketing managers in decision - making. The objective of marketing information system is to provide a reliable and accurate information to find solutions to the problems in the decision - making process. In addition to these, it provides an opportunity to reduce uncertainties in the marketing environment.

15.6. ESSENTIALS OF GOOD MARKETING INFORMATION SYSTEM

A good and an effective marketing information system must have some features which makes it an effective :

- 1) The marketing information system should be organised into an unified and centralised system. These components are to be integrated into a single agency. The chief executive of the system should co-ordinate the various components of the marketing information system.
- 2) The present marketing information is viewed as a decision support system. It is not only a system which provides the data, but also helps in decision making.
- 3) Any marketing information system should be viewed as a part of the organisation and designed to match the mission, objectives, policies, and strategies. The marketing information system is to establish the relationship with marketing organisation to outside groups on the society.
- 4) The marketing information system should be purpose - orented and user defined. It must provide relevant information to suit to the purpose of the user groups.
- 5) The marketing information system must provide fast and quick decision making. The decisions which are taken fast will provide better results .
- 6) The system should provide future direction to the organisation and help to lay a strong foundation for decision making.

15.7. MARKETING RESEARCH - DEFINED

With ever increasing complexity of marketing and business activities, the collection, analysis and interpretation of information has become much more intricate requiring the services of specialized skills and refined techniques. This has given to another important function of marketing called Marketing Research. Marketing Research refers to the finding and analysing facts to assist managers in making rational marketing decisions. In the words of American Marketing Association Marketing Research is the systematic gathering, recording, and analysing of data about the problems relating to the marketing of goods and services".

15.8. SCOPE OF MARKETING RESEARCH

The scope of Marketing Research includes the following :

- a) **Product Research** : The areas of product research are product changes, development of new products, testing and evaluation of new competitive products. This also includes product modifications; as to their quality, design, variety, analysis of product diversification plans etc.
- b) **Market Research** : The aspects to be covered in market research include ascertaining the size and nature of customers, estimation of sales and demand, analysis of strengths and weaknesses of competitors, impact of Governmental policies etc.
- c) **Consumer Research** : The research deals with understanding the demographic features of consumers of both actual and potential, identifying consumer needs, ascertaining the levels of consumer satisfaction, locating the factors which influence purchase decision etc.
- d) **Promotion Research** : The promotion research covers the areas of identifying the consumer motives, attitudes, and the reasons influencing buying decision, to find out ways and means of motivating people, determining the advertising messages and their effectiveness etc.,
- e) **Pricing Research** : The research in pricing include ascertaining the price expectations of the consumers in different markets, studying the price policies and strategies, measuring consumer reactions and responses to the price offers etc.,.
- f) **Distribution Research** : The distribution research to cover the aspects like study the existing and potential channels with evaluation of channel performance, deciding dealer needs, to determine optimum inventory levels, modes of transport and their suitability etc.

15.9. MARKETING RESEARCH PROCESS

Marketing Research is a systematic process of collection, analysis and interpretation of data related to marketing problems of goods and services. As it is stated as a process, it consists of a series of steps which include :

- a) Identification of the problem

- b) Formulation of Research Design
- c) Collection of data
- d) Analysis and interpretation of data
- e) Presentation of report.

These steps are closely interlinked and inter dependant. Each of these steps has to be carefully planned and implemented. Each of these steps may be explained as under :

- a) **Identification of the Problem** : Identification of the problem is the first step in the research process. If the problem is properly identified, the research process will yield most suitable results. If the problem is wrongly defined, the cost, time and effort of the total research results in waste. A research problem is one in respect of which the data is to be collected to find a solution. For ex., the research problem may be "decrease in sales", low performance of sales force" low impact of advertising" etc., For these problems, the solutions are to be find out with the help of research problem.
- b) **Formulation of Research Design** : A research design is a master plan or a model for the conduct of investigation. It is a blue print of research action which provides a framework within which the researcher has to work. This design keeps the study right on the track to keep pace with the problem requirements and makes possible to get best result with minimum possible resources. The Research Design may be in three different, forms viz., explorative, experimental and descriptive. Explorative in the design to explore the discovery of ideas and insights. Descriptive Design in the one that simply describes something such as demographic characteristics of consumers who use the product. Experimentation design is used to find out the result of experiments in the markets.

