PG BA S2-02 (DSC)

TWO YEAR MASTER'S DEGREE COURSE

(CBCS in Accordance with NEP 2020)

SEMESTER-II

MARKETING MANAGEMENT

MANAGEMENT

Maniram Dewan School of Management
KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

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COURSE INTRODUCTION

This is the sixth course of MBA Programme. This course introduces you to the subject- Marketing Management. This course is designed as an introduction to sales and markeitng management. As such, it will provide you with an overview of the many functions that takes place in market. We will discuss what marketing is, and in doing so, we will discover different functions of marketing. We will discuss the micro and the macro environment of the market. After going through this self learning material, you will also come to know about consumer buying behaviour and business buying behaviour, positioning and targeting of product or services, pricing strategies, customer relationship management etc. At the end of this course, some cases are discussed to help you understanding the real situations in marketing. The course has 14 units.

The first unit introduces us to the fundamentals of marketing management, and its basic concepts.

The second unit gives us a broad overview of the marketing environment.

The third unit provides definition of consumer behavior and the factors influencing consumer behavior.

The fourth unit gives us an idea of business buying behaviour.

The fifth unit gives us an idea on the market segmentation and positioning.

The sixth unit will help us in understanding the concept of marketing mixes.

The seventh unit will help us in understanding the concept of product and brand.

The eighth unit gives us a broad overview of pricing and its differnt strategies.

The ninth is about types of marketing channels and its importance.

The tenth unit gives us a broad overview of the concepts promotion and promotion mix (Advertising).

The eleventh unit gives us an broad overview of the concepts promotion mix (Sales Promotion, Personal Selling and Publicity).

The twelfth unit will help us in understanding the concept of Customer Relationship Management.

The thirteenth unit gives us a broad overview of Emerging trend in Marketing.

The fourteenth unit is about case studies in marketing management.

Each unit of these blocks includes some along-side boxes to help you know some of the difficult, unseen terms. You may find some boxes marked with: “LET US KNOW”. These boxes will provide you with some additional interesting and relevant information. Again, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your progress of study. It will be helpful for you if you solve the problems put in these boxes immediately after you go through the sections of the units and then match your answers with “ANSWERS TO CHECK YOUR PROGRESS” given at the end of each unit. This will help you in making your learning more active and efficient.

UNIT: 1 INTRODUCTION TO MARKETING MANAGEMENT

UNIT STRUCTURE

1.1 Learning Objectives

1.2 Introduction

1.3 Market

1.4 Marketing Management

1.5 The Exchange Process

1.6 Core Concepts of Marketing

- 1.6.1 Customer Needs, Wants and Demands
- 1.6.2 Product or Market Offerings
- 1.6.3 Customer Value and Satisfaction
- 1.6.4 Marketing Channels
- 1.6.5 Supply Chain
- 1.6.6 Competition
- 1.6.7 Marketing Environment

1.7 Functions of Marketing

1.8 Importance of Marketing

1.9 Marketing Orientations

- 1.9.1 The Production Concept
- 1.9.2 The Product Concept
- 1.9.3 The Selling Concept
- 1.9.4 The Marketing Concept
- 1.9.5 The Holistic Marketing Concept

1.10 Let Us Sum Up

1.11 Further Readings

1.12 Answer To Check Your Progress

1.13 Model Questions

1.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- explain the concept of Market

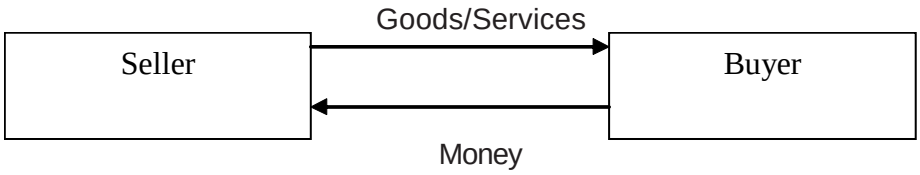
- explain the concept of Marketing Management
- discuss the Exchange Process
- explain core Concepts of Marketing
- describe functions of Marketing
- explain importance of Marketing
- describe marketing Orientations

1.2 INTRODUCTION

Marketing of goods and services is the essence of economic life in any society. It is the life-blood of organizations and every organization performs the function of marketing to satisfy the needs of their stakeholders. Marketing activity is often linked to the financial success and health of an organization which makes marketing an important activity for organizations. This chapter will throw light on the basic marketing concepts and will provide a comprehensive understanding of the marketing function.

1.3 MARKET

The term 'market' originated from the Latin word "Marcatus" which means "a place where business is conducted". In layman's terms "market" is a physical place where buyers and sellers gather to buy and sell goods. Economists define market as a collection of buyers and sellers who transact over a particular product or product class. According to Perreault and Mc Carthy, market is defined as a group of potential customers with similar needs or wants who are willing to exchange something of value with sellers offering various goods and/ or services to satisfy those needs or wants. The exchange can be done at some physical location face-to-face or it can be done indirectly through complex networks that link buyers and sellers. In simple terms, a market can be represented as follows:



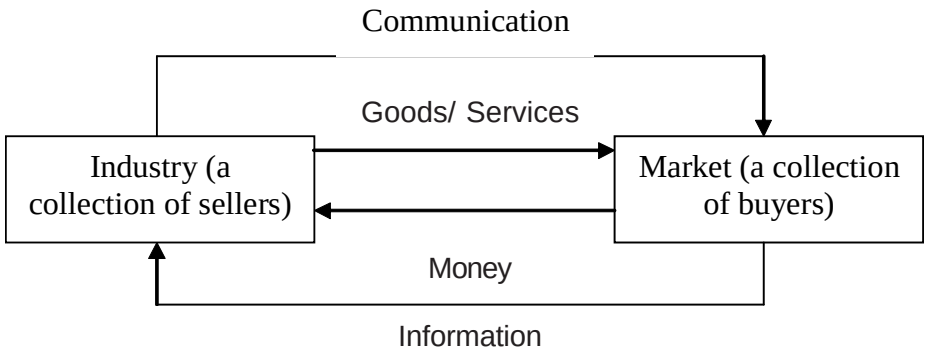


Figure 1.1: A Simple Marketing System

(*Source: Kotler and Keller, Marketing Management, 2006*)

However, as market is a congregation of group of sellers and buyers, market can be better represented as follows:

Following are the key customer markets: consumer, business, government, global, and non-profit.

Consumer Markets: In this market, the consumers obtain what they need or want for their personal or family consumption. In this market companies sell mass consumer goods and services such as toothpaste, soft drinks, and equipments. Companies give a lot of effort in building a superior brand image.

Business Markets: In this market, the industrial or business buyers purchase products in order to make or resell a product to others at a profit. The products may include raw materials (crude oil, iron ore, etc.), components (tyres, microprocessors, etc.), finished products (packaging machine, generators, etc.), office supplies (paper, pen, etc.), and maintenance and repair items (lubricating oil, grease, etc.).

Government Markets: The central, state, local governing bodies form a large segment of the buyers and they also are the biggest provider of services to the people. In a developing country like India railways, post and telegraph, roadways, etc. are services provided by the Central and State Government.

Global Markets: Several companies are selling goods and services in the global marketplace to sustain and increase their sales and profit. Globalization, rapid advances in information technology, and the efforts by

WTO have diminished the regional boundaries thereby making business easier. However, companies face additional challenges too in serving a global market.

Non-profit Markets: Non-profit organizations work for a particular cause and create awareness among general public towards these causes. Companies selling goods to non-profit organizations such as charitable organizations and religious institutions need to price carefully, because these buyers have limited purchasing power.

This makes it clear that market is not necessarily a place. It is an atmosphere or a region in which forces of demand and supply interact directly or by means of any kind of communication that are sufficient to bring about transfer in the title of goods. Market is, thus, an arrangement providing an opportunity to exchange goods.

1.4 MARKETING

To be a marketer one needs to understand what marketing is. Let us first start by asking the question: What do you understand by the word 'marketing'?

While answering this question which one have you thought?

Marketing is selling

or

Marketing is advertisement

If you think of anyone or both, then you are on the right track. Although marketing is much more than selling and advertising, however, they are essential components of marketing. The basic idea of marketing is identifying and meeting human and social needs. If the marketer understands the needs of the consumer and develops products that satisfy those needs, the products will sell easily.

The American Marketing Association formally defines marketing as "an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in a way that benefit the organization and its

stakeholders". Philip Kotler defines marketing as "a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others".

Marketing has been defined differently by different authors. Following are some of the definitions:

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

   — Professor Glasser

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

   — H. L. Hansen

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

   — Edward W. Cundiff

4. Marketing is the performance of activities that seek to accomplish an organization's objectives by anticipating customer or client needs and directing the flow of need satisfying goods and services from producer to customer or client.

   — William D. Perreault and E. Jerome McCarthy

From the above definitions it is clear that marketing in essence means identifying the needs of the consumers and providing the need satisfying products or services to the customers. This can be reproduced as follows:

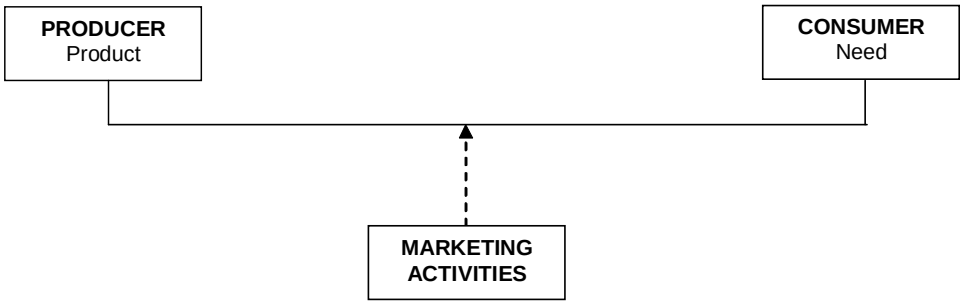


Figure 1.2: Marketing Activities



LET US KNOW

The term **marketer** means someone who seeks a response from another party, called the **prospect**. Thus, if two parties are trying to sell something to each other, both of them are called marketers. Marketers are basically involved in marketing ten types of entities: goods, services, experiences, events, persons, places, properties, organizations, information, and ideas.



CHECK YOUR PROGRESS: 1

Choose the correct answer:

Q1: The term marketing refers to:

a. New product concepts and improvements
b. Advertising and promotion activities
c. A philosophy that stresses customer value and satisfaction
d. Planning sales campaigns

Q2: The key term in the American Marketing Association's definition of marketing is:

a. Process
b. Sales
c. Products
d. Value

Q3: In order for exchange to occur:

a. A complex societal system must be involved
b. Organized marketing activities must also occur
c. A profit-oriented organization must be involved
d. Each party must have something of value to the other party

Q4: Which of the following statement is correct

a. Marketing is the term used to refer only to the sales function within a firm
b. Marketing managers don't usually get involved in production or distribution decisions
c. Marketing is an activity that considers only the needs of the organization; not the needs of the society as a whole
d. Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large

Q5: The term market originates from a _____ word 'Marcatus':

a. Latin
b. Greek
c. German
d. None of the above

1.5 THE EXCHANGE PROCESS

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

1. There are at least two parties.
2. Each party has something that might be of value to the other party.
3. Each party is capable of communication and delivery.
4. Each party is free to accept or reject the exchange offer.
5. Each part believes it is appropriate or desirable to deal with the other party.

Actual exchange depends upon whether the two parties can agree on terms that will leave them both better off than before. Exchange is, therefore, a value creating process. Exchange, rather than an event, is a process. Parties are said to be involved in exchange if they negotiate – they try to arrive at a mutually agreeable term. When this agreement is reached, we say that a transaction takes place. A transaction is a trade of values between two or more parties.

For example: Ravi sells Kishan a mobile handset and Kishan pays Rs. 10,000/- to Ravi. This is a classic monetary transaction. There can be barter transactions also which involves trading goods or services for other goods or services.

A transaction involves several dimensions: at least two things of value, agreed upon conditions, a time of agreement, and a place of agreement.

1.6 CORE CONCEPTS OF MARKETING

A core set of concepts forms the base for understanding the foundation of marketing management and developing holistic marketing orientation. As a basic step, marketers need to understand: customer needs and wants; market offerings; value and satisfaction; and exchanges and relationships.

1.6.1 Customer Needs, Wants and Demands

The basic underlying concept of all marketing activities is human *needs*. Needs are the basic human requirements and are states of felt deprivation. People need food, air, water, clothing and shelter to survive. Apart from these basic needs, people also have strong needs for education, entertainment and recreation. These needs become *wants* when they are directed to specific objects that might satisfy the need. For example, a consumer in India needs food but may want rice, lentils and vegetables. On the other hand, a consumer in Italy needs food but may want a pizza. Wants are thus, shaped by our society. Marketing activities are directed to satisfy the human needs and wants.

Demands are wants for specific products backed by an ability to pay. Many people want a BMW for a car; only few are willing and able to buy one. Marketers must measure not only how many people want their product, but also how many would be willing and able to buy the product.

1.6.2 Product or Market Offerings

Companies or marketers address the needs of people by putting forth a product. People satisfy their needs and wants with products or offerings. The offering is also called value proposition which means a set of benefits that they offer to customers to satisfy their needs. The intangible value proposition is made tangible by the offering. The basic types of offerings are goods, services, experiences, events, and information.

The term *brand* signifies an offering from a known source. A brand name such as KFC carries many associations in people's mind that make up the brand image. All companies strive to create a strong brand image in the minds of the consumer.

1.6.3 Customer Value and Satisfaction

The product or offering will be successful if it delivers value and satisfaction to the customer. *Value* reflects the sum of the perceived tangible and intangible benefits and costs to the customers. The buyer chooses between different offerings on the basis of his/her perception of value. Value is, therefore, the ratio between what the customer gets and what he gives. Value is a central marketing concept and primarily is a combination of quality, service and price, also called the "customer value triad".

$$Value = \frac{Benefits}{Costs} = \frac{Functional\ benefits + Emotional\ benefits}{Monetary\ costs + Time\ costs + Energy\ costs + Psychic\ costs}$$

Satisfaction reflects a person's judgements of perceived performance of a product in relationship to expectations. If the performance matches the expectations, the customer is satisfied. If the performance falls short of expectations, the customer is dissatisfied. And when performance exceeds expectations, the customer is delighted.

1.6.4 Marketing Channels

Marketing channel refers to the path taken by the marketers to reach the target market. The marketer uses three kinds of marketing channels to reach the target market: *communication channels*, *distribution channels* and *service channels*. *Communication channels* deliver and receive messages from the target buyers. Examples of communication channels include newspapers, magazines, radio, television, internet, billboards, posters, fliers, etc. *Distribution channels* are used by marketers to display, sell or deliver the product or service to the customer. These include distributors, wholesalers, agents and retailers. The marketer also uses *service channels* to carry out transactions with potential customers. Service channels include warehouses, banks, insurance companies, transportation companies, etc. which facilitate the transaction.

1.6.5 Supply Chain

Supply chain is the channel starting from raw materials to components to the final product that is delivered to the customer. Each company captures only a certain percentage of the total value generated by the supply chain.

1.6.6 Competition

Competition includes all the actual and potential rival offerings and substitutes a buyer might consider. Competition is increasing as several marketers are trying to increase the value of their offerings to the customers.

1.6.7 Marketing Environment

The marketing environment includes task environment and broad environment. Task environment includes the factors engaged in producing, distributing and promoting the offering. The broad environment consists of six components: demographic environment, economic environment, physical environment, technological environment, political-legal environment, and social-cultural environment. Marketers must pay close attention to the trends and developments in these environments and make necessary adjustments in their marketing strategies.



LET US KNOW

From the managerial activity outlook, marketing involves analyzing the marketing opportunities in the environment, planning the marketing activities of the organization, implementing the marketing plans, and setting control mechanisms in such a way that organizational objectives are achieved at minimum cost. Thus, marketing is an important organizational function.

1.7 FUNCTIONS OF MARKETING

Marketing is linked with the exchange of goods and offerings. It is through the medium of marketing that goods and services are brought to the consumers, which then satisfies the needs and desires of consumers. However, marketing is not a simple activity of exchange. This exchange of goods and services consists of several activities. From the view point of management, following are the functions of marketing:

1. **Gathering and analyzing market information:** One of the important functions of marketer is to gather and analyze market information to identify the needs of the customers and take various decisions for the successful marketing of the products and services. Market information not only provides the needs and desired of the customers but also helps the organization in determining its strengths and

weaknesses and analyzing the opportunities and threats in the environment.

2. **Marketing planning:** Another important activity or area of work of a marketer is to develop marketing plans. This is necessary to achieve the marketing objectives of the organization.
3. **Product designing and development:** Another important function of marketing is product design and development. The design of the product makes it attractive, determines its performance and may become a source of competitive advantage. Sufficient time must be given in planning the design of the product.
4. **Standardization and grading:** Standardization refers to producing goods of predetermined specification and grading is the process of classification of products into different groups on the basis of certain important characteristics. Standardization is an important marketing function as it ensures that goods conform to predetermined standards of quality or price or packaging and grading ensures that goods belong to a particular quality and helps in realizing higher prices for higher quality products.
5. **Packaging and labelling:** Packaging and labelling has assumed significant importance in marketing. Packaging not only serves as protective tool but also serves as a promotional tool. Buyers most often judge the quality of the product from packaging and labelling.
6. **Branding:** Marketer of the products must also decide whether to market the product under the generic name or under a brand name. The brand name helps to distinguish the product from its competitors and helps in creating product differentiations.
7. **Customer support services:** A very important function of marketing is customer support services such as after sales service, technical services, customer grievance handling, maintenance services, and customer information. These services help develop brand loyalty and also prove effective in bringing repeat sales.

8. **Pricing of product:** Price is an important factor which affects the sales of the product. The marketers need to properly analyze the factors while determining the price of a product.
9. **Promotion:** Promotion of products and services involves informing the customers about the firm's product and persuading them to buy the product. A marketing manager has to take several crucial decisions regarding promotion mix, promotion budget and so on.
10. **Physical distribution:** Managing the distribution of the products is another important decision criterion for marketing managers. Mainly, two major decisions need to be taken: (a) decision regarding channel of distribution and (b) physical movement of the product from where it is produced to the place where it is consumed.
11. **Transportation:** As the producers and consumers are geographically separated it is necessary to move the products from one place to another. Organizations must analyze the transportation needs and take decisions with respect to mode of transportation, cost of transportation and other such related issues.
12. **Storage or warehousing:** In order to maintain smooth flow of product in the market, there is a need for proper storage of the products. Moreover, storage is also required to meet the demands of the customers in the market and therefore, it is an important function of marketing. The function of storage however, may be performed by different agencies such as the manufacturers, wholesalers, and retailers.

1.8 IMPORTANCE OF MARKETING

Marketing plays a very important role not just for the organization but for the society as well. The following points emphasize the importance of marketing:

1. It enables firms to earn more profits- which is the primary interest of business organizations.
2. It acts as a basis for making decisions with respect to what firms offer in the market.

3. It acts as a source and channel of new ideas. Marketing helps gauge the changing needs of the consumers and accordingly craft new products and services.
4. It acts as an instrument to lift up the standard of living by ensuring a steady supply of goods and services in the economy. Although it is not the sole economic determinant of standard of living, however, marketing is a means through which production and purchasing power are converted into consumption.
5. Marketing, via its several activities and functions, provides gainful employment opportunities to millions of people. Each marketing function is performed by different individuals or agencies thereby providing significant employment opportunities.
6. Marketing is the strong bridge between producers and consumers and forms a connecting link between the two wheels of the economic machinery of a nation. Marketing, by understanding what consumers want, maintains the stability of the economy.



CHECK YOUR PROGRESS

Choose the correct answer:

Q6: Which of the following is ***not*** part of the external marketing environment?

a. Political
b. Legal
c. Product
d. Socio-cultural

Q7: In marketing theory, every contribution from the supply chain adds_____ to the product:

a. Value
b. Costs
c. Convenience
d. Ingredients

Q8: Anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need is called a (n):

a. Idea
b. Demand
c. Market
d. Offering

Q9: _____ is defined as the difference between the benefits a customer sees from a market offering and costs of obtaining those benefits

a. Competitive benefit
b. Customer value
c. Satisfaction
d. Profit margin

Q10: ____ are wants for specific products backed by an ability to pay:

a. Needs
b. Attitudes
c. Demands
d. Channels

1.9 MARKETING ORIENTATIONS

Companies have to put in a lot of effort to market their products. The company needs to clarify the concepts which they apply while selecting a market. It is important for the company to understand, what philosophy should guide a company's marketing efforts? There are basically five different orientations which a company takes towards the marketplace.

1.9.1 The Production Concept

The production concept is one of the oldest concepts and the crux of the concept is based on the premise that, if the product is really good and the price is reasonable there is no need for marketing effort. Organizations operating under a production-

oriented concept focus on achieving high production efficiency, low costs, and mass distribution.

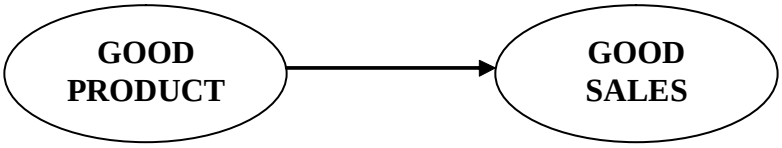


Fig. 1.3: Production Concept

1.9.2 The Product Concept

The product concept lays emphasis on the fact that consumers favour only those products which offer the highest quality, performance and innovative features. Managers in these organizations focus on making superior products and improving them over time. However, managers must understand that an improved product may not necessarily be successful unless it is priced, distributed, marketed, and sold properly.



Fig. 1.4: Product Concept

1.9.3 The Selling Concept

The selling concept holds that merely making available the best product is not enough as consumers, if left alone, won't buy enough of the organization's product. The organization, therefore, must undertake aggressive selling and promotion effort. The essence of the selling concept is "goods are not bought but sold". The selling concept is practiced most aggressively with unsought goods like insurance. Many companies also practice the selling concept when they have overcapacity. However, hard selling may have its own risks as customers may not like the product and may bad mouth the company later on.

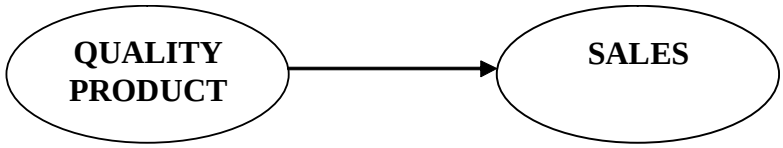


Fig. 1.5: Selling Concept

1.9.4 The Marketing Concept

The marketing concept emerged in the 1950s, and points out that the fundamental task of an organization is to study and understand the needs, wants and desires of potential consumers and to produce goods in the light of these findings. Thus, from the "make-and-sell" philosophy business organizations shifted to "sense-and-respond" philosophy. The marketing concept holds that the key to achieving organizational goals is being more effective than competitors in creating, delivering, and communicating superior customer value to your chosen target market.



Fig. 1.6: Marketing Concept

1.9.5 THE HOLISTIC MARKETING CONCEPT

Organizations, over a period of time, have realized that the forces and trends are dynamic and there no single best way of approaching problems. Today's best marketers recognize the need to have a more complete, comprehensive and cohesive approach that goes beyond the traditional marketing concepts. Holistic marketing concept is based on development, design, and implementation of marketing programs, processes and activities. "Everything matters" in holistic marketing and a broad and integrated outlook is required to market goods and services. The four major components of holistic marketing concept are relationship marketing, integrated marketing, internal marketing and socital marketing.

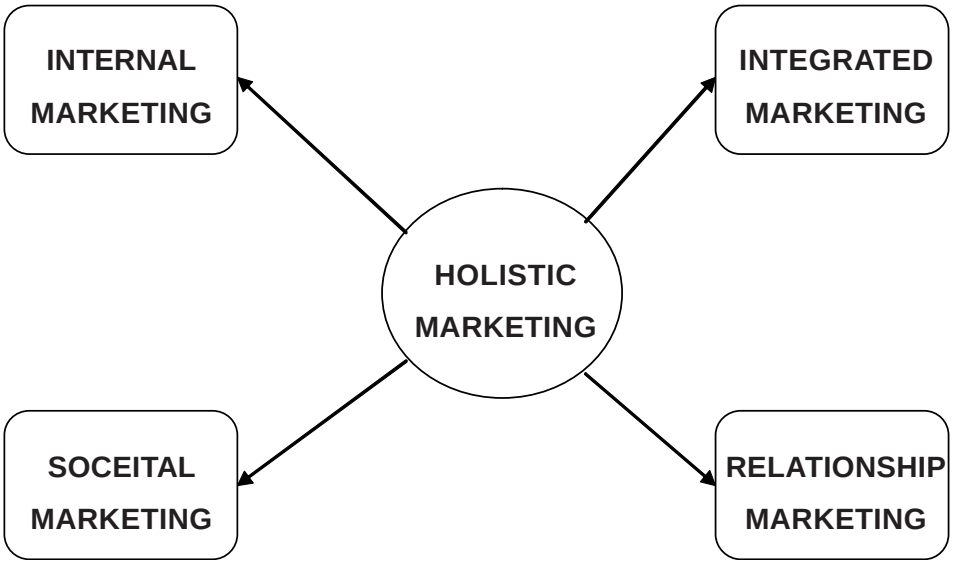


Fig. 1.7: Holistic Marketing Concept



1.10 LET US SUM UP

- The term ‘market’ means “a place where business is conducted”. There are five types of markets: consumer, business, government, global, and non-profit.
- Marketing is about identifying and meeting human and social needs.
- Exchange involves obtaining a desired product from someone by offering something in return.
- Transaction is the deal that takes place between the parties of the exchange, that is, the buyer and the seller.
- A need is a desire o wish that can be physiological, psychological, security, esteem, and actualization.
- Needs become wants when they are directed to specific objects that might satisfy the needs.
- Demand is a situation where the person is willing to buy a product and has the ability to pay for it.
- Companies satisfy needs by putting forth offerings which stands for a product or a service.

- Value reflects the sum of the perceived tangible and intangible benefits and costs to the customers.
- Satisfaction reflects a person's judgements of perceived performance of a product in relationship to expectations.
- Marketing channel refers to the path taken by the marketers to reach the target market.
- Supply chain is the channel starting from raw materials to components to the final product that is delivered to the customer.



1.11 FURTHER READINGS

1. Philip Kotler, Kevin Lane Keller, Abraham Koshy, and Mithileshwar Jha (2007), *"Marketing Management"*, Pearson Education
2. Saxena Rajan (2007), Marketing Management 3rd Edition,Tata McGraw Hill Publication



1.12 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: c) A philosophy that stresses customer value and satisfaction

Ans. to Q. No. 2: d) Value

Ans. to Q. No. 3: d) Each party must have something of value to the other party

Ans. to Q. No. 4 d) Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large

Ans. to Q. No. 5 a) Latin

Ans. to Q. No. 6 c) Product

Ans. to Q. No. 7 a) Value

Ans. to Q. No. 8 d) Offering

Ans. to Q. No. 9 b) Customer value

Ans. to Q. No. 10 c) Demands



1.13 MODEL QUESTIONS

1. Define the terms ‘market’ and ‘marketing’.
2. Explain the modern concept of marketing.
3. What is the importance of marketing?
4. “Marketing is the process of directing the flow of goods and services from producers to consumers”. Elaborate.
5. What are the functions of marketing?
6. Explain the various waves of thoughts in marketing management.
7. Explain the basic concepts of marketing.
8. Differentiate between selling orientation and marketing orientation.
9. What is the purpose of marketing as per traditional concept?
10. Explain the holistic marketing concept.
11. “All organizations need marketing”. Do you agree with this statement? If so, give reasons in support of your answer along with relevant examples from business and non-business sectors.

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UNIT: 2 MARKETING ENVIRONMENT

UNIT STRUCTURE

2.1 Learning Objectives

2.2 Introduction

2.3 Environmental Scanning

2.4 Micro Environment

2.5 Macro Environment

2.6 Differences between Micro and Macro Environment

2.7 Techniques of Environmental Scanning

2.8 Let us Sum up

2.9 Further Readings

2.10 Answers to Check Your Progress

2.11 Model Question

2.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- explain the need for Environmental Scanning
- explain the company's Micro and Macro Environment
- discuss the techniques of Environment Scanning

2.2 INTRODUCTION

In the earlier unit we got a fair idea about developing and implementing marketing plans. Developing and implementing marketing plan requires a number of decisions and to make informed decisions companies must possess comprehensive and up-to-date information. Successful marketers understand the dynamic nature of the marketing environment and understand the importance of continuously monitoring and adapting to the environment. Thus, management of marketing activities rests squarely on the knowledge of the marketing environment.

In this unit we are going to discuss the components of an organizations macro and micro environment and learn the different techniques of environmental scanning.

2.3 ENVIRONMENTAL SCANNING

A host of environmental forces influence a company's marketing system. According to Philip Kotler, "A company's marketing environment consists of the internal factors and forces, which affect the company's ability to develop and maintain successful transactions and relationships with the company's target customers." The marketing environment thus, represents the actors and forces that affect a firm's ability to create and preserve relations with its customers. The marketing environment can be divided into:

- Micro-environment
- Macro-environment

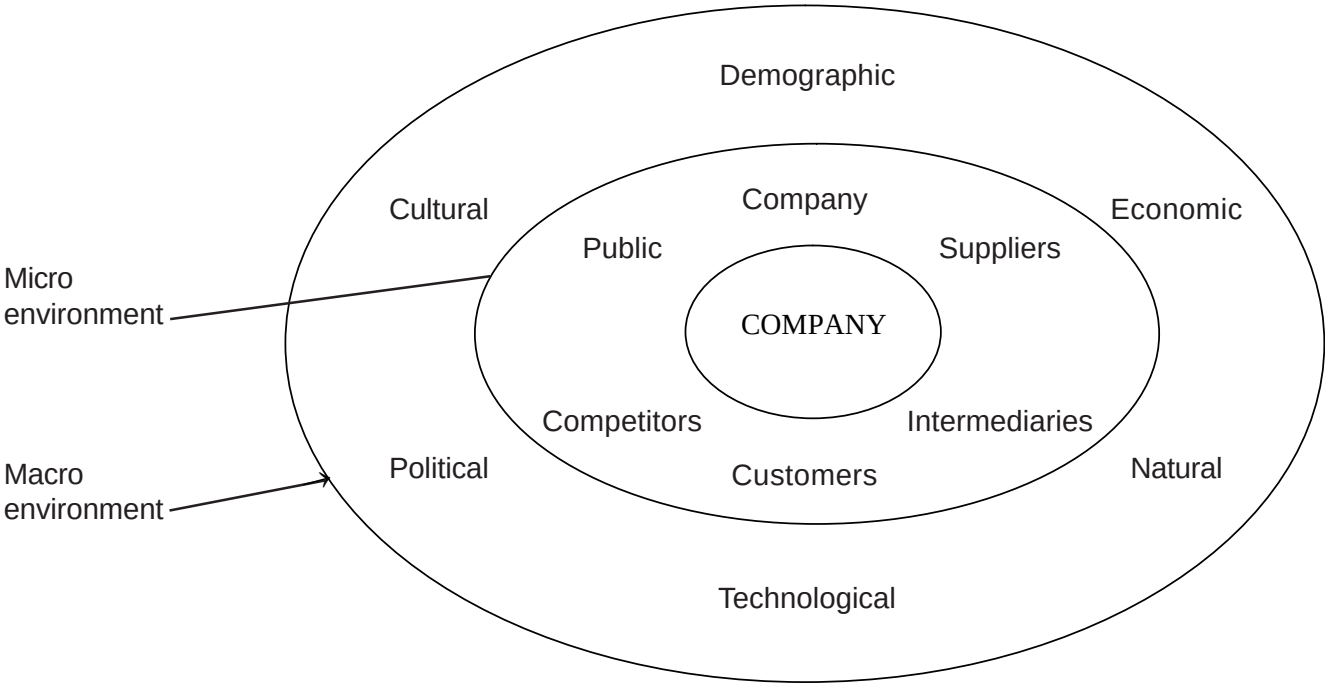


Figure 2.1: Marketing Environment: Micro-Environment and Macro-Environment

Some of these environmental factors are controllable while some are not. Environment plays a crucial role in marketing and securing the right fit between the environment and the firm is the heart of marketing. The firm must know where the environment is heading, what the significant marketplace changes are, and what should be the response to these changes. It is the responsibility of the marketing manager to observe these

minute changes to tackle these issues. Examining the marketing environment and monitoring the changes in such an environment can be done through both environmental scanning and environmental analysis.

Environmental scanning is the process of gathering data about various components of the marketing environment. Scanning depends on several sources of data whether secondary (e.g., business publications) or primary (e.g., personal observation). Environmental analysis is the process of assessing and interpreting the data gathered through environmental scanning. The marketing manager must assess the data collected in terms of accuracy, credibility, relevance, and comprehensiveness.

The following sections discuss about the micro-environment and the macro-environment. The last section of the unit will touch upon the techniques of environment scanning.

2.4 MICRO ENVIRONMENT

Micro-environment consists of the forces close to the company that affect its ability to serve its customers. The elements of the micro-environment include participants that perform crucial business activities. The marketing micro-environment includes: company, suppliers, intermediaries, customers, competitors, and public.

These micro-environment entities are described below:

a) **Company:** The first entity of the micro-environment is the company itself. Marketing, although very essential, is only one functional activity of an organization. Marketers must work with people in the organization who are involved in performing non-marketing tasks and activities. For example, a large manufacturing organization has departments namely; manufacturing, engineering, purchasing, personnel, accounting and finance are all part of the internal environment of the company. All these functional areas of the organization and the people who perform them have an impact on marketing activity. For example, marketers work within the framework of the corporate mission set by the top managers of the

organization. Thus, the company as a whole has an impact on the marketing activity.

Figure 2.2: The Marketing Micro-Environment

b) Suppliers: These are the people who provide the resources to produce the necessary goods and services. They form an important part in the entire value delivery system of the organization. Policies of the organization have an impact on the suppliers and, similarly the policies of the suppliers have an impact on the organization and the entire value delivery system. It therefore, important for the marketers to build and develop cordial relationships with the suppliers.

c) Intermediaries: These are the people who help the company to promote, sell, and distribute its goods to final buyers. These include people who assist the flow of products from the producers to the consumers; and they typically include wholesalers, retailers, agents, etc. It is important for companies to select an effective chain of marketing intermediaries, so as to make the goods reach the market in time. The marketing intermediaries give necessary information about the market to the manufacturer and are also responsible for giving product information to the customers. If a company does not satisfy these intermediaries, they neglect its products and may even push the competitor's product.

d) Customers: The main **purpose** of production is to meet the needs and wants of the consumers. Hence, the consumers are the focal point of all the marketing activities. The needs and wants of the consumer must be taken into account before taking any important decision. Managers should also take into account the changing needs and demands of the consumers. Ultimately, a company's marketing strategy is influenced by its target consumer.

e) Competitors: Competitors include organizations who serve a target market with similar products and services against which a company must gain strategic advantage. A cautious marketing manager has to be in constant touch regarding the information related to the competitor's strategies. Marketers must identify the strategies of the competitors, build plans to overtake them in the market and attract the competitor's consumer towards his own products.

f) Public: Public may be defined as any group that perceives itself to have an interest in a company's ability to achieve its objectives. A company's obligation is not only to meet the demands of the consumer but also to maintain a good public relation. A positive interaction with the public increases the company's goodwill and, therefore, all most all companies maintain a public relations department now-a-days.



CHECK YOUR PROGRESS

Choose the correct answer:

Q1: The marketing environment consists of which of the following:

a. Micro and Macro environment
b. Micro and Mini Environment
c. Macro environment and Mini Environment
d. Major and Minor Environment

Q2: _____ is the collection and interpretation of information about forces, events, and relationships that may affect the organization:

a. Opportunity analysis
b. Environmental scanning
c. Stakeholder analysis
d. Market sampling

Q3: Company's microenvironment does not include:

a. The company
b. The marketing intermediaries
c. Demographic forces
d. The suppliers

Q4: The elements of the micro-environment consists of:

a. Political, competitive pressures, social and physical forces
b. Suppliers, competitors, customers, distributors
c. Technology, legal forces, supply chain, competitors
d. Economic, customers, social and political forces

Q5: _____ help the company to promote, sell, and distribute its goods to final buyers:

a. Marketing intermediaries
b. Competitor networks
c. Suppliers
d. Service representatives

2.5 MACRO-ENVIRONMENT

Macro-environment consists of the broad and larger societal forces that affect the whole micro-environment. These broad societal factors shape the activities of every marketer. The macro-environment consists of: demographic forces, economic forces, natural forces, technological knowledge, political factors and cultural forces.

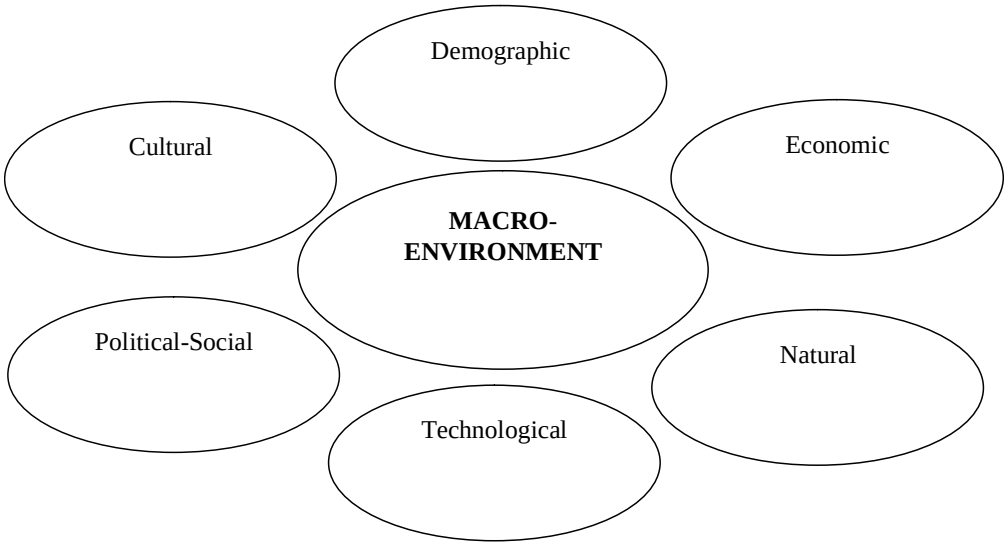


Figure 2.3: The Marketing Macro-Environment

The macro-environment entities are described below:

a) **Demographic forces:** Demography is defined as the statistical study of human population and its distribution. This is one of the most influencing factors in the marketing macro-environment as it deals with the people who form the market. Marketers have keen interest in the size and rate of growth of population in cities and nations; educational levels; household patterns; age distribution; and regional characteristics. Companies should study the population, its distribution, age composition, etc. before deciding the marketing strategies. Apart from population, marketers also take a keen interest in the ethnic and racial makeup, educational groups, and household patterns. Ethnic groups have certain specific wants and buying habits. Several food and clothing companies have directed their products and promotions targeting these ethnic groups. Similarly, presence or absence of educated groups determines the demand for quality books, magazines, and a high supply of skills as well. The household patterns also have a tremendous impact on the marketers. For example, joint families in India require larger space, more furniture and more food. On the other hand, nuclear families need lesser space, furniture and food. There is also a growing trend

of single-parent families, childless couples, empty-nesters. Marketers must increasingly consider the special needs of these non-traditional households, because they are now growing more rapidly than the traditional households.

b) **Economic forces:** Economic forces affect the consumer purchasing power and spending patterns. A company can successfully sell its products only when people have enough money to spend. For example, at the time of inflation, the value of money comes down. In such a situation, it is difficult for people to purchase more products. Similarly, income of the consumers also determines the purchasing power. For example, in a situation where both husband and wife work, their purchasing power will be more. Hence, companies may sell their products quite easily. Marketers must pay careful attention to trends affecting purchasing power because they can have a strong impact on business.

Marketers also need to study the income distribution in countries. Nations vary to a great extent in level and distribution of income. There are four types of industrial structures: subsistence economies (few opportunities for marketers); raw-material exporting economies (with good markets for equipment, tools, and luxury goods for rich); industrializing economies (where new rich class and a growing middle class demand new types of goods); and industrial economies (which are rich markets for all sorts of goods). Marketers need to pay attention to this shifting income distribution in countries around the world, particularly in countries where the affluence levels are rising.

c) **Natural forces:** A company has to adopt its policies within the limits set by nature. A man can improve the nature but cannot find an alternative for it. Nature offers resources, but in a limited manner. A product manager utilizes it efficiently. Companies must find the best combination of production for the sake of efficient utilization of the available resources. Otherwise, they may face acute shortage of resources. For example, petroleum products, power, water, etc.