The Research Design is to provide answers to the questions :

- i) What are the objectives of research ?
 - ii) What is the scope of research ?
 - iii) What are the methods of collection of data ?
 - iv) How the data will be analysed and interpreted ?
 - v) What is the estimated time and resources ?
 - vi) How the data is to be reported ?
- c) **Collection of data** : A comprehensive research requires two types of data viz primary and secondary. Primary data is one which is collected by reseachers based on sampling. Primary data is a time consuming and money spending activity. It may be collected by any one of the methods like survey, observation and experimentation. It is an unpublished but latest and relevant to the problem and most accurate. Secondary data is both published or unpublished which is readily available, The sources of secondary data are published surveys of industries, Government publications, publications of trade associations, chambers of commerce, general libraries, umiversities and surveys and reports of voluntary research organisations.
 - d) **Analysis and interpretation of data** : Analysis and interpretation of data in done with the help of editing, tabulating, analysis and interpretation. Editing is an activity related to

verifications of data as per the instructions given so that the answers are consistent and logical. Coding is also done to feed data into electronic processing units. Tabulation implies arrangement of data into classes and weights. To analyse the data, mathematical and statistical tools like percentages, averages, rank correlation coefficients etc., are used. The data also may be interpreted with the help of charts, graphs etc.,. Interpretation of data is a careful activity which uses sound judgment and clear vision to reach the objectives.

e) Presentation of Report : The researcher has to present his findings in the form of a report. The findings are to be communicated effectively, clearly and accurately to decision makers. The reports may be written or oral. The report should contain the objectives or purpose of the study, tools and techniques employed, sampling methods used and assumptions or limitations of the study. The contents of a research report may be as under :

- i) Title Page
- ii) Contents
- iii) List of Tables and graphs
- iv) Statement of the problem
- v) Objectives of the study
- vi) Methodology employed
- vi) Findings and recommendations.

At the end of the report, a copy of appendixes, copy of the questionnaire, bibliography and other information necessary for a report are to be included.

15.10. ROLE OF MARKETING RESEARCH

The importance of marketing research can be understood from the benefits it offers :

- 1) The Marketing Research is very much useful in producing new products, and in providing new uses of the existing products.
- 2) The most important benefit of marketing research is that it provides valuable information about the buying habits, motives, likes and dislikes of consumers. This information is very much useful to decide various marketing policies, strategies programmes.
- 3) Marketing Research helps to project the future demand based on past demand. The study of demand is very much useful to decide goods and services at the right time and right place.
- 4) A systematic marketing research is useful for planning advertising messages, selection of channels of distribution for better marketing of goods and services.
- 5) A planned marketing research helps to reduce wasteful expenditure on the marketing programmes. Since the marketers know the information about products and services which are required for the market, unnecessary expenditure can be avoided.
- 6) Since the marketing research collects the data on competitive environment, it helps to

evaluate the effectiveness of competition and to make suitable marketing strategies.

- 7) Marketing Research is useful in establishing priorities amongst categories of behaviour and understanding psychological variables like beliefs, opinions and attitudes.
- 8) Marketing Research is useful for obtaining sufficient background information where nothing is known about the problem area or products.
- 9) It is also useful in obtaining large amount of data about beliefs, attitudes etc., which is useful for multivariate analysis.
- 10) Since the universe or total population can not be studied, a sample which represents the universe is to be studied and generalisations can be drawn.

Limitations of Marketing Research :

The marketing research also suffers from certain limitations which can be as under :

- 1) Marketing Research uses the techniques of science but it itself is not an exact science, therefore the results obtained may not be accurate as compared to physical sciences.
- 2) Marketing Research is conducted on consumers, dealers, wholesalers, retailers etc., who are human beings. The responses of these people are subjected to verification and change according to situations.
- 3) Lack of appropriate training to researchers leads to misinterpretation of data analysed. They may not be able to collect the data and present it in a systematic manner.
- 4) The Marketing Research projects generally take longer periods and results in waste of time and resources.

15.11. SUMMARY

The term marketing information system play a dominant role in solving the problem of marketing relating to goods and services. The marketing research is a systematic process of collection, analysis and interpretation of data. The research uses a number of techniques from mathematics and statistics to report the findings of the study. If properly used, marketing research will provide a number of benefits to the marketing organisations.