Moreover, deterioration of the natural environment is a cause of major concern. In many cities across the world, pollution has reached dangerous levels and there is a great concern about the "greenhouse gases" and the depletion of the ozone layer. Everyday new regulations are formulated to control this unprecedented damage caused to the environment. Marketers need to be aware of the threats and opportunities associated with these shifts in the natural environment.

d) Technological forces: Technological environment consists of the forces that create new technologies which ultimately leads to creation of new products and market opportunities. Technology is one of the most dramatic forces people shaping people's lives. Every new invention builds a new market and a new group of customers. It has also been observed that new technologies create new wants, destroy old industries and may have several long-run consequences. Cell phones and internet are examples of such technology which have made it possible to connect to people anywhere and anytime but, they have reduced face-to-face social interaction and the importance of traditional media. In fact, economy's growth rate is affected by how many major new technologies are discovered.

Technological progress offers unlimited opportunity to marketers to innovate their products. Scientists today are working on a range of new technologies that will revolutionize products and production processes. Companies are also forming consortiums to fund research so that everyone can benefit from the fining. It is important for marketers to identify the technological changes, the pace at which these changes are taking place, and the opportunities that are created due to technological change.

e) Political-social forces: The political and legal environment consists of governmental agencies, laws, and pressure groups that influence and limit various business organizations. Due to ever-increasing globalization, companies are affected by the political forces of not

only their own countries but other countries as well with which they have trading relations. Legislation affecting business has increased around the world and this is true in case of our country also. India, like other countries, has many laws covering fair trade practices, environmental protection, product safety, etc. New laws and their enforcement will continue to increase. Business executives must watch these developments when planning their marketing programs. It is important to understand that written rules and regulation may not be able to curb potential marketing malpractices. Beyond these written laws and regulations, business is also governed by social codes. Therefore, enlightened companies encourage their managers to look beyond what the regulatory system allows. Companies are trying to build more positive images of them by exercising social responsibility. Every product these days is tied to some caus. Buy a ITC Classmate notebook and donate Re. 1 for children education. For every CRY card you buy, CRY donates money for protection of children's rights. Thus, in essence marketing transactions have moved into the public domain.

f) **Cultural forces:** The cultural environment is made up of institutions and bodies that affect a society's basic values, perceptions, preferences, and behaviours. A society is a combination of various groups with different cultures and subcultures. Each society has a distinct form of behaviour and managers must study the society in which the organization operates. The lifestyle, values, beliefs are shaped by one's culture. For example, in India, we have different cultural groups such as Assamese, Kashmiri, and Bihari to name a few. Each of these cultural groups has distinct tastes, preferences and beliefs. The marketing manager must take a note of these differences before formulating the product and the marketing program.

It is also important for marketers to understand that although core values and beliefs are fairly consistent but cultural shifts do take place. However, these shifts are very slow. Marketers must track

the changes or shifts in the cultural values on a regular basis to identify and explore marketing opportunities.

2.6 DIFFERENCE BETWEEN MICRO AND MACRO ENVIRONMENT

We have seen in details the various factors that make up both the micro-environment and the macro-environment. Although both micro and macro-environment forms the total marketing environment for organizations, there are certain differences between both these environments. The table below describes the difference between the micro-environment and the macro-environment:

BASIS FOR COMPARISON	MICRO-ENVIRONMENT	MACRO-ENVIRONMENT
Meaning	Micro-environment is defined as the nearby environment, under which the firm operates.	Macro-environment refers to the general environment that can affect the working of all business enterprises.
Alternatively known as	Internal environment.	External environment.
Elements	The elements of the micro-environment: organization itself, suppliers,market intermediaries, competitors, and public.	The elements of the macro-environment: demographic, economic, cultural, natural, technological, and political.
Nature of elements	Specific	General
Influence	Directly and regularly	Indirectly and distantly
Control	Micro-environment factors are controllable	Macro-environment factors are not controllable

Table2.1: Differences between Micro and Macro environment

2.7 TECHNIQUES OF ENVIRONMENTAL SCANNING

A company's marketing system must operate within the context of the environmental forces. It is important for marketers to continuously scan their environment in order to identify any changes and adapt to them. The following section discusses the various techniques of environment scanning that can be used by managers to scan their internal and external environment.

a) **Internal Records and Marketing Intelligence:** Marketers rely on internal information generated by the company itself in the form of reports of orders, sales, prices, costs, inventory levels and so on. This information can be analyzed by marketing managers to identify opportunities and problems.

   i. **The order-to-payment cycle:** One of the important records for marketing companies is the order-to-payment cycle. Sales representatives, dealers and customers send orders to the company. The sales department in turn prepares the invoice and process the order. In today's world companies need to process orders quickly and accurately because customers prefer organizations which can deliver on time. Companies have resorted to using internet and extranets to improve their systems. By doing this they are not only delivering on time but also saving cost.

   ii. **Sales information systems:** Marketing managers also used reports on current sales. Companies use sales and inventory data that captures data on every item that they sale. Marketers must carefully analyze and interpret the sales data so as to draw correct marketing conclusions.

   iii. **Databases, data warehousing, and data mining:** Companies now-a-days organize their information into databases and they combine information from various databases. This helps the companies to categorize the wide array of customers and offer their product offerings.

Companies also warehouse these data and make them available to decision makers. Analysts analyze these data to garner fresh insights into customer trends and segments.

iv. **The marketing intelligence system:** Marketing intelligence system is a set of procedures and sources managers use to obtain everyday information about developments in the marketing environment. Marketers collect marketing intelligence from newspapers, trade publications, interaction with customers, etc. a company can take several other steps to improve its quality of marketing intelligence.

- The company must train and motivate the sales force to spot and report new developments.
- Companies may hire specialists to gather marketing intelligence. Service providers and retailers often send mystery shoppers to the stores to assess the standards of service.
- Companies also resort to external networking to obtain marketing information. Companies can purchase competitor's products, attend trade shows, talk to employees, dealers, and distributors. These form an important way of gathering information about the marketing environment.
- Companies can also set up a customer advisory panel and the members might include representative customers or the company's largest customers or its most outspoken customers.
- Companies can also take advantage of government data sources to determine the changing trends and demographics. Census data provides a lot of relevant information to companies in this regard.
- Companies can also purchase information from outside suppliers. These research firms gather consumer-panel data and supply it to the firms.

- Several companies now-a-days are using online customer feedback systems to collect competitive intelligence. Online customer review boards, discussion forums, and blogs generate a lot of information about both the product and the firm.

b) **Needs and trends:** A trend is a direction or sequence of events that has some momentum and durability. Trends are predictable and it reveals the shape of the future and indicates the opportunities. Megatrends have been described as "large social, economic, political, and technological changes that are slow to firm, and once in place, they influence us for sometime". Successful marketers manage to create new solutions to satisfy the unmet needs of the customers. They identify the trends or the megatrends and incorporate the needs into their offerings, thus, tapping the market.

c) **SWOT analysis:** SWOT analysis is a way to monitor the external and the internal marketing environment. SWOT analysis is the overall evaluation of a firm's strengths, weaknesses, opportunities, and threats (SWOT). A firm must monitor key macro-environment forces (demographic, economic, natural, technological, political, and cultural) and significant micro-environment factors (customers, public, intermediaries, suppliers, competitors) which affect its profitability.

One of the major purposes of environment scanning is to identify the opportunities and threats in the external environment. A marketing opportunity is an area of buyer need and interest in which there is a high probability that a company can profitably satisfy that need. On the other hand, an environmental threat is a challenge posed by an unfavorable trend or development that would lead to lower sales or profit in the absence of defensive marketing action. Apart from the strengths and weaknesses each business needs to evaluate its internal strengths and weaknesses. Thus, the aim of SWOT analysis is to identify the key micro and macro environmental factors that

are important to achieving the objectives of the organization. This identification forms the cornerstone of business policy formulation.

	Opportunities (External, Positive)	**Threats** (External, Negative)
Strengths (Internal, Positive)	**Strength-Opportunity Strategies** Which of the Company's strengths can be used to maximize the opportunities that have been identified?	**Strength-Threats Strategies** How can the Company's strengths be used to minimize the threats that have been identified
Weaknesses (Internal, Negative)	**Weakness-Opportunity Strategies** What actions can be taken to minimize the company's weaknesses using the opportunities that have identified?	**Weakness-Threats Strategies** How can the company's weaknesses be minimized to avoid the threats in the business environment.

Table 2.2: SWOT analysis

d) **PEST analysis:** PEST analysis is a scan of the external macro-environment in which the firm operates. It can be expressed in terms of the following factors: Political, Economic, Social, and Technological (PEST) and is used to describe a framework for the analysis of these factors.

Political factors include government regulations and legal issues and define both formal and informal rules under which the firm must operate. Some examples are: environmental regulations, taxation policies, employment laws, etc. Economic factors include the purchasing power of the buyers and also the firm's cost of capital. Some economic factors are: interest rates, exchange rates, inflation rates, etc. Social factors include the demographic and cultural aspects of the larger macro-environment which affect the customer needs. Some social factors include: age distribution, population growth rate, health consciousness, etc. The technological factors

deal with advances in technology which may have a substantial impact on cost and production, and influence outsourcing decisions. Some technological factors are: R&D activity, automation, technology incentives, etc.

PEST analysis is useful because it helps spot business opportunities that may exist in the larger environmental context. PEST analysis also reveals the direction of change within the macro-environment, thereby helping companies identify trends and work with change. It helps in developing an objective view of business environment rather than working on assumptions. PEST analysis is often associated with SWOT analysis; however, both the tools have different areas of focus. PEST analysis looks at the bigger picture, whereas SWOT analysis focuses on specific product-lines.

e) **Porter's five forces model:** Porter's five forces model is a tool for industry analysis. An industry is a group of companies producing similar products. It is important to examine the important stakeholders' in a particular industry as they form an important part of the environment. A firm is most concerned with competition. In scanning the environment, firms must determine the level and intensity of competition in the industry. This analysis is done using Porter's five forces model. Five forces analysis assumes that there are five forces that determine competitive power in a business situation. These five forces are:

Supplier power: This is an assessment of how easy it is for suppliers to drive up prices. This is again influenced by the number of suppliers, uniqueness of the product, and cost of switching from one to another and so on. The fewer the supplier choices of the firm, more is the power of the suppliers.

Buyer power: This is an evaluation of how easy it is for buyers to drive prices down. This in turn is driven by the number of buyers, cost of them switching from the current product to a different product, and so on.

Competitive rivalry: This assesses the number and capability of the competitors of the firm. What is important here is the number and capability of your competitors, and their offerings. If the firm is producing something unique that cannot be duplicated easily, then it has tremendous strength.

Threat of substitution: Availability of alternative products outside the realm of the common product boundaries increases the propensity of customers to switch to these alternatives. Some of the factors that determine the threat of substitution are: relative performance of the substitute, buyer switching costs, relative price performance of substitute, and so on.

Threat of new entry: Profitable markets that give high returns attract a lot of new firms. This results in many new entrants, which eventually decreases the profitability of all the firms. Some of the factors that determine the threat of new entrants are: capital requirements, government regulations, existence of barriers to entry (patent, etc.), and so on.

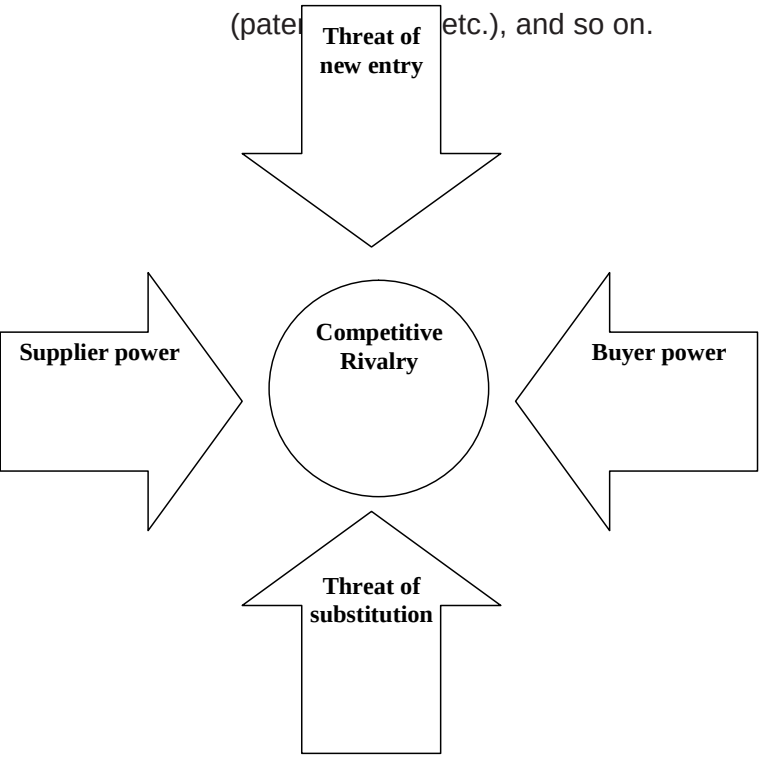
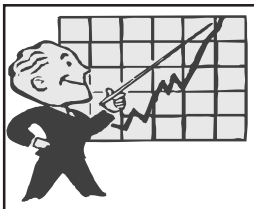


Figure 2.4: Porter's Five Forces Model

Porter's five forces model is a simple but powerful tool to analyze where power lies in business environment. It helps in understanding both strength of the firm's current competitive position and also the strength of a position the firm is contemplating moving into.



CHECK YOUR PROGRESS

Choose the correct answer:

Q6: Which of the following is not a part of the external marketing environment?

a. Political
b. Legal
c. Product
d. Socio-cultural

Q7: Tobacco advertising is now virtually banned in all marketing communication forms in many countries around the world. This can be explained as an influence of:

a. Technological environment
b. Economic environment
c. Legal environment
d. Ecological environment

Q8: Robert is a marketer for a global consumer products company. He is working on the promotional campaign designed to reach a target audience in a new international market. Robert is working hard to make sure that the promotional campaign is clearly understood by the nation's consumers and doesn't offend anyone. Which of the factors in the external environment is he being influenced by?

a. Socio-cultural environment
b. Competitive environment
c. Economic environment
d. Legal environment

Q9: The six dimensions usually considered to constitute the external marketing environment include all of the following except:

a. Political considerations
b. Business factors
c. Socio-cultural aspects
d. Economic issues

Q10: _____ is a way to monitor both the external and the internal environment:

a. SWOT Analysis
b. PEST Analysis
c. Porter's Five Forces Model
d. All of the above



2.8 LET US SUM UP

In this unit we have discussed the following:

- Environmental factors influences in Company's marketing system.
- Examining the marketing environment and monitoring the changes in such an environment can be done through both environmental scanning and environmental analysis.
- Environmental scanning is the process of gathering data about various components of the marketing environment. The marketing environment can be segmented into micro and macro environment.
- The marketing micro-environment includes: company, suppliers, intermediaries, customers, competitors, and public.
- The macro-environment consists of: demographic forces, economic forces, natural forces, technological knowledge, political factors and cultural forces.
- various techniques of environment scanning are:
  - Internal Records and Marketing Intelligence
  - Needs and trends
  - SWOT analysis
  - PEST analysis
  - Porter's five forces model



2.9 FURTHER READINGS

1. Philip Kotler, Kevin Lane Keller, Abraham Koshy, and Mithileshwar Jha (2007), *"Marketing Management"*, Pearson Education
2. Saxena Rajan (2007), Marketing Management 3rd Edition,Tata McGraw Hill Publication

2.10 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: a) Micro and Macro Environment

Ans. to Q. No. 2: b) Environmental Scanning

Ans. to Q. No. 3: c) Demographic forces

Ans. to Q. No. 4: b) Suppliers, competitors, customers, distributors

Ans. to Q. No. 5: a) Marketing intermediaries

Ans. to Q. No. 6: c) Product

Ans. to Q. No. 7: c) Legal environment

Ans. to Q. No. 8: a) Socio-cultural environment

Ans. to Q. No. 9: b) Business factors

Ans. to Q. No. 10: a) SWOT Analysis



2.11 MODEL QUESTIONS

1. Define the term marketing environment. What is the importance of marketing environment for organizations?
2. What is micro-environment and macro-environment? Distinguish between the two.
3. What is environmental scanning? Why is environmental scanning important for marketers?
4. Explain in brief the techniques of environmental scanning.

5. Explain the different micro-environmental forces.
6. Explain the macro-environmental factors.
7. Explain SWOT analysis.
8. Describe PEST analysis. What is the difference between PEST and SWOT analysis?
9. Explain Porter's Five Forces Model.
10. What are the different internal records of a company that can act as a source of information about the internal environment?

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UNIT 3: CONSUMER BUYING BEHAVIOUR

UNIT STRUCTURE

3.1 Learning Objectives

3.2 Introduction

3.3 Characteristics of Common Behaviour

3.4 Types of Buying Decision Behaviour

3.5 Consumer Buying Decision Process

3.6 Buyer Decision Process for New Products

3.7 Buying Motives

3.8 Buyers Behaviour Models

3.9 Let Us Sum Up

3.10 Answers to Check Your Progress

3.11 Further Readings

3.12 Model Questions

3.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- explain the meaning and characteristics of consumer behaviour
- describe the various types of buying decision behaviour
- state the steps of consumer buying decision process
- explain about the buyer decision process for new products
- describe the buying motives
- describe some of the buyers behaviour models

3.2 INTRODUCTION

The term Consumer Behaviour can be defined as the behaviour that consumers display in the process of searching, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs and wants. It is the study of how individuals make decisions to spend their available resources in terms of money, time and effort on consumption related items. It includes the study of what they buy,

why they buy, how they buy, when they buy, where they buy, and how often they buy.

There are numbers of reasons why the study of consumer behaviour developed as a separate marketing discipline. Marketing scientists had long noted that consumers did not always act or react as economic theory would suggest. The size of consumer market is vast and is constantly expanding. Consumer preferences are changing and have become highly diversified. As marketing researchers began to study the buying behaviour of consumers, they soon realized that despite overriding similarities, all consumers were not alike in their tastes, preferences and buying habits. Marketers therefore realized that understanding the behaviour and buying pattern of consumers is important for the survival in the market place. In this Unit, we shall discuss all these aspects of consumer buying behaviour.

3.3 CHARACTERISTICS OF CONSUMER BEHAVIOUR

Consumers are today regarded as the king in the market. A marketer has the duty to cater to the need of the consumer as a satisfied customer brings profit consistently. So the marketer should understand the customer properly. He has to understand how customers behave at the time of purchase. There are various characteristics of consumer behaviour. They are:

- ***Consumer behaviour is the part of human behaviour:*** This cannot be separated. Human behaviour decides what to buy, when to buy etc. This is unpredictable in nature. We cannot say that what an individual is going to do in the next moment. Based on the past behavioural pattern one can at least estimate like the past he might behave.
- ***Consumer behaviour is a complex phenomenon:*** Understanding the consumer is difficult and complex as it involves the study of human beings. Each individual behaves differently when he is placed at different situations. Every day is a lesson from each and every individual while we learn the consumer behaviour. Today one may purchase a product because of its smell, tomorrow it may vary and he will purchase another due to some another reason.

- ***Consumer behaviour is dynamic***: A consumer's behaviour is always changing in nature. The taste and preference of the people vary. According to that consumers behave differently. As the modern world changes, the consumer's behaving pattern also changes.
- ***Consumer behaviour is influenced by psychological, social and physical factors****:* A consumer may be influenced by his or her attitudes, perception, beliefs, intentions and the like. A consumer may be also loyal with a product due to its status values in a society. Another may stick with a product due to its economy in price. Understanding the psychological, social and physical factor factors by a marketer is crucial before placing the product to the consumers.
- ***Study of consumer behaviour is crucial for marketers****:* Before producing a product or launching a product, a marketer has to go through a clear analysis of the consumer behaviour. If the people or prospects reject the product, he has to modify it. It is a continuous process as it involves the process which starts before the buying and continuing after purchasing. Before buying there may be high confusions and expectations about the product. After buying it, if the buyer is satisfied with the product he shows a positive behaviour and if he or she is not satisfied, the product or service may not be consumed in future again.

3.4 TYPES OF BUYING DECISION BEHAVIOUR

In the process of buying by consumers, there is display of different buying decisions. Complex and expensive purchases are likely to involve more buyer deliberation and more number of decision participants. Involvement is the perceived importance or personal relevance of an object or event. It is about the degree to which the consumer feels attached to the product or brand and the loyalty felt towards it. Consumer Buying Behaviour basically comprises of four decision-making processes which varies with the type of buying decision. They are

***1. Complex Buying Behaviour*:**

Consumers go through complex buying behaviour when they are highly involved in a purchase and are aware of significant differences among

brands. Consumers are highly involved when the product is expensive, bought infrequently, risky and highly self-expressive. Typically the consumer does not know much about the product category and has much to learn. For instance a person buying a personal computer may not know what attribute to look for. Many of the product features like “16K.memory” “disc storage”, “screen resolution” carry no meaning to him or her.

2. Dissonance-Reducing Buying Behaviour:

Sometimes the consumer is highly involved in a purchase but sees little difference in the brands. The high involvement is again based on the fact that the purchase is expensive, infrequent, and risky. In this case, the buyer will shop around to learn what is available but will buy fairly quickly because brand differences are not pronounced. The buyer may respond primarily to a good price or to purchase convenience.

3. Habitual Buying Behaviour:

Many products are bought under conditions of low consumer involvement and the absence of significant brand differences. Normally consumers have low involvement with most low-cost and frequently purchased products. Consumer behaviour in these cases does not pass through the normal belief-attitude-behaviour sequence. Consumers do not search extensively for information about the brands, evaluate their characteristics, and make a weighty decision on which brand to buy. Instead, they are passive recipients of information as they watch television or see print ads.

4. Variety-Seeking Buying Behaviour:

Some buying situations are characterized by low consumer involvement but significant brand differences. Here consumers are often observed to do a lot of brand switching. An example occurs in purchasing cookies. The consumer has some beliefs, chooses a brand of cookies without much evaluation, and evaluates it during consumption. But next time, the consumer may reach for another brand out of boredom or a wish for a different taste. Brand switching occurs for the sake of variety rather than dissatisfaction.

3.5 CONSUMER BUYING DECISION PROCESS

The standard model of consumer behaviour consists of a methodical and structured process. There are five steps in the Consumer Buying Decision Process. They are:

Problem recognition - The first step is problem recognition. During this step, the consumer realizes that he or she has an unfulfilled need or want. For instance a consumer, who has just been informed by her mechanic that fixing her car will cost more than it's worth, will try to fulfil that need with the purchase of a car.

Information search - The next step is to gather information relevant to what the consumer need to solve the problem. In our example, our consumer may engage in research on the Internet to determine the types of vehicles available and their respective features.

Evaluation - After information is gathered, it is evaluated against a consumer's needs, wants, preferences, and financial resources available for purchase. In our example, our consumer may decide to narrow her choices down to three cars based upon price, comfort, and fuel efficiency.

Purchase - At this stage, the consumer will make a purchasing decision. The ultimate decision may be based on factors such as price or availability. For example, our consumer may decide to purchase a particular model of car because its price was the best she could negotiate and the car was available immediately.

Post-purchase evaluation - At this stage, the consumer will decide whether the purchase actually satisfies her needs and wants. Is our car purchaser happy with her purchase? If she is not satisfied, why isn't she?

3.6 BUYER DECISION PROCESS FOR NEW PRODUCTS

New product is a good, service or idea that is perceived by some potential customer as new. In the adoption of a new product any buyer goes through a process. Adoption process is the mental process through which an individual passes through hearing about an innovation to final

adoption. Consumers go through five stages in the process of adopting a new product. The stages in the adoption process have been described as follows:

1. ***Awareness*:** During the first stage of adoption process, consumers are exposed to the product innovation. This exposure is somewhat neutral, since they are not yet sufficiently interested to search for additional product information.
2. ***Interest*:** When consumers develop an interest in the product or product category, they search for information about how the innovation can benefit them.
3. ***Evaluation*:** Based on their stock of information, consumers draw conclusions about the innovation or determine whether further information is necessary. The evaluation stage thus represents a kind of "mental trial" of the product innovation. If the evaluation is satisfactory, the consumers will actually try the product innovation; if the mental trial unsatisfactory, the product will be rejected.
4. ***Trial*:** At this stage, consumers actually use the product on a limited basis. Their experience with the product provides them with critical information they need to adopt or reject.
5. ***Adoption*:** Based on their trials and /or favourable evaluation, consumers decide to use the product on a full rather than limited basis or they decide to reject it.

3.7 BUYING MOTIVES

Buying motive is the urge to satisfy a desire or need that makes people buy goods or services. Behind every purchase there is a buying motive. It refers to the thoughts, feelings, emotions and instincts, which arouse in the buyers a desire to buy an article. A buyer does not buy because s/he has been persuaded by the salesman, but s/he buys for the aroused desire in him or her. Motives should be distinguished from instincts. A motive is simply a reason for carrying out a particular behaviour and not an automatic response to a stimulus, whereas instincts are pre-programmed

responses, which are inborn in the individual and involuntary. Buying motives can be divided in the following way as shown in the diagram.

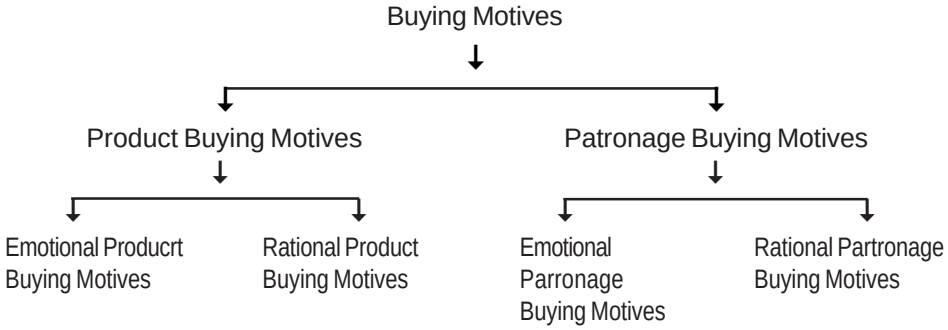


Figure 3.1: Classification of Buying Motives

Product Buying Motives:

Product buying motives refer to those influences and reasons, which induces a buyer to choose a particular product in preference to other products. They include the physical attraction of the product (i.e. the design, shape, dimension, size, colour, package, performance and price of the product), the psychological attraction of the product (i.e. the enhancement of the social prestige or status of the purchaser through its possession), desire to remove or reduce the danger or damage to life or body of the possessor, and the like. In short they refer to all those characteristics of a product, which induce a buyer to buy it in preference to other products.

Product buying motives may be sub-divided into two groups, viz., (1) emotional product buying motives and (2) rational product buying motives.

A. Emotional Product Buying Motives:

When a buyer decides to purchase a product without thinking over the matter logically and carefully (i.e., without much reasoning), she is said to have been influenced by emotional product buying motives.

B. Rational Product Buying Motives:

When a buyer decides to buy a certain thing after careful consideration (i.e. after thinking over the matter consciously and logically), s/he is said to have been influenced by rational product buying motives.

Patronage Buying Motives:

Patronage buying motives refer to those considerations or reasons, which prompt a buyer to buy the product wanted by him from a particular shop in preference to other shops. In other words, they are those considerations or reasons, which make a buyer, patronise a particular shop in preference to other shops while buying a product. Patronage buying motives also may be sub-divided into two groups' viz. a) Emotional patronage buying motives and b) Rational patronage buying motives.

A. Emotional Patronage Buying Motives:

When a buyer patronises a shop (i.e. purchases the things required by him from a particular shop) without applying his mind or without reasoning, he is said to have been influenced by emotional patronage buying motives.

B. Rational Patronage Buying Motives:

When a buyer patronises a shop after careful consideration (i.e. after much logical reasoning and careful thinking) he is said to have been influenced by rational patronage buying motives.

3.8 BUYERS BEHAVIOUR MODELS

The influences of social sciences have prompted marketing experts to propound certain buying behaviour models for explaining buyer behaviour. These models are divided in two broad categories microeconomic and macroeconomic models. The classical microeconomic approach, focus on types of purchases made and quantity of these purchases made by the consumer. Macroeconomic approach considers the monetary value of goods and resources and how they will change over the period the period of time. Several models have been put forward for explaining buyer behaviour. Some important consumer behaviour models are discussed below.

1. The Economic Model:

According to economic model, buyer is a rational man and his buying decisions are fully governed by the concept of utility, if the buyer has purchasing power of choosing a set of services to meet his need. He will allocate this amount over the set of services in a very rational manner with the intention of maximizing the utility or benefits. People are limited by their

skills, habits, reflexes, knowledge etc. Buyers operate in an imperfect world in which they do not maximize their decisions in terms of economic considerations such as price-quantity relationships, marginal utility or indifference curve. The buyer is usually unwilling to engage in extensive decision-making activities and is satisfied with utility or benefits of a product.

2. The Learning Model:

This model takes its cue from the Pavlovian stimulus model-response theory which states that buyer behaviour can be influenced by manipulating the drives, stimuli and response of the buyer. The model rests on man's ability of learning, forgetting and discriminating. Stimulus response theory on learning model has its beginning with Russian psychologists Ivan Pavlov. It is based on experiments made by Pavlov on feeding of a dog preceded by the sound of a bell. It was observed that that dogs' behaviour is conditioned, it is related to behaviour producing stimulus and behaviour response. The process of learning is based on four fundamental factors viz. drives, cues, responses and reinforcement. Driving is a strong internal stimuli impelling action. The cue is a weak stimulus in the environment determining when, where and how an individual responds to the drive. The action to cue is a response and reinforcement takes place when the action is rewarding. If the response is rewarding the individual tends to repeat the response, when the drive is aroused again. Repeated reinforcement leads to habit formation and the decision process for individuals become a routine affair.

3. The Psycho-Analytical model:

The psycho-analytical model is drawn mainly from Freudian psychology. Sigmund Freud added a new dimension to consumer behaviour theories by introducing psychological elements of the consumer into their decision making. This model considers individual buyer as a complex set of deep- seated motives that drive him towards certain buying decisions. The buyer has his hidden fears, suppressed desires and totally subjective longings. His buying actions can be influenced by appealing to these desires and longings. The model describes superior and innovative implications to the marketer for designing a service message that suits the psychological needs of the consumer. The Psycho-Analytical theory helps the marketers

to understand individual's real motive for purchasing a particular service or brand. It has caused marketers to realize that they must provide consumers socially acceptable rationalization for their purchase.

4. The Nicosia Model:

Nicosia model and Howard and Sheth model belong to a category called systems model where human being is analysed as a system with stimuli as the input and behaviour as the output of the system. Franscesco Nicosia an expert in the buyer behaviour and motivation proposed his model of buying behaviour in 1966. The model tries to establish a relationship between a firm and its buyers. The message from the firm first influences the predisposition of the buyer towards the product and services. Depending on the situation he develops a certain attitude towards the product and services. It may lead to a search or evaluation of the service. If these steps have a positive impact on a buyer it may result in a decision to buy. This is the sum and substance of the activity explanations' in the Nicosia model.

5. Howard and Sheth Model:

This model is proposed by John Howard and Jagdish Sheth in 1969 in their publication entitled "The Theory of Buyer Behaviour". This model is a major revision of an earlier systematic effort to develop a comprehensive theory of consumer decision making. The model considers human being as a system with stimuli as input and outputs beginning with attention to a given stimuli and ending with purchase. In between the inputs and outputs there are variables affecting perception and learning. These variables are considered hypothetical since they cannot be directly measured at the time of occurrence.

6. Engle-Blackwell-Miniard Model:

This model was originally developed in 1968 by Engle, Kollat and Blackwell followed by number of researchers on this model. Recently Miniard has contributed this model in conjunction with Engle and Blackwell. It stands as one of the most popular representation of buyer behaviour. The model is summarized in four sections (1) Decision-process stages, (2) Information output, (3) Information processing and (3) Variables influencing the decision process. Variables are grouped into four general categories: stimulus input, information processing, decision process and variables influencing the decision process. The model depicts buyer behaviour as the central focus

of this model that is defined under five basic decision process stages. These stages are motivation and need recognition, search for information, alternative evaluation, purchase and outcomes.

These models are helpful in gaining new insight into complex and dynamic buyer behaviour. These models have their own pros and cons. It is essential to understand various dimensions of buyer behaviour for developing a sound marketing strategy for a product or a service. The working on buyer mind is still a mystery for marketers.



CHECK YOUR PROGRESS

Q1. Define Consumer behaviour.

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Q2. State two types of buying decision behaviour.

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……

Q3. What is buying motive?

……

……



3.9 LET US SUM UP

Behaviour can be defined as the behaviour that consumers display in the process of searching, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs and wants.

There are various characteristics of consumer behaviour. They are; (i) Consumer behaviour is the part of human behaviour (ii) Consumer behaviour is a complex phenomenon (iii) Consumer behaviour is dynamic (iv) Consumer behaviour is influenced by psychological, social and physical factors (v) Study of consumer behaviour is crucial for marketers

Consumer Buying Behaviour basically comprises of four decision-making processes which varies with the type of buying decision. They are (i) Complex Buying Behaviour (ii) Dissonance-Reducing Buying Behaviour (iii) Habitual Buying Behaviour (iv) Variety-Seeking Buying Behaviour.

There are five steps in the Consumer Buying Decision Process. They are (i) Problem recognition (ii) Information search (iii) Evaluation (iv) Purchase (v) Post-purchase evaluation.

Consumers go through five stages in the process of adopting a new product. The stages in the adoption process have been described as follows; Awareness, Interest, Evaluation, Trial and Adoption.

Buying motive is the urge or motive to satisfy a desire or need that makes people buy goods or services. Buying motives can be divided into two major categories. They are Product Buying Motives (comprising of Emotional Product Buying Motives and Rational Product Buying Motives) and Patronage Buying Motives (comprising of Emotional Patronage Buying Motives and Rational Patronage Buying Motives)

The influences of social sciences have prompted marketing experts to propound certain buying behaviour models for explaining buyer behaviour. Some of the important buying behaviour models for explaining buyer behaviour models are;

1. The Economic Model
2. The Learning Model
3. The Psycho-Analytical model
4. The Nicosia Model
5. Howard and Sheth Model
6. Engle-Blackwell-Miniard Model

It is important for the marketers to understand the implications of the buying models.



3.10 FURTHER READINGS

1) Philip Kotler, Kevin Lane Keller, Abraham Koshy, and Mithileshwar Jha (2007), *"Marketing Management"*, Pearson Education

2) V. S. Ramaswami and S Namakumari (2003), *"Marketing Management"*, Macmillan India Limited

3) Leon G. Schiffman, Laslie Lazar Kanuk (1997), "*Consumer Behaviour*", Prentice Hall International edition,Ninth Edition



3.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No. 1. : Consumer Behaviour can be defined as the behaviour that consumers display in the process of searching, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs and wants.

Ans to Q No. 2. :

i. Complex buying behavior

ii. Habitual buying behavior

Ans to Q No. 3. : Buying motive is the urge to satisfy a desire or need that makes people buy goods or services.



3.12 MODEL QUESTIONS

1. Define consumer buying behaviour.
2. Explain the characteristics of consumer behaviour.
3. Describe the various types of buying decision behaviour.
4. State the steps involved in consumer buying decision process.
5. Describe the steps involved in buyer decision process for new products.
6. Explain the various buying motives of a consumer.
7. Write a brief note on any three of the buyers behaviour models.

*** ***** ***

UNIT 4: BUSINESS BUYING BEHAVIOUR

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Introduction

4.3 Characteristics of Business Markets

4.4 Differences between Consumer and Business Buyer Behaviour

4.5 Buying Situations in Business Market

4.6 Buying Roles in Business Marketing

4.7 Factors that Influence Business Buyers

4.8 Steps in Business Buying Process

4.9 Let Us Sum Up

4.10 Further Readings

4.11 Answers to Check Your Progress

4.12 Model Questions

4.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- explain the meaning of a business buyer
- know the characteristics of business markets
- distinguish between consumer and business buyer behaviour
- know buying situations in business market
- know buying roles in business market
- identify the various factors that influence business buyers
- describe the essential steps in business buying process

4.2 INTRODUCTION

Business buyer behaviour refers to the buying behaviour of the business organizations that buy goods and services for use in the production of other products and services or to resell or rent them to others for a profit. Business buyer behaviour also refers to the decision-making process by which formal organizations establish the need for purchased products and

services and identify, evaluate and choose among alternative brands and suppliers from the business market. In this Unit, we shall discuss all these aspects of business markets and business buyer behaviour.

4.3 CHARACTERISTICS OF BUSINESS MARKETS

In the business market, the buyer has certain characteristics. They are :

- ***Fewer, larger buyers***: The business marketer normally deals with far fewer but far larger buyers than the consumer marketer does. There are more transactions in business markets because business products are often costly and complex. There are also fewer buyers in business markets, but they spend much more than the typical consumer does and have more-rigid product standards.
- ***Close supplier-customer relationships***: Many people within an organization can be part of the buying process and have a say in ultimately what gets purchased, how much of it, and from whom. Having different people involved makes business marketing much more complicated. And because of the quantities each business customer is capable of buying, the stakes are high. Hence, it requires professional purchasing.
- ***Many buying influences***: Purchases of products like planes are risky for companies. The buyers are concerned about many factors, such as the safety, reliability, and efficiency of the planes. They also generally want the jets customized in some way. Consequently, a lot of time and effort is needed to close these deals.
- ***Multiple sales calls:*** The daily task of a company consists of multiple sales calls. Each of these activities requires a salesperson. And each of these companies has a marketing department. Another characteristic of business market is the level of personal selling that is required. Salespeople personally call on business customers to a far greater extent than they do to individual consumers.
- ***Derived demand***: Derived demand is demand that springs from, or is derived from, a secondary source other than the primary buyer of

a product. For business markets, this source is consumers. Fluctuating demand is another characteristic of business markets: a small change in demand by consumers can have a big effect throughout the chain of businesses that supply all the goods and services that produce it.

CHECK YOUR PROGRESS

Q.1: Why is purchase of products like helicopters risky?

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Q.2: What is derived demand?

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IFFERENCES BETWEEN CONSUMER AND USINESS BUYER BEHAVIOUR

There are some distinct differences between Consumer and Business Buyer Behaviour. The source of these differences is the complex and interdependent relationships between business buyers and sellers and their relative positions in the supply chain. The differences between consumer and business buyer are.

- ***Business Needs vs. Consumer Wants***

  Most consumer goods are discretionary products people may want but do not necessarily need, for instance entertainment services, consumer electronics or vacation travel. Consumer buying behaviour is based on perceived characteristics such as style, fashion or peer acceptance. Emotional factors play a big part in consumers' purchase decisions. In contrast, businesses usually come prepared to buy a solution to a need i.e. products that are required for daily operations or to solve a specific business problem. It is a matter of finding the supplier who can best fulfil that need.

- ***Smaller & Highly Specialized Markets***

  Business marketers generally sell to narrower vertical markets substantially smaller than most consumer markets. Business marketers may target only a few hundred prospects but consumer markets cater to millions. Due to the smaller size it is often possible to identify and profile all the prospects within a particular business market and approach each with customized marketing communications and in-person sales contact.

- ***Individual Business Buyers Represent Higher Value***

  Business marketers focus on fewer, more intimate and longer-term customer relationships. Sales involve significantly higher amounts to smaller groups of customers with exponentially greater lifetime values. A few large customers can easily account for the majority of a business company's revenue.

- ***Closer Proximity & Higher Degree of Independence***

  In consumer marketing, the relationship often ends with a remote transaction made through a retailer. The manufacturer rarely makes personal contact with the consumer. In business marketing, the buyer-seller proximity is reversed. In most cases the supplier visits the customer in person and establishes a true one-to-one relationship with the customer over an extended period of time.

- ***Product Importance***

  The physical product is of greatest importance in consumer markets. In business markets, the purchase extends beyond the product and includes an array of economic, technical and personal relationships between the buyer and the seller. While the product quality is important, this must be matched by quality and reliability of the relationship. The buyer depends on the supplier for many things beyond the product itself, including an assured supply of materials, service, efficient order handling, delivery and often extension of credit.

- **Stronger Customer-Centric Focus**

  Marketing to business buyers requires that all marketing decisions are based on a complete and accurate understanding of customers'

needs. Business buyer's product companies are usually closer to their customers and more knowledgeable about their needs than the typical consumer company.

- **Expert Buyers & Multiple Decision Makers**

  Consumer purchases typically involve an individual decision maker in a single-step transaction. Compared with consumer decision making, business buying behaviour is characterized by a formal multi-step process conducted professionally over a period of time, involving many people interacting within a formal organization.

- **Customers' Product Knowledge**

  Business buyers are comparatively more sophisticated and educated than consumers. The business customer has years of training in his or her field and often knows more about the product and its application than the individual consumer.



CHECK YOUR PROGRESS

Q.3: What are the expectations of business buyers from their suppliers?

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.....

4.5 BUYING SITUATIONS IN INDUSTRIAL/BUSINESS MARKET

In Industrial or business market, the stages an organization goes through and the number of people involved depend on the buying situation. There are three types of buying situations. They are (i) Straight Re-purchase (ii) Modified Re-purchase (iii) New Task

(i) Straight Re-purchase

It is a business buying situation where a buyer orders things without any changes or modification. A straight rebuy is a situation in which a purchaser buys the same product in the same quantities from the same vendor. Nothing changes, in other words. Post purchase

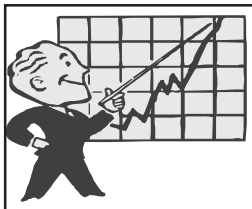
evaluations are often skipped, unless the buyer notices an unexpected change in the offering such as a deterioration of its quality or delivery time.