15.12. KEY WORDS

15.13. SELF ASSESSMENT QUESTIONS

1. Define Marketing Information system. Explain the need for Marketing Information system.
2. Write an essay on the components of the marketing information system.
3. Define Marketing Research. Explain the steps involved in marketing research.
4. What are the advantages and limitations of marketing research ?

15.14 FURTHER READINGS

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- 3) Ramanuj Majmudar : "Marketing Research - Text Application and case studies" Willey Eastern Ltd.
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Lesson - XVI**MARKETING IN NON-BUSINESS ORGANISATIONS**

OBJECTIVES

The objectives of this present lesson is to help you to understand :

- ◆ the attitude of Non-business organisations towards marketing.
- ◆ definition and growth of services marketing.
- ◆ marketing mix strategies for service sector.
- ◆ concept of organisation, person, place, idea marketing.
- ◆ social marketing and its different applications.
- ◆ problems in the marketing in these areas.

STRUCTURE

- 16.1 Introduction
- 16.2 Non-Business Organisations and Marketing
- 16.3 Definitions of Services Marketing
- 16.4 Reasons for the Growth of Services Marketing
- 16.5 Features of Services
- 16.6 Classification of Services
- 16.7 Marketing Strategies in Service Sector
- 16.8 Concepts of Organisation, Person, Place and Idea Marketing.
- 16.9 Concept of Social Marketing
- 16.10 Aspects of Social Marketing
- 16.11 Applications of Social Marketing
- 16.12 Summary
- 16.13 Key words
- 16.14 Self Assesment Questions.
- 16.15 Further Readings

16.1 INTRODUCTION

The marketing approach is very much useful in case of products including consumer and industrial products. The marketing strategies have also been gaining importance of Non-profit organisations. The service sector which has assumed greater significance in the recent past has also been employing marketing strategies. The organisations, places and persons are also being marketed. Social marketing has also been widely employed in the organisations in the world.

16.2 NON-BUSINESS ORGANISATIONS AND MARKETING

There is a considerable increase in the number of non-business organisations. These organisations include educational, religious, political, charitable, health, tourism, banking and insurance organisations. Some of these are service organisations which are adopting marketing strategies to market their products. For ex: banking and insurance organisations have been adopting marketing approach to sell their deposits, loans and insurance policies. The political organisations are marketing their candidates in the elections. This is an example of person marketing. Tourism centres are marketing the places of tourist interest. This is an example of place marketing. Some of the Government and Non-Government organisations (companies, Telecommunications, Museums etc.,) try to create a favourable image on their organisations which is known as organisation marketing. It has become evident that today most of the organisations are adopting marketing as a philosophy and practice in their regular operations.

16.3 DEFINITIONS OF SERVICE MARKETING

The American Marketing Association defines services as activities, benefits or satisfactions which are offered for sale or are provided in connection with sale of goods.

William J Stanton defines "services are those separately identifiable essentially intangible activities that provide wants satisfaction and that are necessarily tied to the sale of a product or other service."

16.4 REASONS FOR THE GROWTH OF SERVICE MARKETING

The role of customer satisfying services assumes unique importance in the customer - oriented marketing approach. Since 1960, services of infinite variety have grown up in importance. A number of services have been offered to customers viz., restaurants, entertainment, lodging, transport, banking, insurance, communication, engineering, consultancy, office services, tours and travels etc., The following are the main reasons for the growth of service sector :

- 1) **Increase in disposable income** : The consumers have more disposable income. They are prepared to buy services they are unable to perform or they are unwilling to perform. Due to adequate purchasing power in highly industrialised countries, people want to buy many services so that they get more time for leisure.
- 2) **Growing specialisation** : Industrial development resulted in technological developments. This resulted in specialisation and division of labour. Organisation prefer to hire the services of consultants and specialists. Numerous developments took place in the field of consultancy like advertising, marketing research, promotion, merchant banking, transport, warehousing, physical distribution etc.,

- 3) **Increase in the Sophistication** : The increase in the sophistication in the market also contributes to the development of service sector. The modern shopping centres offer cultural and recreation facilities to the buyers mainly to attract them.
- 4) **Growing Fashion** : The growing trends in fashion or culture has also been instrumental in marketing favourable environment for the development of the services sector. The establishment of beauty parlours, dry cleaning centres etc., are the examples of growing fashions.
- 5) **Changes in Education**: For the development of services sector, the professionalisation of education has also been found a vital factor. There are a number of professional educational institutions which have been offering special courses in hotel management, communication management, transport management, hospital management etc.,
- 6) **Expansion of Government Activities** : The expansion of Government activities have also paved the way for the development of service sector. The development of tourism which is undertaken by the central and state Governments in a big way to attract the foreign tourists is an example.