(ii) Modified Re-purchase

It is a business buying situation when the buyer really desires to change product requirements, costs, terms, or perhaps dealer. A modified rebuy occurs when a company wants to buy the same type of product it has in the past but make some modifications to it. Maybe the buyer wants different quantities, packaging, or delivery, or the product customized slightly differently. A modified rebuy does not necessarily have to be made with the same seller, however.

(iii) New Task (new-buy)

A new-buy selling situation occurs when a firm purchases a product for the first time. Generally speaking, all the buying stages we described in the last section occur. New buys are the most time consuming for both the purchasing firm and the firms selling to them. If the product is complex, many vendors and products will be considered and many Requests for Proposals (RFPs) will be solicited.



CHECK YOUR PROGRESS

Q.4: Give an example each of straight and modified repurchase

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4.6 BUYING ROLES IN INDUSTRIAL/BUSINESS MARKETING

In a business organization, there are different situations of purchase and different personnel are involved in the process of taking decisions. Before identifying the individuals and groups involved in the buying decision process, a marketer must understand the roles of buying centre members. Understanding the buying centre roles helps industrial marketers to develop

an effective promotion strategy. Within any organisation, the buying centre will vary in the number and type of participants for different classes of products. But on an average a buying center of an organisation has the following seven members or a group of members who play these roles:

1. Initiators*:* Usually the need for a product/item and in turn a supplier arises from the users. But there can be occasions when the top management, maintenance or the engineering department may also recognise or feel such need. These people who "initiate" or start the buying process are called initiators.

2. Users*:* Under this category come users of various products. If they are technically sound like the Research & Development, engineering who can also communicate well. They play a vital role in the buying process. They also act as initiators.

3. Buyers*:* They are people who have formal authority to select the supplier and arrange the purchase terms. They play a very important role in selecting vendors and negotiating and sometimes help to shape the product specifications. The major roles or responsibilities of buyers are obtaining proposals or quotes, evaluating them and selecting the supplier, negotiating the terms and conditions, issuing of purchase orders, follow up and keeping track of deliveries.

4. Influencers*:* Technical personnel, experts and consultants and qualified engineers play the role of influencers by drawing specifications of products. It can also be the top management when the cost involved is high and benefits in the long term. Influencers provide information for strategically evaluating alternatives.

5. Deciders*:* Among the members, the marketing person must be aware of the deciders in the organisation and try to reach them and maintain contacts with them. The organisational formal structure might be deceptive and the decision might not even be taken in the purchasing department. Generally, for routine purchases, the purchase executive may be the decider. But for high value and technically complex products, senior executives are the deciders. People who decide on product requirements/specifications and the suppliers are deciders.

***6. Approvers**:* People who authorise the proposed actions of deciders or buyers are approvers. They could also be personnel from top management or finance department or the users.

***7. Gate Keepers**:* A gatekeeper is like a filter of information. He is the one the marketer has to pass through before he reaches the decision makers. They allow only that information favourable to their opinion to flow to the decision makers. By being closest to the action, purchasing managers or those persons involved in a buying centre may act as gatekeepers. Information is usually routed through them. They have the power to prevent the sellers or information from reaching members of the buying centre. They could be at any level and even be the receptionists and telephone operators.

4.7 FACTORS THAT INFLUENCE BUSINESS BUYERS

There are a lot of factors that influence organizational buyers and their buying behaviour. The factors may be divided into the following categories i.e. external environmental, internal organizational factors, interpersonal and individual Factors in addition to the situational factors. The factors are shown in the Exhibit.

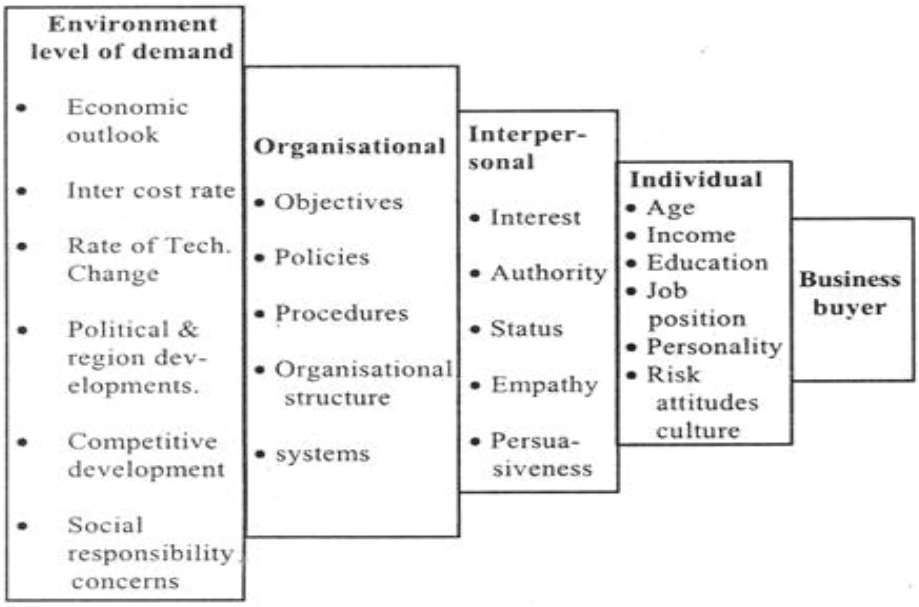


Figure 4.1: Factors influencing Business Buyers

- **External Environmental Factors**

  As a major constraint under which a business operates, the external environment impacts nearly every aspect of a business, including its buying decisions. Here's a list of the external elements that affect organizational buying.

- ***Economic Conditions*:** The fluctuations in the money markets and the interest rates have a major impact on the buying strategies. The interest rates and organizational buying have an inverse relation; in most cases, an increase in the interest rates may bring about a drop in the buying.
- ***Regulatory Changes*:** Any changes in the corporate laws, rules and regulations will also influence how, when and what the organizations buy. There are also regulatory changes that may affect only a particular industry and accordingly the related organizations will change their buying patterns to stay in-line with the new regulations.
- ***Political Environment*:** A change of the government or policy has a direct impact on the economic scenario, and this ultimately translates into a shift in the organizational buying patterns as well.
- ***Social Environment*:** Societies and cultures are ever evolving, and every business has to change its practices and procedures to meet up with the societal changes. For instance with the rise in the number of animal lovers, pure leather suppliers have seen a slump in their business. The clothing and footwear manufacturers have shifted to artificial leather suppliers. This points out how the social environment can affect the buying patterns of organizations.
- ***Competition*:** Today's business is all about beating competition and staying ahead. So when an organization's competitors move on to a newer product or service, or if they get to enjoy a competitive edge because of their suppliers, it's very likely for the organization to change its trends too and thus its buying pattern will change accordingly.

  The external environment is the first of the four major factors that influence organizational behaviour as shown in the Exhibit.

- **Internal Organizational Factors**

  More than the external factors, it's the internal organizational factors that influence organizational buying. These internal factors are the:

- ***Organization's Goals and Objectives*:** The goals and objectives of an organization are major determinants as to how and what the organization will purchase. An organization that wants to capture a bigger chunk of the market by selling cheaper stuff is more likely to look for suppliers who can supply larger quantities at a low price. However, a company whose goal is to deliver quality products may have a very contrasting buying pattern, and they will focus more on the quality issues than on the price advantage.
- ***Organizational Structure*:** Hierarchical and management structures vary from one organization to another. While some organizations have a well-established purchase department, others may assign this job to the HR or Administration department. There are also organizations where the purchase decisions must be taken collectively by all concerned departments.
- ***Policies and Procedures*:** How the purchase order is routed, depends on the organization's policies. How does the buying procedure begin, who will participate and who has the ultimate authority to decide on the purchase are all dependent on the policies and procedures of the organization. Some organizations prefer to invite public bids, while others may contact only the few suppliers on their list.
- ***Technological Levels*:** Whenever making new purchases, organizations take into consideration their current technology. Some purchases are meant to replace the current technology with a newer version, so their buying decision will be influenced by what level of technology they currently own.
- ***Manpower Skills*:** Whether the organization has the skilled manpower to make proper and optimum use of the new purchases being made, especially equipment and machinery, is another issue that influences organizational buying.

Interpersonal and Individual Factors

Since organizational buying decisions are never a one person affair, interpersonal relationships among the decision makers plays a vital role in this type of buying.

- ***Participation and Authority*:** In organizational buying situations, there are always re-defined rules as to who can participate in the purchase decision and who the ultimate deciding authority is.
- ***Interpersonal Conflict*:** Interpersonal conflicts and conflicts of interest amongst the decision makers often results in delays and changes. Thus, the kind of thinking and the kind of relationship the decision makers share have a major role to play in corporate buying.
- ***Education and Awareness*:** The educational background of the decision makers and their level of awareness have a major bearing on what type of purchases they will make.
- ***Risk Taking Ability*:** If the buying committee constitutes high risk takers, they will not be averse to the idea of choosing the latest technology or new suppliers. While on the other hand, decision makers with a low risk taking tolerance are more likely to stick to proven and tested technology or to well-known and well established suppliers.
- ***Individual Factors*:** Individual factors such as age, cultural background and social status, of the members on the buying team, also influence the buying decisions.

Situational Factors

In this final section we'll take a look at some of the situational factors that can influence organizational buyers.

- ***Time Factor*:** Sometimes, organizations don't have all the time to follow the detailed buying procedure. If the organization needs a replacement for equipment that broke down suddenly, it may decide to place its order with some existing supplier or a supplier that is at close proximity.
- ***Current Financial Situation*:** If the organization is crunched for cash, it may decide to place its order with one of its existing supplier who offers extended credit. Also, if the organization cannot spare out

enough money for a certain purchase, it may opt for a readily available cheaper version that fits into its budget.

- ***Availability*:** Some buying decisions can wait while others cannot, thus if the supplier cannot make available the exact product by the desired date, the organizational buyers may shift to a new supplier or to a more readily available alternative.
- ***Special Offers:*** Special offers being given by a supplier may also be one of the situational factors affecting the buying decision.

4.8 STEPS IN BUSINESS BUYING PROCESS

Stages in the Business Buying Process are similar to the stages in the consumer's buying process.

- ***A need is recognized*:** Someone recognizes that the organization has a need that can be solved by purchasing a good or service. Users often drive this stage, although others can serve the role of initiator. In the case of the electronic textbook, it could be, for example, the professor assigned to teach the online course. However, it could be the dean or chairman of the department in which the course is taught.
- ***The need is described and quantified*:** Next, the buying center, or group of people brought together to help make the buying decision, work to put some parameters around what needs to be purchased. In other words, they describe what they believe is needed, the features it should have, how much of it is needed, where, and so on. For more technical or complex products the buyer will define the product's technical specifications. Will an off-the-shelf product do, or must it be customized?
- ***Potential suppliers are searched for*:** At this stage, the people involved in the buying process seek out information about the products they are looking for and the vendors that can supply them. Most buyers look online first to find vendors and products, then attend industry trade shows and conventions and telephone or e-mail the suppliers with whom they have relationships. Purchasing agents often play a key role when it comes to deciding which vendors are the most qualified.

- ***Qualified suppliers are asked to complete responses to requests for proposal (RFPs):*** Each vendor that makes the cut is sent a request for proposal (RFP), which is an invitation to submit a bid to supply the good or service. An RFP outlines what the vendor is able to offer in terms of its product—its quality, price, financing, delivery, after-sales service, whether it can be customized or returned, and even the product's disposal, in some cases. Good sales and marketing professionals do more than just provide basic information to potential buyers in RFPs. They focus on the buyer's problems and how to adapt their offers to solve those problems.
- ***The proposals are evaluated and supplier(s) selected:*** During this stage, the RFPs are reviewed and the vendor or vendors are selected. RFPs are best evaluated if the members agree on the criteria being evaluated and the importance of each. Different organizations will weigh different parts of a proposal differently, depending on their goals and the products they purchase. Reliability of supply is extremely important because delays in the supply chain can shut down a company's production of goods and services and cost the firm its customers and reputation.
- ***An order routine is established:*** This is the stage in which the actual order is put together. The order includes the agreed-upon price, quantities, and the expected time of delivery, return policies, warranties, and any other terms of negotiation.
- ***A post purchase evaluation is conducted and the feedback provided to the vendor*****:** Just as consumers go through an evaluation period after they purchase goods and services, so do businesses. The buying unit might survey users of the product to see how satisfied they were with it.



4.9 LET US SUM UP

Business buyer behaviour refers to the buying behaviour of the business organizations that buy goods and services for use in the production of other products and services or to resell or rent them to others for a profit.

The various Characteristics of Business Markets (i) Fewer, larger buyers (ii) Close supplier-customer relationship (iii) Many buying influences (iv) Multiple sales calls (v) Derived demand:

There are some differences between consumer and business buyer behaviour. The source of these differences is the complex and interdependent relationships between business buyers and sellers and their relative positions in the supply chain. We have also discussed about the buying situations. There are three types of buying situations. They are (i) Straight Re-purchase (ii) Modified Re-purchase (iii) New Task

In a business organization, there are different situations of purchase and different personnel are involved in the process of taking decisions. Within any organisation, the buying centre will vary in the number and type of participants for different classes of products. But on an average a buying center of an organisation has the following seven members or a group of members who play the roles: they are 1. Initiators 2. Users 3. Buyers 4. Influencers 5. Deciders 6. Approvers 7. Gate Keepers.

There are a lot of factors that influence organizational buyers and their buying behaviour. They are basically two broad categories i.e. External and Internal factors, Interpersonal and Individual Factors and Situational Factors. We have also discussed that business buying takes place through some steps.



4.10 FURTHER READINGS

1) Philip Kotler, Kevin Lane Keller, Abraham Koshy, and Mithileshwar Jha (2007), *"Marketing Management"*, Pearson Education

2) V. S. Ramaswami and S Namakumari (2003), *"Marketing Management"*, Macmillan India Limited

3) Leon G. Schiffman, Laslie Lazar Kanuk (1997), "*Consumer Behaviour*", Prentice Hall International edition, Ninth Edition



4.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No. 1 : Purchases of products like helicopters are risky for companies. The buyers are concerned about many factors, such as the safety, reliability, and efficiency of the planes. They also generally want the helicopters to be customized. Consequently, a lot of time and effort is needed to close these deals.

Ans to Q No. 2 : Derived demand is demand that springs from, or is derived from, a secondary source other than the primary buyer of a product. For business markets, this source is consumers. For example demand for paints for Maruti Udyog will depend on demand for cars in the consumer market.

Ans to Q No. 3 : The business buyer expects from the supplier many things beyond the product itself, including an assured supply of materials, service, efficient order handling, delivery and often extension of credit.



Ans to Q No. 4 : Straight repurchase may be purchase of office stationaries on a routine basis with no change. Modified purchase may be purchase of new packaging materials to launch a product variant of a higher dimension.

4.12 MODEL QUESTIONS

1. Define a business market.
2. Compare between consumer and business buyer behaviour.
3. Describe the various buying situations in business market.
4. Explain the buying roles in business marketing.
5. Describe the factors that influence business buying.
6. Explain the steps in business buying process.

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UNIT 5 : MARKET SEGMENTATION

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 Concept of Market Segmentation

- 5.3.1 Definitions of Market Segmentation
- 5.3.2 Importance of Market Segmentation

5.4 Bases for Market Segmentation

- 5.4.1 Segmentation of Consumer Markets
- 5.4.2 Segmentation of Organisational Markets

5.5 Market Targeting

- 5.5.1 Evaluating Market Segments and Target Market Selection

5.6 Market Positioning

- 5.6.1 Definitions
- 5.6.2 Positioning Strategies

5.7 Let Us Sum Up

5.8 Further Readings

5.9 Answers To Check Your Progress

5.10 Model Questions

5.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- explain the concept of market segmentation
- describe the importance of market segmentation
- narrate the requirements of market segmentation
- recognize the bases of market segmentation
- describe the meaning of market targeting
- explain market positioning

5.2 INTRODUCTION

The buying process of two groups of buyers is not same. It differs because of many factors such as their income, education, age, habit etc.

To be successful in marketing, it is essential to understand the features for the products and services. As a marketer, you should select those groups of buyers or market segment/segments where you have bright prospects for your products. This is essential as a single marketer can not satisfy all the different market segments in a competitive market. In this unit you will study market segmentation, market targeting and market positioning.

5.3 CONCEPT OF MARKET SEGMENTATION

Market segmentation is the subdividing of a market into distinct subsets of customers, where any subset may conceivably be selected as a market target to be reached with a distinct marketing mix. The basic idea of market segmentation is that in high competition, individual sellers may prosper through developing offers for specific market segments whose needs are not satisfied. Market segment is groupings of buyers according to some common characteristics such income, age, sex, qualification, geographical location etc, so that their needs are better served.

5.3.1 Definition of Market Segmentation

The term 'Market Segmentation' has been defined by various authors in various ways. Some of the definitions are given below:

(a) Market segmentation is the act of dividing a market into distinct groups of buyers who might merit separate products and/or marketing strategy. – Philip Kotler.

(b) Grouping of buyers or segmenting the market is described as market segmentation. – R. S. Davar.

(c) Market segmentation consists of taking the total, heterogeneous market for a product and dividing it into several sub markets or segments each of which tends to be homogeneous in all significant aspects. – W. J. Stanton.

(d) Market segmentation is the strategy of dividing markets in order to conquer them. – Alan. A. Robert.

From the above definitions, you can understand that market segments are grouping of buyers who have common characteristics

as buyers of a product or service, so that their needs and desires can be met better way. It guides to develop separate marketing mix and strategy for each market segment.

5.3.2 Importance of Market Segmentation

Some of the importance or benefits of market segmentation may be discussed as below:

(a) It helps in satisfying customers in a better way.

(b) It provides various types of information that are useful in product development, marketing research, evaluation of marketing activities, etc.

(c) It channelizes money and effort to the most potentially profitable segments.

(d) It produces goods and provides services as per the demand of the customers.

(e) It helps in preparation of effective and efficient marketing policy.

(f) It helps to determine effective promotional activities for the concerned segment.

(g) It helps the producers to determine and compare the marketing potentialities of the products and services.

(h) It provides marketers to understand the demographic market information and to apply it in scores of new and effective ways.

(i) Each of the elements of marketing-mix can be developed as per the requirement of target market.

5.4 BASIS FOR MARKET SEGMENTATION

Before segmenting the market, organization should select a target market based on the needs of that group. The target markets are chosen by taking three steps:

I. The need and characters of the individuals comprising the market are assessed. This can be done by conducting a market research.

II. Customers are grouped into different segments in accordance with these characteristics. The segmentation should be able to bring

out meaningful differences among customers which the company can exploit by designing a unique value proposition.

III. In the end a single or more markets are selected as targets.

The selection of target market can be done under three strategies:

- **Undifferentiated targeting:** A company can uses an undifferentiated targeting strategy by adopting a philosophy of mass market. One marketing mix is used by the company for the whole market, which saves on production and marketing costs.
- **Concentrated targeting:** Under this targeting strategy company selects one market segment to serve. It understands the needs, and motives of the segment's customers and designs a specialized marketing mix.
- **Multi segment targeting:** A company following a multi segment targeting strategy serves two or more than two segments that are well defined and also creates a marketing mix to cater to the needs of each segment.

Market can be broadly segmented into two types– consumer markets and organisational markets. Consumer market covers the ultimate users who normally buy in smaller quantities. Organisational market covers Industrial Market, Reseller Market and Government Market. These markets are segmented further for proper studies which are discussed as follows:

5.4.1 Segmentation of Consumer Markets

It can be segmented on the basis of four variable namely geographic variables, demographic variables, psychographic variables and buyer behavior variables. The detailed characteristics of various variables are shown in the chart.

Table 5.1 : Market Segmentation

A. Demographic	B. Geographic	C. Psychographic	D. Behavioral
(a) Age	(a) Regions	(a) Social class	(a) Occasions
(b) Gender	(b) Villages		(b) User status
(c) Income	(c) Cities	(b) Life Style	(c) Usage rate
(d) Occupation	(d) Climate	(c) Personality	(d) Loyalty
(e) Education	(e) Geographic		Status
(f) Religion	terrain		(e) Attitude

A. Demographic Variables : Demography is the study of population. It is the popular base for segmentating consumer markets. In case of frequently bought consumer goods such as tea, toothpaste, soap, detergents etc, this base is used for market segmentation. Now let us start to explain the variables characteristic wise.

(a) Age : Buyer's needs, wants and ability to purchase differ with the age factor. The marketer should analyse to which age groups, his product or service would be most suitable and he has to plan various marketing policies meant for that group of people. For example books for kids is a separate segment.

(b) Gender : Many products are purchased by one sex or the other. Females generally purchase cosmetics, jewellery, bangles, lipsticks etc. On the other hand, shaving blades, cream, razor etc. are purchased by males. However, market segmentation on the basis of sex exists only for certain products. Male and female do not differ much as buyers of general consumer's products.

(c) Income : People must have money to spend then only they can make a market. Income provides purchasing ability to customers. Therefore a detailed study of income is very useful to the marketer.

(d) Occupation : Occupation is the source of income for any individual. People have various occupation like lawyers, doctors, engineers, teachers etc and their buying behavior and life-style depend on their occupation. Therefore the marketers should keep in mind all these factors while undertaking sales promotional activities.

(e) Education : On the basis of educational qualification and subject of specialisation, consumers can be classified into different groups such as uneducated, educated; upto graduate, upto Master degree, doctors, lawyers, economists etc. For instance publishers of magazines and journals, drama troops, film producers have to keep the educational level of their customers in mind and should segment the market on the basis of their level of education.

(f) Religion : In India, a large number of religious beliefs are witnessed by various communities. It is quite useful to analyse the population based on religion for certain products such as Christian ladies use long skirts, Muslim ladies would prefer payjamas and kurtas and Hindu ladies would need sari and blouse. Therefore for successful marketing of their products, marketer should understand the buying behaviours and motivation of various communities. However, after globalisation the impact of religion on many products and services is seen at low level.

B. Geographic Variables : The first form of segmentation was geographic in which sellers distinguished carefully among the regions in which they might operate and close to those in which they could have a comparative advantage. A small retailer may distinguish between neighbourhood customers and distant customers. A local fertiliser salesman may distinguish between city customers and rural customers. A regional manufacturer in the west may distinguish between Northern and Southern customers. In all the above examples, the geographical units become the basis of differentiated marketing efforts. Again on the basis of climate the market may be segmented as high altitude and low altitude market or hill area market and plain area market. The nature of demand varies with the variation of climatic conditions also.

C. Psychographic Variables: It includes social class of people, life style of people, personality factors such as gregarious, authoritarian, compulsive etc. Individuals differ in their personality, thought etc. Hence based on psychographic variable buyers can be divided into

various groups and accordingly goods are to be produced and distributed. For instance, based on life style of consumers, cigarette company develop brands for casual smoker, careful smoker etc.

Let us explain some of the psychographic factors of segmentation.

(i) Social Class : A marketer requires close attention on the different social classes. The social class may be created on the basis of their occupation such as service holders. business people, farmers, education qualification, income class etc. In each social class, we find similar living style, habits and requirements and a marketer has to divert his attention on all.

(ii) Life Style : Life style effects the overall manner in which persons live and spend time and money. Consumers' liking and disliking for various goods and services is influenced by their life style. The marketers of recent time prefer segmenting market by consumer life styles. For example, a manufacturer of car may design a heavy and spacious car for specific company executives of tea industries. Life style is behavioral concept enabling us to grasp and predict buyer behavior.

(iii) Personality : It covers the characteristics such as dominance, aggressiveness, objectivity, achievement, motivation etc. which influence buyer behavior. The personality of an individual is determined by a good number of factors like education, trends in industrialisation and the job opportunities available. The marketers should design their products and services and other elements of marketing keeping in mind the personality of potential consumers.

D. Behavioural Variables : A large number of marketers are of the opinion that behavioural variables are the best starting point for constructing market segments. In behavioural segmentation, consumers can be divided into groups on the basis of their attitude, use, knowledge, expectation from the product, usage rate, usage habit etc. Generally, the following basis are adopted to segment the markets.

Behavioral Segmentation

(a) Occasion : Regular occasion, for example having fruit juice after break fast.

Special occasion, for example, new dresses during puja and Bihu.

(b) User status : Non-user, ex-user, potential user, regular user.

(c Usage rate : Light user, medium user, heavy user.

(d) Loyalty status : Soft loyals, hard loyals, shifting loyals, switchers etc.

(e) Attitude towards : Positive, indifferent, negative, hostile etc. products & services

5.4.2 Segmentation of Organisation Markets

The bases of segmentation of consumer goods can also be applied for the segmentation of organisational markets. Usually, there are three common bases which are frequently used in such market. (a) Type of customer (b) Size of customer and (c) type of buying situations.

(a) Type of customer or Type of Business Activity :

Based on the type of activity, it can be classified into so many segments. According to the standard industrial classification system which is practically used by the Government agencies, the business activities can be classified into ten divisions. They are :

(i) Agriculture, Forestry and Fisheries,

(ii) Construction

(iii) Finance, Insurance and Real estate.

(iv) Mining

(v) Manufacturing

(vi) Distribution channel-whole sale and Retail trade.

(vii) Transportation and communication.

(viii) Services

(ix) Government and

(x) All others.

Each such division may be further divided into several major groups. For example manufacturing division may be further divided into various groups like Textile, printing, publishing, automobile etc.

(b) Size of customers or size of users :

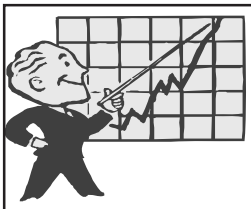
The size of an industry or trading house may be small, medium and large and accordingly their purchase-order or size may also vary. The marketer may have separate, marketing policy to sell their products or services to bulk purchasers and small buyers.

(c) Type of buying situations :

On the basis of buying situations the marketer can classify the market or customers as – (i) New buyer (ii) Modified buyer (iii) Straight re-buyer. The marketer can develop different marketing strategy for these three types of buyers. Again on the basis of situations the buyer may be divided as urgent buyer, specific buyer and general buyer.

Market segmentation is essential for successful marketing strategy, Many companies are adopting different strategies for different market segments.

Depending on degree of competition of the products and services, the sellers usually determine the number and type of segments. Analysing the attractiveness of different segments is essential for determining the type and number of segments.



CHECK YOUR PROGRESS:

Q.1: Define market segmentation.

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Q.2: What are the bases for consumer market segmentation?

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Q.3: What are the requirements for successful segmentation ?

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5.5 MARKET TARGETING

Market Targeting is a process of taking decision regarding the market segments to be served. The marketer distinguishes the major market segments, targets one or more of these segments and develops products and marketing programmes tailored to each selected segments.

5.5.1 Evaluating Market Segments and Target Market Selection

In evaluating market segments, the firm must examine these two factors :

(a) Relative attractiveness of the market segments.

(b) Company's capability to serve and compete in various segments.

(c) Relative attractiveness of the market segments.

It is important to determine the potential profit to enter a market segment. The potential profit may be determined by analysing the size and growth rate of customers and industry.

(i) Segment size : Large size segment is more favourable if large scale production and sales provide economies of scale. Smaller companies may find it difficult to compete in large segments and so they may prefer small segments.

(ii) Segment Growth rate : Growing segments are always preferable but analysis of growth rate should be accompanied with an examination of degree of competition and additional amount of investment needed.

(iii) Price sensitivity : Low price sensitive segments competition may be based more on quality and service, provided where customers are less price sensitive.

(iv) Nature of competition : Strong aggressive competition are less favourable. The quality of competition is more important than the number of competitors in the segments.

(v) Social trends : Changes in society provide new opportunity to enter into new segments, for example, increasing number of working women have increased the demand for processed food and fast food items.

(vi) Political Issues : Political forces can open up new market segments by encouraging and providing various incentives to start new enterprises in new geographical areas particularly in backward regions and hilly areas.

(b) Company's capability to serve and compete in various segments : A market segment may be profitable but it may be difficult to serve effectively due to lack of resources and competencies. A company should be very sure that it has the required resources such as exploitable marketing assets, cost advantage, Technological edge and managerial capabilities and commitment.

5.6 MARKET POSITIONING

Once the decision, as to 'which segments' of the market, a company will enter, has been made, then it must decide as to what 'positions' it likes to occupy in those segments.

Positioning is the perception or the image that customers have of the company and its products. It is the customers' belief about the company's products being of, say, very expensive, high quality, durable, well designed etc. This perception is the stimulus of customer's attitude and behaviour towards company's products. Customers' positive perceptions will drive the business of the firm. It is the responsibility of the marketer to manage its customers' perceptions. The marketer should decide clearly the perceptions that it wants to build in the mind of customers for the product, service and the company.

A product's position is the way the product is defined by consumers on important attributes, the place the product occupies in consumer's minds relative to competing products. Thus Lux is positioned as beauty soap of cine stars. Lifeboy is positioned as an anti septic Soap, Vicks as an ointment for cold etc.

There are large numbers of information sources for buyers about any products and services. On the basis of information, during buying decision making process, the buyers arrange the products and services into various groups they position. The marketers should not leave their products and services positions to be decided on the basis of chance. The

marketers, therefore, put their best efforts to position their products and services to get competitive advantage in selected target markets and they develop their marketing mix accordingly.

In short positioning is the process of distinguishing a brand from its competitors so that it becomes the preferred brand in the selected target market.

5.6.1 Definitions

1. "Positioning is the act of designing the company's offer and image so that it occupies a distinct and valued place in the target customers' mind". – Philip Kotler
2. "Positioning is the art of selecting out of a number of unique selling prepositions, the one that will get you maximum sales". – Rosser Reeves.
3. "The most important decision you will ever make about your product is, 'How should I position my product". – David Ogilvy.

5.6.2 Positioning Strategies

There are large number of strategies, some of those strategies are discussed below :

1. **Positioning on Product Attributes :** The marketer can position its product on specific product attributes, for example BPL features technical and performance attributes.
2. **Positioning on Benefits :** The marketer can also position its product on the basis of benefits it offers for example – Colgate reduces cavities, clinic shampoo-an all clear shampoo.
3. **Positioning according to usage occasions :** The marketers can also position, their products on the basis of specific usage occasions, for example casual dresser, formal dresser or oranaments for specific occasion.
4. **Positioning the product for certain classes of users :** There are certain movie or films for children and for adult only. Similarly, certain publishers are concentrating only on comic series publications to suit the needs of children.

5. **Positioning Directly against a competitor :** In its "dare to compare campaign", Texas Instruments asked its consumers to make side by-side comparisons of its personal computers with that of IBM's. It attempted to position the product as easier to use and more versatile.
6. **Positioning away from competitions :** A product may also be positioned away from competitors. 5-up became the number three coal drinks when it was positioned as the "Un-Cola", the fresh and thirst alternative to Coke and Pepsi.
7. **Positioning as to different product classes :** The product can also be positioned with respect to different product classes, for example Mediker shampoo is positioned with lice clear means rather than with shampoo.

Criteria for successful positioning:

- **Clarity:** Position in both distinct value, proposition, and to its Target audience.
- **Consistency:** Keeping the positioning bases in fact for long time. The Firm must be flexible to the changing environment.
- **Credibility:** The firm must deliver Trustworthy and believable value proposition and a perfect match between promise and action.
- **Competitiveness:** For surviving in this competitive and changing environment innovative resources, Talent pool, competitive advantage, strong financial backup etc. are very important.



CHECK YOUR PROGRESS:

Q.4: What is market targeting?

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Q.6: What is market positioning?

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Q.7: State two positioning strategies.

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DILUTION OF POSITIONING: An effective positioning ties a company's product to a segment. A strongly positioned product would appeal only to a limited number of customers because it will have the benefits that the target market requires in an exaggerated form, while other benefits would hardly be provided. By diluting its positioning the company has been able to sell to a larger number of customers.



5.7 LET US SUM UP

- In this unit, we have discussed about market segmentation. Market segmentation is the sub-division of a market into homogeneous subjects of customers. Market can be broadly segmented into two types– consumer markets and organisational markets. Consumer market covers the ultimate users who normally buy in smaller quantities. Organisational market covers Industrial Market, Reseller Market and Government Market.
- Market Segmentation for consumer market:

A. Demographic	B. Geographic	C. Psychographic	D. Behavioral
(a) Age	(a) Regions	(a) Social class	(a) Occasions
(b) Gender	(b) Villages		(b) User status
(c) Income	(c) Cities	(b) Life Style	(c) Usage rate
(d) Occupation	(d) Climate	(c) Personality	(d) Loyalty Status
(e) Education	(e) Geographic		(e) Attitude
(f) Religion	terrain		

- Segmentation of organisational markets depends on three common bases which are (a) Type of customer (b) Size of customer and (c) type of buying situations.
- Target Marketing is one in which the marketer distinguishes the major market segments, targets one or more of these segments and develops products and marketing programs tailored to each selected segment. It is simply evaluating the different segments and finding

out the segment which can be served effectively with limited resources to earn profit.

- Positioning is the process of creating a distinct offer and communicating it to the customer. Positioning is created by designing a marketing mix which is suitable for the target market but is different from marketing mixes. The selected marketing mix has to be communicated to the customers.



5.8 FURTHER READING

1) Philip Kotler, Kevin Lane Keller, Abraham Koshy, and Mithileshwar Jha (2007), *"Marketing Management"*, Pearson Education

2) V. S. Ramaswami and S Namakumari (2003), *"Marketing Management"*, Macmillan India Limited

3) Leon G. Schiffman, Laslie Lazar Kanuk (1997), "*Consumer Behaviour*", Prentice Hall International edition,Ninth Edition

5.9 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No.1: Market segmentation is grouping of buyers according to some common characteristics such as income, age sex, qualification, geographical location etc, so that their needs are better served.

Ans. to Q. No.2: The bases for consumer market segmentation are given below :

A. Demographic B. Geographic C. Psychographic
D. Behavioural

Ans. to Q. No.3: The segment should be accessible profitable, measurable, substantial and should facilitate formulation of marketing programmes.

Ans. to Q. No.4: Market targeting is the process of distinguishing the major market segments, to target one or more of these segments and

develop products and marketing programmes tailored to each selected segments.

Ans. to Q. No.5: Positioning is the perception or the image that customers have of the company and its products. It is the customer's belief about the company's products being of, say, very expensive, high quality, durable etc.

Ans. to Q. No.6: These are two positioning strategies:

(a) Positioning on product attributes : Sometimes the seller positions its product on specific product feature for example Lux is positioned as beauty soap.

(b) Positioning according to usage occasions: The Marketers can also position their products on the basis of specific usage occasions for example casual dresses, formal dresses etc.



5.10 MODEL QUESTIONS

1. Explain the importance of market segmentation.
2. What are the bases for organizational market segmentation?
3. Explain the process of evaluating market segments and selection of target market.
4. What are the various positioning strategies?
5. Discuss the target market strategies.
6. What is dilution of positioning?

*** ***** ***

UNIT: 6 MARKETING MIX

UNIT STRUCTURE

6.1 Learning Objectives

6.2 Introduction

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6.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- explain the concept of marketing mix and its components
- describe the factors in developing an effective marketing mix
- explain marketing planning
- explain marketing implementation and control techniques

6.2 INTRODUCTION

In the previous unit we learnt that marketing identifies consumers' needs and supplies various goods and services to satisfy those needs most effectively. The marketer engages in the following activities: (a) manufacture the product according to the needs of the consumer; (b) make the product available at a price that consumers' find reasonable; (c) inform the consumers about the product; and (d) make the product available to the consumers at different outlets.

The marketer, therefore, needs to concentrate on four major decision areas while planning the marketing activities, namely, (a) Product, (b) Price, (c) Place, and (d) Promotion. These four decision areas are commonly termed as the 4Ps of marketing. The 4Ps together constitute the marketing mix. The 4Ps of marketing are inter-related and as a decision in one area affects decisions in other areas. In this unit we will learn about the basics of these 4Ps and the additional 3Ps of marketing.

6.3 MARKETING MIX

Marketing involves a number of activities and is performed within a certain environment which itself is always changing. The marketing actions have to be in consonance with the environment to be effective. In order to understand the marketing process in detail one needs to understand the four basic elements:

i) Product,

ii) Price,

iii) Promotion, and

iv) Place.

These 4 elements are known as 'Marketing Mix'. According to Philip Kotler, marketing mix is a set of controllable variables that the firm can use to influence the buyer's response. The controllable variables refer to the 4Ps, namely, product, price, promotion, and place.

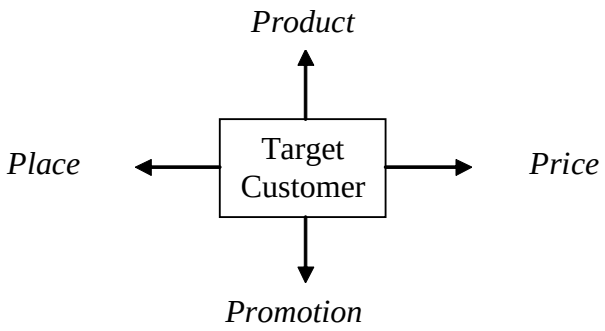


Figure 6.1: Marketing Mix

The word 'product' stands for the goods and services offered by the organization. Product is planned after the needs of the customers are assessed. Product planning is a continuous process as a marketer needs

to continuously analyze whether the product still satisfies the needs which were originally planned for, and if not, then to determine the necessary changes.

Price refers to the amount charged or the monetary value of the product that the customer has to pay. It is the second most important element of the marketing mix. Several factors like demand of the product, cost involved, consumers' ability to pay, price charged by competitors, etc. have to be kept in mind while fixing the price of the product.

Promotion is the phase of advertising and selling the product to the target customer. It is an important ingredient of marketing mix as it is a process as it refers to a process of informing, persuading, and influencing a customer to make choice of the product to be bought. Though companies communicate with their customers in wide varieties of ways, the most distinguishable categories are two namely, personal and impersonal. Personal communication relates to face to face meeting and on the other hand, impersonal communication includes advertising, public relations and sales promotion.

Finally, place stands for the matching arrangement for the smooth flow of goods and services from the producer to the customer. It is concerned with creation of place, time and possession of utilities. It signifies two things – physical distribution and channels of distribution.



LET US KNOW

The 4Ps of marketing or the marketing mix was originally proposed by marketer and academic E. Jerome McCarthy, thus, providing a framework for marketing decision making. McCarthy's 4Ps since then has become one of the most enduring and widely accepted frameworks in marketing.

6.3.1 Product

As mentioned above product refers to the goods and services offered by the organization. Product simply does not refer to the

physical features of the product but it also refers to the tangible and intangible characteristics which satisfy the wants of the customer. It is also important to note that the term product refers to anything that can be offered in the market for acquisition or use. According to William J Stanton, a product is a set of tangible and intangible attributes including packaging, colour, price, manufacturer's prestige, retailer's prestige and manufacturer's and retailer's services which buyer may accept as offering satisfaction of wants and services". Product is the focus of all the marketing efforts as it is the sum total of physical and psychological satisfaction of the buyer. For instance, a washing machine in a physical sense is a fabricated gadget powered by electricity. To the user the washing machine is a gadget that helps him in washing clothes. For some, this same washing machine may also act as a status symbol. The product mix has several important variables which are discussed below.

- **The product line and product range**: Product-line is a group of closely related products which are able to satisfy a class of need, to be used together, to be sold to the same consumer groups, to be moved through the same distribution channels or fall within given price ranges. Each firm has its own product line. For instance, Patanjali has product line consisting of – Patanjali and Divya Ayurved Product, Ayurvedic bodycare, beauty products, food grains, food items, and spices. Product range, on the other hand, speaks of the depth of specialization in terms of varieties based on consumer pockets and functional requirements. Again taking the example of Patanjali, there are seven types of spices offered under the spices category. Thus, the product mix depth or the product range is 7 in spices.
- **Product design**: The marketing decisions start with designing the product in a way which is required by the target consumers to satisfy their needs. Designing of the product is an important factor in the sale of the product itself. Product design places a greater emphasis on simplicity of form and construction,

functional utility, ease of use, and safety rather than on ornamentation. Good design therefore, increases sales volume, provides advertising and selling features which permit higher prices and reduces manufacturing costs, minimizes service and reduces transportation charges. Design is a major selling feature in all consumer goods be it ready garments or automobiles. Product design is mainly influenced by external appearance, construction, production capacity, available capital, use, relationship to other products, service requirements, and the competitors design.

- **Product package**: Packaging of the product also plays a decisive role in marketing. A good packaging has the pride of place in merchandising because it not only protects the products and provides convenience to the customer but also helps communicate value to the customer. A good package design includes such elements as size, colour, shape, material, construction, and illustration. While designing a package, manufacturers must take into account the nature o the product, cost of packaging, advertising value of the package, size and price, and above all the legal requirements.
- **Product labeling**: Along with package product labels are equally important in the marketing activity. A product label may be either descriptive, informative, grade designating or a combination of these. Labels are used to identify the products and also to describe the ingredients, quantity, quality, and other properties of the product. In any country, labeling is mandatory in case of food, drug and cosmetic products so as to provide details of the name, place of manufacture, date of manufacture, expiry date, batch number, composition and so on.
- **Product quality**: In marketing, establishment and control of quality standards is a basic step. Specific grades or standards of quality are established for products which are based on factors like – colour, texture, flavor, weight, finish, appearance, and any other physical features depending on the nature of the

product. It is important to make continuous efforts to see that the products conform to the standards so set.