16.5 FEATURES OF SERVICES

The features or characteristics of services can be outlined as under :

- a) **Intangibility** : A physical product can be seen and touched. But the service product is intangible. For ex: the services provided by a doctor, lawyer, teacher etc., cannot be seen but the benefits of these services can be felt by the consumers. A service by nature is an abstract phenomenon. Few services are provided with products. For ex: Restaurants which supply delicious food (a physical product) in an atmosphere which is intangible.
- b) **Inseparability** : Services are inseparable from the people who are providing it. Personal service cannot be separated from the individual or organisation providing it. For ex: A doctor cannot provide his service without his physical presence in the room. This feature limits the scale of operations also. For ex: a LIC agent can provide services to few customers in a day.
- c) **Perishability** : Services have high degree of perishability. The services cannot be stored for future requirements. Unutilised services are lost forever. For ex: If a room in a restaurant is not occupied on one day, the income for that day is lost. Hence a marketing strategy is called for to manage or influence the sales of service products.
- d) **Heterogeneity** : The services offered by a number of persons or organisations cannot be of same quality. The services cannot be standardised. The quality of the output of services offered by one seller cannot be uniform for all people. For ex: the services of a repair person (for products like TV, Car, Refrigerator etc.,) cannot be uniform or standard for all sets.
- e) **Ownership** : When a product is purchased, the buyer becomes the owner for the product. If a service is purchased, the buyer cannot be the owner, but can use the service for the price paid. For ex: A ticket is purchased to see a musical programme, the buyer has the right to watch the programme for the show, the ticket is intended for.
- f) **Limited marketing functions** : The services do not require all the marketing functions. Functions like transportation, storage and inventory control are not required to be performed in case of services. As such, the services can be directly marketed or distributed through agents.

- g) Personal relationship with customer:** Though the customer is viewed as the central point in the marketing of products, the personal relationship with customer is found more in case of services. For ex: Lawyer - Client, Teacher - student, etc. The relationship is more direct in nature. The customer normally follows the suggestions given by the seller because of personal relationship.
- h) Pricing of services :** In case of organised services, cost plus pricing is followed. In case of unorganised services, variable pricing policy is followed which includes discounts and other schemes. The above mentioned features play an important role in pricing of services. However, competition and demand are the two important factors which influence demand.

16.6 CLASSIFICATION OF SERVICES

The services may be broadly classified into

- I. 1) Consumer Services
- 2) Industrial services
- II. 1) Services provided by Government Agencies
- 2) Services provided by Non-Government Agencies.

However, the classification of services on the basis of consumer services and industrial services is more popular. Hence this classification is adopted.

I. 1) Consumer services :

These include

- i) Catering and entertainment (Hotels, Theaters)
- ii) Personal care (Beauty parlours, Hair dressers, Yoga and Zym centres)
- iii) Hospital (Nursing Homes, Super Speciality Hospitals etc.,)
- iv) Transport (Railway, Bus, Air ways, Water ways, Taxi, Auto etc.,)
- v) Communication (Postal, telephone, telegraph, fax, internet, E-mail)
- vi) Insurance (Life and General insurance)
- vii) Education (Schools, Colleges, and Universities which run formal and distance education programmes)
- viii) Personal Security (Security Guards, Watchman)
- ix) Tourism (Places of educational and pilgrimage value)
- x) Financial (Banks, Chit Fund Companies, UTI, LIC, etc.,)

2) Industrial Services

- i) Financial (Banks, Investment companies, Accounting firms)
- ii) Transport (Trucks, Lorries, Railways, Airways, Water ways)
- iii) Engineering (R & D firms, consultancies involved in construction of buildings, Plant and machinery etc.,)

- iv) Office (stationery sellers, duplicating and Xerox machine suppliers, cleaning and security services)
- v) Consultancy (Production, Financial, personnel, marketing etc.,)

16.7 MARKETING STRATEGIES IN SERVICE SECTOR

The marketing mix strategies in services sector may be enumerated as under :