- **Product branding**: A brand is a symbol, a mark, a name, a communication which brings about an identity of a given product. A good brand name os one which is easy to remember, pronounce, describe the product or its use, and is distinctive.
- **After sales service and guarantees**: Along with the product the manufacturers also give product guarantees and offer after sales service. Every manufacturer must determine as to who shall be responsible for service to customers. After sales service and guarantees form a very important part of the product mix as satisfactory after sales services leads to a better image of the organization.

6.3.2 Price

Price, as already stated above, is the value of the product expressed in monetary terms. In simple terms, it is the exchange value of goods and services in terms of money. Pricing or the determination of price to be charged is another important element of marketing mix and it plays a crucial role in the success of a product in the market. Price of the product again depends on a host of other factors. The variables usually taken into account while determining the price of a product can be broadly described as follows:

- **Cost:** Price of the products is ascertained by adding a reasonable profit margin to the cost. Higher the cost of production, higher will be price of the product and vice versa.
- **Demand:** Demand is one of the important factors which affects price. When there is limited supply and high demand, producers can charge a higher price. But how high the price would be is dependent upon prospective buyers' capacity and willingness to pay for the product. Along with demand, price elasticity of demand should also be kept in mind while making pricing decisions.

- **Competition:** Prices charged by competitors is another important determining variable in pricing. A marketer would not like to charge a price higher than that charged by its competitor for the fear of losing customers. At the same time, he may avoid charging a lower price than the competitors as it may result in price war.
- **Marketing objectives:** The pricing decision must also keep in mind the marketing objectives of the organization. Organizations may have different marketing objectives such as maximization of profit, maximization of sales, greater market share and so on. Therefore, the prices need to be determined keeping in mind such objectives.
- **Government regulation:** Prices of some products are determined and regulated by government regulations. For example, prior to liberalization of the economy in the year 1991, cement prices were determined by the government. It is therefore important to keep in mind the existing statutory rules and regulations while determining the price of a product.

Methods of fixing the price of a product can be broadly divided into the following categories:

- **Cost based pricing:** In cost based pricing, the price of the product is determined by adding the desired amount of profit margin to the cost of the product.
- **Competition based pricing:** Under this method, price is usually fixed closer to the price of the competing brands.
- **Demand based pricing:** Under this method, price is fixed based on the demand of the product.
- **Objective based pricing:** This method of pricing is based on the marketing objective of the organization. For example, if the organization wishes to penetrate the market it fixes a low price.

6.3.3 Promotion

Promotion mix is the communication mix which deals with the personal and impersonal persuasive communication about the product or the service of the marketer. The promotion mix variables are personal selling, advertising, sales-promotion, and public relations. These variables are briefly explained below:

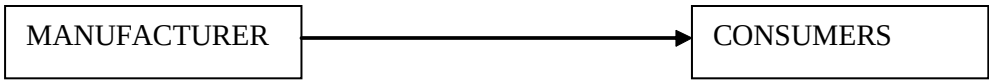
- **Personal selling:** Personal selling is a form of personal communication and is a direct presentation of the product to the present and prospective buyers by salespersons. Salespersons persuade the buyers to buy the product.
- **Advertising:** It is one of the most commonly employed, paid, and non-personal tools for communication. It is an effective way of communicating the present and prospective customers about the product, its quality, features, etc. Advertisements can be done through print media (newspapers, billboards, etc) or electronic media (radio, television, internet).
- **Sales promotion:** Sales promotion is a form promotional tool that is used in the retail level. It includes short-term and temporary incentives to purchase goods. Some sales promotional activities are contests, games, gifts, discounts, etc.
- **Public relations:** It involves the initiation and maintenance of mutual understanding between a firm and those who come in contact with the firm. Basic aim of public relations is to develop and maintain the image and personality of the organization in the minds of the various stakeholders.

6.3.4 Place

Place or distribution mix, as it is commonly known as, stands for the matching arrangement for smooth flow of the goods and services from the producer to the consumer. Since, the producer and the consumer may not be located at the same place it is important for the manufacturer to ensure the availability of goods to the consumers. The path or route adopted by the producer for the

purpose of making the goods available to the consumer is known as channel of distribution. According to Stanton, a distribution channel consists of the set of people and firms involved in the transfer of title to a product as the product moves from producer to ultimate consumer. The various channels used for the distribution of goods can be described as follows:

- Zero stage channel of distribution: It exists when there is direct sale of goods by the producer to the consumer without the involvement of any middleman. This is also called direct selling.



- One stage channel of distribution: One stage channel of distribution includes one middleman between the producer and the consumer. The manufacturer sells their goods to the retailers who in turn sell it to the customer.



- Two stage channel of distribution: When there are two levels of different kinds of intermediaries between the producer and the consumer. In other words, under this cannel, the manufacturer sells the product to the retailer and who sells to the consumer. This is known as distribution through wholesalers and retailers.



6.4 THE MODERN COMPONENTS OF THE MIX – ADDITIONAL 3Ps

As we have seen in the preceding section, marketing mix is actually a tool used by marketers to help them determine and design the product offering. However, in the late 1970s, it was widely acknowledged by marketers and researchers that the 4Ps model of marketing mix needs to

be updated. This led to the creation of the extended marketing mix where three new elements were added to the existing 4Ps of the marketing mix. These extended elements or the additional 3Ps of marketing mix are:

i) People,

ii) Processes, and

iii) Physical evidence

The inclusion of these additional 3Ps in the marketing mix allowed marketers to include products that are services and not just physical things. These additional 3Ps are described below:

- **People:** All organizations rely on people to run their business. People are involved at every level in the organization and are also involved in all forms of work, starting right from the managing director to the sales executive. People constitute an important dimension of the marketing activity and service because it is through interaction with people, who are the service providers; the customers assess the quality of the service. It is, therefore, essential to have the right people with requisite knowledge, skills and aptitude because they are as much a part of the offering as the product or the service itself.
- **Processes:** Process refers to the procedures, mechanisms, and the flow of activities by which the service is delivered to the customer. Delivering a service up to the expectations of the customer depends on how well the various activities in the process are coordinated. For instance, when you visit McDonalds, order a burger, and receive your order in less than 5 minutes it is because of an efficient process. Efficient and prompt service earns customer loyalty and also ensures repeat visit. Every marketer must ensure that a proper process is kept in place such that the customers' needs and requirements are identified correctly, order executed efficiently, and complaints, if any, handled timely and satisfactorily.
- **Physical evidence:** Physical evidence refers to the environment in which the environment in which the service is delivered. It includes all the tangible representations of service such as a clear signage, adequate space, temperature, ventilation, etc. Because services are

intangible, the customers' search for physical evidence as these form the tangible cues that help them judge the service quality.



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The extended marketing mix, comprising of the additional 3Ps – people, processes, and physical evidence was developed in 1981 by Bernard H. Booms and Mary J. Bitner. This services marketing mix is also called the 7P model or the 7Ps of Booms and Bitner. The extension from 4Ps to 7Ps makes it applicable in service companies and knowledge intensive industries as well.

6.5 DEVELOPING AN EFFECTIVE MARKETING MIX

The marketing mix is the mixture of controllable marketing variables. It indicates the appropriate combination of the four 4P's which help to achieve the marketing goals of the organization. Marketing mix, thus, forms the crux of the marketing process and it involves several crucial decisions relating to each element of the mix. In order to develop an effective marketing mix, it is important for marketing managers to understand the inter-relationships between the different variables and proper weightage must be assigned to each of the 4Ps.

Unlike the marketing mix, which includes internal variables which are controllable, we have environmental variables which are uncontrollable. Changes keep on taking place in the external environment. In order to maintain the effectiveness of the marketing mix, it is important for the marketing manager to carry out market analysis constantly to identify the challenges and make necessary changes in the marketing mix.

Changes may also occur within the firm due to technological changes, changes in product line or changes in the size and scale of operations. Such changes also necessitate changes in the marketing mix. The marketing manager must be responsive to both external as well as internal changes.

The focal point of the marketing activity and the marketing mix is common- the customers. A thorough understanding of the customer needs and want is critical for all the four elements of the marketing mix. The focal point of marketing mix is the customer and all the variables must be designed in a way that provides maximum satisfaction to the customer.

Thus, marketing mix is a dynamic concept. There are environmental and organizational factors which causes changes in the marketing mix. At the same time, the components of the marketing mix are interacting and inter-dependent on each other. Both these factors increase the dynamism of marketing mix. In order to develop a viable and effective marketing mix, both long-term and short-term marketing requirements must be considered.



CHECK YOUR PROGRESS

Choose the correct answer:

Q.1: Which of the following is not an element of the marketing mix?

a. Promotion
b. Product
c. Target market
d. Pricing

Q.2: The term 'marketing mix' describes:

a. A composite analysis of all environmental factors inside and outside the firm
b. A series of business decisions that aid in selling a product
c. The relationship between a firm's marketing strengths and its business value
d. A blending of four strategic elements to satisfy specific target markets

Q.3: Outbound logistics will be a part of which of the following elements of marketing mix ?

a. Place
b. Product
c. Price

d. Promotion

Q.4: Which of the following would be considered a major element of the promotional mix?

a. Marketing research and reporting

b. Personal selling

c. Product design

d. Distribution channel

Q.5: The additional 3Ps of marketing are:

a. People, Processes and Physical Evidence

b. Presentation, Public and Product

c. Placement, Presentation, Promotion

d. Positioning, Placement and Presentation

6.6 MARKETING PLANNING, IMPLEMENTATION AND CONTROL

Marketing involves satisfying the wants and demands of the customer and the task of any business organization is to deliver value to the customer at a profit. Successful marketers focus on correctly identifying customer needs, creating customer value, and maintaining the customer value. Creating and delivering values to the customer requires different marketing activities to be integrated with one another. This makes marketing planning an activity of paramount importance.

The marketing plan acts as the central instrument for directing and coordinating the marketing efforts of the organization. The marketing plan operates at two levels: strategic and tactical. The strategic marketing plan lays out the target markets and the value proposition that will be offered, based on an analysis of the best market opportunities. The tactical marketing plan specifies the marketing tactics, including product features, promotion, merchandising, pricing, distribution channel, and service. Thus, a marketing plan is carried out within the context of a firm's broader strategic plan. Planning is at the heart of the marketing activities. It consists of analyzing marketing opportunities, researching and selecting target markets, designing marketing strategies, planning marketing programs, and organizing,

implementing, and controlling the marketing effort. The steps involved in marketing planning are explained below:

1. **Analyzing marketing opportunities:** The first task of firms is to identify its potential marketing opportunities. A marketing opportunity is an area of buyer need and interest that a company has a high probability of profitably satisfying. To evaluate the various opportunities that may exist, firms need to manage a reliable marketing research and information system. Marketing research gathers important and significant information about the environment and acts as an indispensable tool for assessing market opportunities. At the same time, firms also need to understand consumer markets. Firms must pay close attention to needs, wants, and preferences of customer along with competition.

   Once firms have analyzed its market opportunities, they select the target markets. Markets are divided into major segments, which are then evaluated and the offerings are targeted to those segments that the firms can best serve.

2. **Developing Marketing Strategies:** Once the company has performed an assessment of the marketing opportunities, the next step I to develop specific goals for the planning period. Goals are objectives that are specific with respect to magnitude and time. Once goals are set, the firm develops the marketing strategy. If goals indicate what a firm wants to achieve; strategy is a game plan for achieving the goals. Firms must design a strategy for achieving its goals.

   Michael Porter has proposed three generic strategies that provide a good starting point for strategic thinking: overall cost leadership, differentiation, and focus.

   - Overall cost leadership: Firms pursuing this strategy work hard to achieve the lowest production and distribution costs so they can price lower than their competitors and win a large market share.

- Differentiation: In this strategy firms concentrate on achieving superior performance in an important customer benefit area valued by a large part of the market.
- Focus: Here, the firms focus on one or more narrow market segments.

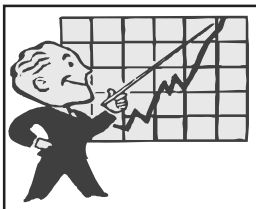
3. **Planning Marketing Programs:** Even a great marketing strategy can be impaired by poor implementation. To transform a marketing strategy into a successful marketing program, managers must make basic decisions on expenditures, marketing mix, and marketing allocation. Typically, managers establish their marketing budget and decide how to divide the total marketing budget amongst the various tools in the marketing mix: product, price and promotion.
4. **Managing the Marketing Effort:** This is the final step in the marketing planning process. The final step in the marketing process is organizing the marketing resources and then implementing and controlling the marketing plan. Firms must build a marketing organization capable of executing the marketing plan. In small organizations, marketing plan may be executed by one or two persons. However, large companies have several marketing specialists: salespersons, sales managers, marketing managers, marketing researchers, advertisers, brand managers, product managers, and customer service personnel. These specialists constitute the total marketing department and are generally headed by a marketing vice president who performs the task of coordinating the efforts of every marketing specialists as well as the organization as a whole. The head of the marketing department is also in charge of selecting, training, directing, motivating and evaluating the marketing personnel.

   To assess the success of the marketing plan, firms need feedback and control. There are basically three types of marketing controls:

   - **Annual-plan control**: This control method ensures the company achieves the sales, profits, and other goals established in its annual plan. This model of control applies

to all levels of the organization. There are four steps in this process. The first step involves setting monthly or quarterly goals. The second step involves monitoring the performance of the company. Third step incorporates performance diagnosis where management determines the major deviations and the causes behind them. And lastly, management takes corrective action to close the gaps between goals and performance.

- **Profitability control**: This is the task of measuring the actual profitability of the products, territories, customer groups and order sizes. This information can help the management in determining the future course of action, that is, whether to explain, reduce or eliminate any product offering or marketing activity.
- **Efficiency control**: Marketing efficiency control technique focuses on the efficiency of the different marketing activities instead of focusing on the profits. Its focus is on finding more efficient ways to manage the marketing activities, namely, managing sales force, advertising, sales promotion, and distribution in connection with the marketing entities.
- **Strategic control**: Strategic control is the task of assessing whether the firm's marketing strategy is conducive to the present market conditions. Because of rapid changes in the environment (both external and internal) it is important for firms to re-evaluate its marketing effectiveness periodically through marketing audit. Marketing audit is a comprehensive, systematic, independent, and periodic examination of a firm's marketing environment, objectives, strategies, and activities, with a view to determining problem areas and opportunities and recommending plan of action to improve its performance.



CHECK YOUR PROGRESS

Choose the correct answer:

Q 6: Marketing plan operates at _____ levels:

a. Three
b. Two
c. Four
d. None

Q 7: _____ is an area of buyer need and interest that a company has a high probability of profitably satisfying

a. Market opportunity
b. Threats
c. Needs
d. Market research

Q 8: The _____ marketing plan specifies the marketing tactics, including product features, promotion, merchandising, pricing, distribution channel, and service:

a. Strategic
b. Generic
c. Corporate
d. Tactical

Q 9: _____ is required to assess the success of the marketing plan:

a. Forecasting
b. Marketing control
c. Marketing channels
d. Product design

Q 10: In _____ strategy, firms concentrate on achieving superior performance in an important customer benefit area valued by a large part of the market:

a. Differentiation
b. Focus
c. Overall cost leadership
d. None of the above



6.7 LET US SUM UP

- The mix of product, price, place and promotional efforts is known as marketing mix. Marketing-mix is also called the 4Ps of marketing. 4Ps of marketing or the marketing mix was originally proposed by marketer and academic E. Jerome McCarthy, thus, providing a framework for marketing decision making.
- Product is defined as anything that can be offered to a market to satisfy a want. It is the focus of all the marketing efforts as it is the sum total of physical and psychological satisfaction of the buyer.
- Price is the consideration in terms of money, paid by the customers, for a bundle of benefits he/she receives.
- Promotion mix is the communication mix which deals with the personal and impersonal persuasive communication about the product or the service of the marketer.
- Place or distribution mix, as it is commonly known as, stands for the matching arrangement for smooth flow of the goods and services from the producer to the consumer.
- Apart from the 4Ps of marketing, Bernard H. Booms and Mary J. Bitner in 1981 developed an extended marketing mix, comprising of 3 additional Ps – people, processes, and physical evidence.
- The marketing plan acts as the central instrument for directing and coordinating the marketing efforts of the organization. The strategic marketing plan lays out the target markets and the value proposition that will be offered, based on an analysis of the best market opportunities. The tactical marketing plan specifies the marketing tactics, including product features, promotion, merchandising, pricing, distribution channel, and service.
- The steps involved in the marketing planning process are: analyzing market opportunities, developing marketing strategies, planning marketing programs, managing the marketing effort.

- To assess the success of the marketing plan three types of marketing controls are implemented: profitability control, efficiency control, and strategic control.



6.8 FURTHER READINGS

1) Philip Kotler, Kevin Lane Keller, Abraham Koshy, and Mithileshwar Jha (2007), *"Marketing Management"*, Pearson Education

2) V. S. Ramaswami and S Namakumari (2003), *"Marketing Management"*, Macmillan India Limited

3) Saxena Rajan (2007), Marketing Management 3rd Edition,Tata McGraw Hill Publication,

4). Kaptan S.S. and Pandey S (2004), Brand Imitation, Himalaya Publishing House

6.9 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q.No.1 : c) Target market

Ans. to Q.No.2 : d) A blending of four strategic elements to satisfy specific target markets

Ans. to Q.No.3 : a) Place

Ans. to Q.No.4 : b) Personal selling

Ans. to Q.No.5 : a) People, processes and physical evidence

Ans. to Q.No.6 :. b) Two

Ans. to Q.No.7 : a) Market opportunity

Ans. to Q.No.8 : d) Tactical

Ans. to Q.No.9 : b) Marketing control

Ans. to Q.No.10 : a) Differentiation



6.10 MODEL QUESTIONS

1. What is marketing-mix? Explain the components of marketing-mix.
2. What is meant by the term product-mix? What are its variables?
3. State four functions performed by channel of distribution.
4. Explain the additional 3Ps of marketing.
5. What is promotion-mix? What are its variables?
6. Explain the term price-mix. What are the factors that must be kept in mind while deciding the price of products?
7. What is place-mix? What are its variables?
8. Explain the steps involved in marketing planning.
9. Explain the different marketing control techniques.
10. 'Promotion includes four main tools.' Explain each of these tools.
11. 'Channels of distribution are a vital link between manufacturers and consumers'. Describe this statement with the help of diagrams by mentioning the types of channels of distribution.

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UNIT 7: PRODUCT AND BRAND MANAGEMENT

UNIT STRUCTURE

7.1 Learning Objectives

7.2 Introduction

7.3 Concept of Product

7.4 Classification of Products

7.5 Product Planning and Development

7.5.1 Stages in New Product Development Process

7.6 Product Diversification

7.7 Product Life Cycle

7.8 Packaging and Labeling

7.9 Branding

7.10 Brand Equity, Brand Positioning and Brand Selection

7.11 Let Us Sum Up

7.12 Further Readings

7.13 Answers to Check Your Progress

7.14 Model Questions

7.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- explain the concept of product and its essential features or attributes
- classify the products or goods on the basis of some characteristics
- describe the meaning of product planning and development
- explain the various stages of new product development process
- explain the concept of branding, brand equity, brand positioning and brand selection

7.2 INTRODUCTION

In this Unit, we shall discuss concept of product, its classification, product planning and development. A product's intended use is the basis

on which it can be defined as a consumer or industrial product. A product goes through definite life stages. After studying this unit, you will understand that the marketer needs to apply different marketing strategies to sell different types of products. One common marketing strategy will not be suitable for all the categories of products. At the end of the unit, we will also discuss some concepts related to branding.

7.3 CONCEPT OF PRODUCT

A product is anything which can satisfy a need, want or desire of consumers and can be offered in an exchange process. Hence, a product can be commodity, service, idea or a combination of all these. When buyers purchase a product, they decide to buy after considering both tangible and intangible attributes of the product. For example, a car is a tangible product but it's after sales service, manufactures reputation etc. are intangible elements. According to W. J. Stanton, *"A product is a set of tangible and intangible attributes including packaging, colour, price, quality and brand plus the services and reputation of the seller. A product may be a tangible good, service, place, person or idea*". Philip Kotler has defined product as, "A product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. It includes physical objectives, services, person, places, organisation and ideas". Products can be either industrial or consumer products depending on the buyers' intention.