- 1) **Product** : A service product refers to an activity or an activities that a marketer offers to perform which results in satisfaction of a need or want of a predetermined target customer. For ex: a restaurant implies providing food as is understood by the owner. But the customers expect a good atmosphere, relaxation, entertainment or even status.
- 2) **Pricing** : Services are intangible in nature. Due to this a marketer faces greater difficulty in fixing his price in services marketing. In the case of services, different terms of pricing are used. For ex: fee, rent, commission, toll, interest. Intangibility creates a problem in price determination.
- 3) **Promotion** : Promotion places an important role in educating, persuading and reminding the customer. Now-a-days banks, colleges, hospitals, religious institutions etc., are using promotion to sell their services. The role of promotion in services becomes more important where there is a high degree of intangibility.
- 4) **Place** : The distribution in services marketing is important as services are inseparable and perishable. The perishable nature of services means it is essential for the service to be available to consumers in the right place at the right time. For ex: The bank branch is a place where it provides service. Doctor has to physically present in the consulting room to provide service to patients.
- 5) **People** : People as the fifth element in the service marketing mix applies not only to service personnel but also recognises the role that other people, customers play in service delivery. People constitute an important dimension in the management of services in their role both a performers of services and as customers. Employees need to understand their role in the service exchange. Human resource managers working with managers in other functional areas should look after the people in an organisation.
- 6) **Physical evidence** : Physical evidence has great importance in the service marketing mix because it gives satisfaction to the customers. Some services are product based and service providers will focus on ensuring that any facilitating goods which form a part of the service should be of appropriate quality and standard. For ex: Cleanliness in a clinic, interior decoration of a restaurant etc.,

There are two types of physical evidence :

- a) Peripheral evidence which is actually possessed as a part of the purchase of service but by itself has no value. For ex: an airline ticket, a cheque book, a receipt for hotel accommodation etc.,
 - b) Essential evidence which is seen in the form of a building size, design, interior decoration etc.,
- 7) **Process** : Process has been a subject of study in manufacturing sector. But it has gained importance even in the service sector recently. The principles by which service delivery pro-

cesses can be designed, implemented and monitored are influenced by a number of factors. For ex: taking coupons, from one counter, collection of items from another counter are common now-a-days in many service organisations.

16.8 CONCEPTS OF ORGANISATION, PERSON, PLACE AND IDEA MARKETING

Recently, many new concepts of marketing have emerged. There are :

- a) **Organisation Marketing** : The marketing efforts of the organisations to improve their image and to sell their products and services is called organisation marketing. Both Government and private organisations, service organisations have been using the concept of organisation marketing For ex: Hospitals, Restaurants, Airlines, Banks, Life insurance organisations, cultural clubs, companies like BPL, BHPV, Postal organisations and police, telecommunication organisations have been using marketing strategy to improve their image and to sell their services. Some of the State Governments have been giving publicity to their activities through media to gain an advantage in the elections.
- b) **Person marketing** : The marketing efforts to improve and change the attitude towards persons is called person marketing. The person marketing includes the marketing of celebrities, (Popular cinema, Sports and model artists) political candidates and candidates who are applying for jobs. The celebrities use media, agents or products to market them. The political parties market their candidates at the time of elections. The unemployed youth use bio-data to sell their qualifications, skills etc., in the employment market.
- c) **Place Marketing** : Various places of public interest are also being marketed. The plots, flats, commercial buildings, resorts etc., form part of place marketing. In addition to these, places of tourist interest are also included in the marketing campaign. Visit to places like Simla, Kashmir, Agra, Delhi, Jaipur, Madras and Bangalore attract the tourists. Hotels also advertise for the important tourist places. Today the Central and State Governments in India have been promoting the tourist centres to get foreign exchange.
- d) **Idea Marketing** : The marketers also market a number of ideas. The idea marketing is purpose oriented. Ideas given by Government and other voluntary organisations form part of idea marketing. For ex: use of helmets to avoid damage to life, tips to save fuel or oil, health campaigns to create awareness about AIDS etc., These programmes can be successful only when the attitudes of target groups are identified and analysed properly. On the basis of evaluation, proper marketing plans may be prepared and implemented.

Preparation and implementation of marketing strategy in case of above is not an easy task as it involves the following difficulties :

1. Market segmentation and positioning is a difficult task.
2. Analysis of the market is another difficulty because of non-availability of secondary data.
3. Problems also exist in pricing, promotion and distribution system.

16.9 CONCEPT OF SOCIAL MARKETING

Social marketing in a process of changing behaviour and attitudes of the public (target groups) for achieving social, economical, political and business objectives. Social marketing refers to the

development of awareness among consumers, organisations and general public regarding long term interests of the society and business world. Social marketing aims to achieve the following objectives:

- 1) Satisfaction of customer Needs
- 2) Improvement of quality of life
- 3) Implementation of long term policy for customers and society's welfare
- 4) Freedom from all sorts of pollution and ecological destruction

16.10 ASPECTS OF SOCIAL MARKETING

Over the past few years, marketing experts and practitioners have tried to identify basic aspects of social marketing. These can be summarised as under :

- i) **Need based and eco-friendly product mix** : The social market product may be a physical product like contraceptives or services like health examination, or ideas like environmental protection. The social marketer has to make the people aware about their needs, problems and sell the need based products. Social marketing products must be essentially eco-friendly.
- ii) **Rational Promotional Policy** : Social marketing sells ideas, thoughts, attitudes and behaviours For the purpose of promoting social products, social marketer uses the advertising media, public relations, door to door selling, public meetings etc., Social marketing gives emphasis on adoption of rational promotional policy by organisations. The promotion of products/services should not be anti-societal, anti-ethical and anti-ecological.
- iii) **Reasonable Price of the product** : The price of social marketing product may be in the form of money, time, labour or in the form of trouble. While making pricing decisions, he must consider factors such as purchasing power of the target groups and quality of the product.
- iv) **Effective and efficient distribution** : Social marketing products may be tangible (eg. body building equipments), intangible ideas (Spiritual development), Services (Transportation communication etc.,) and practices (Morning walk, use of condoms etc.,) The marketer has to provide social products to the customers at the right time and at the right place so that they are really benefited.
- v) **Partnership between organisation and Society**: Social marketing aims at achieving long term goals such as health promotion, population control, environmental conservation etc., These issues are complex and require combined efforts by various organisations (Government, Non-Government, health and educational institutions etc.,) to give better results.
- vi) **Suitable Govt. Policies** : Social marketing programmes may attract resistance from the target group. Hence social marketing seeks political support to implement controversial social issues such as prevention of child marriages, population control etc., This creates environment suitable to behavioural changes required for social programmes.

16.11 APPLICATION OF SOCIAL MARKETING

In recent years, social marketing is attracting the interests of non-profit institutions like educational institutions, hospitals Government and Non-Government organisation for marketing their ser-

vices. Social marketing techniques have been used successfully in health promotion programmes (family health care, heart care, human organ donations, physical fitness, immunisation, awareness against AIDS, Smoking and drinking). These techniques are also used in important areas like provision of safe drinking water, soil conservation, preservation of wild life, forestation, protection of environment etc., Social leaders have been applying social marketing strategies in the areas like protection of human rights, abolition of racism. Business organisations have been applying social marketing strategies for implementation of their business policies satisfying the consumers, long term welfare of the society, attracting investors, motivating and training workers.

In the 21st Century, social marketing principles could really benefit the organisations, the consumers and change the socio-economic and environmental systems. The information technology has made the communication systems dynamic, interactive and effective. In future, social marketers have to, adopt information technology to build rapport with target groups, gain support of masses to social reform campaigns, health promotion campaigns, and creating awareness regarding environment protection for themselves and for future generations.

16.12 SUMMARY

The concept of marketing not only covers products, but also services, organisations, persons and places. In all the aspects, the sellers are trying to exchange their 'offers' with buyers. The motives in these aspects are different. The marketing efforts are directed to create awareness, provide information, communicate results and seek co-operation from customers. The marketing concept calls for identifying the target audience and use of actions to satisfy the desires and wants of these groups.

16.13 KEY WORDS

16.14 SELF ASSESSMENT QUESTIONS

1. Define Services marketing. What are the reasons for the growth of services marketing in India.
2. What are the marketing strategies to be used in case of services marketing
3. Define the concepts organisation, place, person and idea marketing.
4. Write an essay on social marketing and its application in India.

16.15 FURTHER READINGS

1. Kotler, Philip "Marketing Management - Analysis, Planning and Control" - 11th Edition, Pearson India Ltd., New Delhi.
2. Ramaswamy V. S. and Namakumari "Marketing Management - Planning, Implementation and Control" 3rd edition, 2002, Mac Millian India Ltd. New Delhi