7.4 CLASSIFICATION OF PRODUCTS

Broadly products can be classified into following categories.

(A) Products based on uses:

(I) Consumer Products: These are the products or services that are meant for final consumers for their personal, family or house hold use. These products are used by buyers for their consumption or selling but not for further processing. For example, pen, watch, books, newspaper etc. Consumer products are further classified as below:

(a) Convenience goods: These products or services are purchased with minimum efforts as the buyers have sufficient information and knowledge about these types of products. For example, bread, newspaper. The marketing of these products require intensive distribution, intensive advertising and in store-display.

Convenience products or goods are further classified as follows:

(i) Staple convenience goods or products: These items are purchased routinely with little or no planning. For example, perishable goods such as bread, fish, vegetable etc. The items should be available close to where the consumers live, work or pass by.

(ii) Emergency goods: These items require meeting the urgent needs and so the purchasers do not get time for selection. For example, needs of umbrella during raining season, repairing of T.V. during world cup cricket etc.

(iii) Impulse goods: The consumer is not usually pre-planned or predetermined to purchase such goods but during shopping all of a sudden he decides to purchase this type of goods because of product exposure or attraction. For example, chocolate, balloon, a new type of ball pen etc.

(b) Shopping Goods: These goods are consumer durable items and so he/she selects or purchases these goods only after making comparisons on such bases as suitability, quality, price, style and durability. The purchase decision usually takes more time as the consumers collect various information regarding the product from various sources like friends, relatives, present users etc. Examples: T.V., Furniture, mobile hand-set etc.

(c) Specialty Goods: A good number of buyers is habitually willing to make a special purchasing efforts for purchasing specialty products. These products are particular brands, stores and persons to which consumers are loyal. The buyers are reluctant to purchase substitutes. The marketing emphasis for specialty products is on maintaining the product features that makes the items unique to loyal customers,

reminder advertising to the target market and appropriate distribution system.

(d) Unsought Products: The buyers do not know about the existence of product or they do not want to purchase. It may be regularly unsought product such as insurance schemes, safety alarm etc. Unsought products include completely new products and unfamiliar to consumers.

(II) Industrial Products: Goods which are used for commercial production or in carrying of some business activities are known as industrial goods. It is for commercial use not for personal use. The same product may be consumer product as well as industrial product depending on its purpose of use. Industrial buyers are mostly rational buyers, i.e. they are conscious about cost, quality and standard of products.

The various types of industrial goods are discussed below:

(a) Installations: These are capital goods which determine the nature, scope, capacity and efficiency of production as well as company. These are non-portable and heavy goods. The major marketing tasks are direct selling from the producers to the purchasers with some sort of demonstration or presentation. Examples are plants and machinery, major equipment, building, assembly lines etc.

(b) Raw Materials: These are the main inputs to the final products.

(c) Fabricated materials and parts: These are semi processed goods but they may require further processing before being the part of final products. For example, pig iron for the production of steel.

(d) Operating Supplies: These are required to continue the production process such as light bulbs, pen, paper, computers etc.

(e) Accessory Equipment: These are portable goods which are necessary to keep the capital goods fit for operation. These are relatively less expensive. These neither become the part of final product nor change its form. For example, bearing of a plant, wheal of a machine etc.

B. Products based on durability:

(I) Perishable products: These are the products which have very short life and cannot be stored for long time such as newspaper.

(II) Non-durable products: These are the products that last for few uses and get depleted on consumption. For example, tooth paste, powder etc.

(III) Durable products: These are products which have a long life and consumers may use it for several years. For example - T.V., watch, furniture, mobile hand-set etc. The marketing of high involvement durable goods requires a lot of personal selling, advertising and publicity, dealers-aids, and after sales service etc. to satisfy the consumers and to get referral consumers.

C. Products based on Tangibility:

(I) Tangible products: It must be capable of being touched, seen, verified its quality etc. For example pen, pencil, book. Here, the quality of the product is uniform and so sample verification is enough to ascertain the standard of the quality.

(II) Intangible products: A product may be intangible also but capable of providing satisfaction through its service. For example repairing, consultancy service, nursing etc.

In case of intangible products or services, maintaining of uniformity is difficult task. As the service providers are human beings, variation in service cannot be eliminated, but can be reduced.



CHECK YOUR PROGRESS

Q.1. Mention the essential features of a product.

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Q.2: Classify product on the basis of durability.

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7.5 PRODUCT PLANNING AND DEVELOPMENT

Product planning is the act of marketing and commercialization of new products, the modification of existing lines and the discontinuance of marginal or unprofitable items. As per this definition product planning covers these three considerations.

(i) The development and introduction of new products.

(ii) The modification of existing lines to suit the changing consumer needs and preferences and

(iii) Elimination of unprofitable products.

The survival and continual growth of the enterprise demands systematic planning for the development and testing of the new product ideas. Such an approach to product development is generally called product planning.

Product development is the introduction of new products in the existing product line or introduction of an entirely new product line. The competitive conditions will not permit any firm to continue its business with an outdated product or poor product for a long-run. A good product is essential to get repetitive sales. Therefore, new and improved products should be introduced by marketers to suit the changing market conditions. The reasons for new products developments can be stated as below:

(i) Provide opportunity to consumers for selection.

(ii) When the existing products reach declining stage of product life cycle.

(iii) New products generally increase the volume of turnover and amount of profits.

(iv) Introduction of new products is essential for expansion and growth.

What is a new product?

A product is said to be a new product, when the consumers consider it a new. Even if it is not a genuine innovation and just a modification of the existing products, consumers may consider it as new. Hence the consumer is the final authority to decide whether a product is new or not. Usually, in marketing a new-product means–

- an entirely new products or service i.e. genuine innovation.
- slight modification and adding new features in the existing products.
- an existing product, if introduced in new markets.

7.5.1 Stages in New Product Development Process

The introduction of new product usually passes through various stages. In each stage, the management must decide whether to move on to next stage with the product idea or not. Practically, in this process some of the ideas will be eliminated at every step. There are six stages involved in the new product development. The stages are given below:

(I) Idea generation: New products are produced on the basis of new ideas. Ideas may be generated from various sources like customers, dealers, distributors, salesman, top executive, consultancy organisation, Research and Development Department etc. The first step is to collect ideas as many as possible so that the company can find out one best idea out of those ideas to convert the same in to actual product.

(II) Screening of Ideas: All new ideas cannot be converted into products as it requires heavy capital investments. Those ideas should be screened and all unworkable ideas should be dropped. Only most viable, feasible and promising one should be selected for further processing. The company may use concept testing method. In this method, consumer response to a description or picture or drawings is measured even before the product is actually produced. The purpose is to find out few best ideas.

(III) Business Analysis: During this stage, an attempt is made to predict the economic consequences of the product for the company. In these stages, the management should perform the following:

(a) Identify product features.

(b) Estimate market demand and product profitability.

(c) Establish a programme to develop the product.

(d) Assign responsibility for further study of the product feasibility.

(IV) Product Development or Prototype testing:

This step consists of the following:

(a) Prototype development giving visual image of the product.

(b) Consumer testing of the model or prototype product.

(c) Branding, packing and labeling of the product.

The marketer has to determine an appropriate brand name, package and price and make sure that both tangible and intangible features are considered and included. Focus groups, target market surveys and other market research techniques with the physical product give the marketer additional information.

(V) Market Testing: Test marketing involves placing a full developed new product for sale in one or more selected areas and observing its actual performance under a proposed marketing plan. The basic purpose is to evaluate the product performance and marketing programme in a real setting prior to the commercialization. This step provides the scope of correction and modification of the product as well as marketing programme. Many products fail after commercialization because of lack of test marketing.

(VI) Commercialization : After favourable response in test marketing, full scale production and marketing programme are planned and then the product is launched. It may be in phased manner or the product may be introduced simultaneously depending on the company's plan and resources available. Launch of the new product in a phased manner helps to avoid short supply of the product due to initial gaps in production and distribution.

7.6 PRODUCT DIVERSIFICATION

A company with the existing products can not meet the consumer's desires and requirements all the time. By diversification we generally mean that something new will be added. It may be new products, new markets, new technologies or even a new company. But usually, it means adding a new product to the existing product line or mix.

Forms of Diversification:

It may be of two types: (i) Related diversification and (ii) Unrelated diversification.

- **Related Diversification:** When a new product is introduced in the existing product line such diversification is known as related diversification. For example a ball pen producer may introduce gel pen etc.
- **Unrelated Diversification:** When a new product is introduced which is not similar to its earlier products or services and which may be sold in the same market area but with different marketing strategy. For example if a book publishing company introduces a new face cream then it is unrelated diversification.



CHECK YOUR PROGRESS

Q. 3: Mention the various stages in new product development process.

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Q. 4: Define product diversification.

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7.7 PRODUCT LIFE CYCLE

Every product passes through certain distinct stages, during its life span. The product life cycle concept denotes the stages through which a product passes from its introduction to the market, to its disappearance (obsolescence) from the market. A product usually passes through six stages which are called introduction, growth, maturity, saturation, decline and obsolescence. The length of the life cycle, the duration of each phase and the shape of the curve vary widely for different products. Obsolescence eventually occurs when the better, cheaper and more convenient products

start satisfying the same need. The product life cycle is an attempt to recognize distinct stages in the sales and profit history of the product.

- **Stages of Product Life Cycle**

There are basically six stages in the life cycle of a product, which are discussed as follows :

Introduction. This stage is characterized by slow rise in sales and profit margins, few direct competitors, high production and marketing costs, narrow product line, greater emphasis on advertisement and sales promotion, high prices, limited distribution, frequent product modifications and above all, purchases by customers are made cautiously on a trial basis.

Growth. After the product is introduced in the market, the product enters its second stage – growth stage. In this stage, the product achieves considered and widespread approval in market. The demand and sales increase very rapidly due to promotional efforts. Profits also increase at an accelerated rate. In this stage effective distribution, advertising and sales promotion is considered as key factors.

Maturity: In this stage, the maturity of product is reflected in terms of its capacity to face competition. The product has to face keen competition which brings pressure on prices. Though the sales of the product rise at a comparatively lower rate; profit margins, however, decline due to keen competition. The product covers mass markets. Marketers have to adopt measures to stimulate demand and face competition through additional advertising and sales promotion.

Saturation. It is the fourth stage of the product life cycle. In this stage, the market is saturated with the product and is dominated by the replacement sale. The competition is at its peak. Prices may fall rapidly and profit margins may also reduce unless the company makes substantial improvements, modifications and realizes cost economies.

Decline. Once the peak or saturated point is reached, product inevitably enters the fifth stage. It may be gradually displaced by some new innovation or change in consumer behaviour. Sales drop severely. At

this stage price becomes the primary weapon of competition. Cost control becomes the key factor.

Obsolescence. In this stage, the product loses its distinctiveness and dies out in terms of both sales and profit margins. The decline in sales is permanent and disappears from the market. At this stage, it is advisable to stop the production of the product and switch off to other products. Some of the examples of products in the obsolescence stage include electric radios, gramophones etc.

The stages of the product life cycle can be illustrated by the diagram given below:

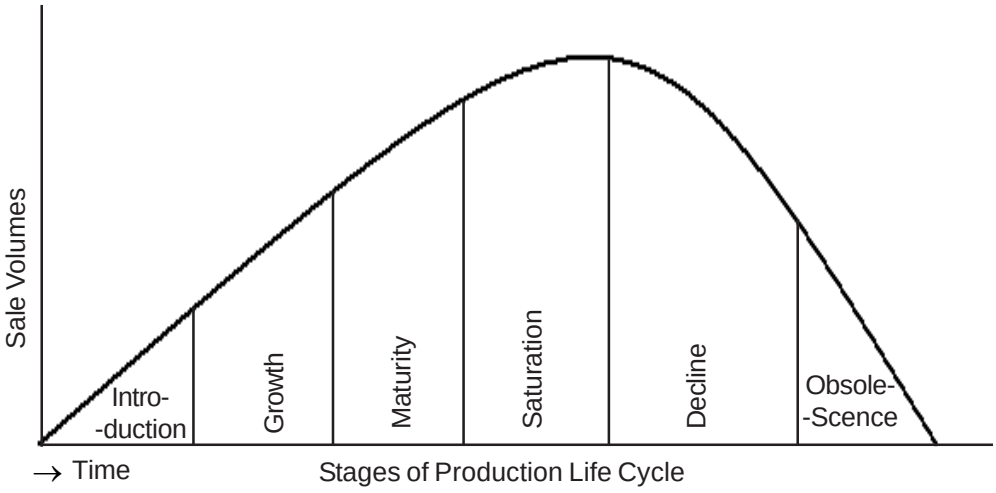


Figure 7.1: Product Life Cycle

- **Factors Affecting Product Life Cycle**

There are number of factors which affect the product life cycle. The main factors affecting product life cycle are given below:

(1) Rate of Technological Changes: Rate of technological changes affects the product life cycle. As a result of technological changes, the need of a product may disappear. In case the rate or speed of technological changes is fast, the life of the product will be reduced to the same extent. On the contrary, if the rate of technological changes is low, the life of the product will increase.

(2) Rate of Market Acceptance: Market acceptance means the tendency of the consumers to accept new products. In case if the rate of market acceptance is fast, the product life will be small. On the contrary, if the rate of market acceptance is slow, the product life cycle will be long.

(3) Competitive Entry: In case the rate of competitors' entry in the market is fast, the product life cycle will become short and ultimately the old product would disappear from the market. On the contrary, if the rate of entry of competitors in the market is slow, the life of the product will increase accordingly.

(4) Economic Forces: Economic forces also affect the product life cycle. Purchasing power of the consumers, price level, supply of money etc., are such economic factors which decide the life of the product.

(5) Protection by Patent: Registration and protection by patent of a product also affect its life cycle. It is natural that the life of a product will be long which has been provided protection by patent.

(6) Management Strategy: If the management is efficient, the decline of the product may be reversed and its life prolonged by some innovation or modification in production or innovation in packaging, branding or marketing techniques. The product can be successfully marketed again though it has reached the stage of its decline.

Limitations of Product Life Cycle:

- The S-shaped PLC curve is not applicable to all the products. The sale of some products shoots up at first and then falls equally rapidly.
- It is important to note that PLC is simply a function of marketing activity and not the reason behind variability in sales.
- There is no fixed time limit of the various stages of the PLC.
- Strict adherence to PLC can lead a company to misleading objectives and strategy prescriptions.

7.8 PACKAGING AND LABELING

Packaging may be defined as all the activities of designing and producing the container for a product. Packages might include up to three levels of material. **Primary packaging** is for immediate holding of the product like the tube holding toothpaste with the Colgate brand and other information; **Secondary packaging** is the paperboard container holding the tube and flashing brand related information; **Shipping or transportation packaging** is done to distribute the products to distributors and large retailers. For example, a brand of mineral water may come in bottle *(primary package),* in a cardboard box *(secondary package)* and *in* a corrugated box *(Shipping package)* containing six dozen boxes.

A **label** provides written information about the product. Labeling helps the buyer to understand the nature of the product, its distinctive features, its composition, its performance, etc. Labeling may include different dimensions. There are grade labels and descriptive labels. In grade labeling, product classifications are based on quality. Products may be classified into A, B, C or 1, 2, 3 categories based on quality. But, among branded products, mostly descriptive labeling is used, furnishing detailed information about product attributes, qualities and usage related information. For several products, statutory labeling requirements are laid down and marketers are bound to follow these requirements.

7.9 BRANDING

Brand name is one of the brand elements which help the customers to identify and differentiate one product from another. The American Marketing Association defines a brand as “a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.” Examples: *Dettol, Fiat,* and *Pond’s* etc.

Branding is very important for the following.

- **Brands provide choice:** Consumers prefer to have choice, and brands give them the liberty to choose. Brands can provide choice, allowing consumers to distinguish between the various company offerings.

- **Brands simplify decisions:** The decision to buy is made easier by brands. A person may not know a lot about every product he is interested in, but a brand makes it easier for him to choose. Consumers can decide more quickly if they recognize brands.
- **Brands give quality assurance:** Consumers are likely to choose quality products and services wherever and whenever they can. Once they experience a brand, they automatically equate the experience with a certain degree of quality. A good experience makes for a good brand recall. Therefore, consumers will move towards brands that they know provide high quality standards.
- **Brands facilitate risk avoidance:** Most consumers even with slightest doubt about the performance of a product may not opt to buy. An experience of a brand, if positive, gives consumers reassurance and comfort in purchasing even if expensive.
- **Brands provide a means of self-expression:** Brands generate opportunities for people to express themselves in different ways. They can help people to express their socio-psychological needs like:
  - Social status
  - Success
  - Aspiration
  - Love and Friendship
  - Personality

7.10 BRAND EQUITY, BRAND POSITIONING AND BRAND SELECTION

Brand equity is defined in terms of marketing effects uniquely attributable to a brand. Brand equity is the sustainable value added to brand name in the market and/or in the consumers mind. Major factors that contribute to brand equity are: brand awareness, brand associations, perceived quality and brand loyalty.

- ***Brand awareness***

  Customers buy brands if only they are aware of a particular brand as their general assumption is that, a brand that is familiar is probably reliable

and reasonable. The brand equity is partly measured by the awareness it evokes-how many people throughout the world recognize the brand with product category, and conscious of the promise given by the brand.

- ***Brand associations***

  Brand association includes attributes, symbols and images attached with the brand. Marketing challenge is to link right association to the brand so that the customers develop required image that leads to loyalty and perceived quality of the product features.

- ***Perceived quality***

  Perceived quality has always been a deceptively difficult area for marketers. As it is an important asset for a brand, it becomes a major component of brand equity. It has tremendous power to affect all other elements of brand equity-brand awareness, brand loyalty, brand association.

- ***Brand loyalty***

  The brand loyalty of the customer base is often the core of brand equity. If customers are indifferent to the brand and buy with respect to features, price, and convenience with little concern to the brand name, brand equity will not be high. On the other hand, if they continue to purchase the brand even in the face of competitors' products with superior features; brand equity may be considered as high.

Concept of brand positioning and selection:

Brand positioning refers to "target consumer's" reason to buy a particular brand in preference to others. A strong brand should be positioned so that it makes a place in target customers' mind and they prefer it over other brands. Brand positioning is a medium through which an organization can portray its customers what it wants to achieve for them and what it wants to mean to them. Brand positioning forms customer's views and opinions. Brand Positioning can be defined as an activity of creating a brand offer in such a manner that it occupies a distinctive place and value in the target customer's mind. A strong brand positioning directs marketing strategy by explaining the brand details, the uniqueness of brand and it's similarity

with the competitive brands, as well as the reasons for buying and using that specific brand.

There are various positioning errors, such as-

Under positioning- This is a scenario in which the customers have a blurred and unclear idea of the brand.

Over positioning- This is a scenario in which the customers have too limited a awareness of the brand.

Confused positioning- This is a scenario in which the customers have a confused opinion of the brand.

Double Positioning- This is a scenario in which customers do not accept the claims of a brand.

There are different approaches in selecting a brand name and branding strategy.

- **Individual product branding:** Under this branding approach, new products are assigned new names with no obvious connection to existing brands offered by the company. The main advantage of this approach is that it allows brands to stand on their own, thus less-ening threats that may occur to other brands marketed by the company. Lux, Lifebuoy etc. are individual brands of the same company.
- **Family branding:** Under this branding approach, new products are placed under the umbrella of an existing brand. An example is Amul brand name for ice cream, chocolate, milk products etc. The principal advantage of this approach is that it enables the organization to rapidly build market awareness and acceptance, since the brand is already established and known to the market. But the potential disadvantage is that the market has already established certain perceptions of the brand. Additionally, with family branding any negative publicity that may occur for one product within a brand could spread to all other products that share the same name.
- **Cobranding:** This approach takes the idea of individual and family branding a step further. With cobranding a marketer seeks to partner

with another firm, which has an established brand, in a hope that synergy of two brands on a product is even more powerful than a single brand.

- **Private or store branding:** Some suppliers are in the business of producing products for other companies including placing another company's brand name on the product. This is most often seen in the retail industry where stores or online sellers contract with suppliers to manufacture the retailer's own branded products.
- **Generic branding:** Certain suppliers supply products that are intentionally 'brand less' or generic brand .These products are mostly basic commodity-type products that consumers or business customers purchase as low-price alternatives to branded products.
- **Brand licensing:** Under brand licensing, a contractual arrangement is created in which a company owning a brand name allows others to produce and supply products carrying their brand name. This is often seen when a brand is not directly connected with a product category.
- **Names of founders:** The Company may also introduce the products with the names of founders or inventors (e.g., Ford car).
- **Corporate name combined with individual product names:** Certain companies may combine the corporate name and the individual product name to give distinct brand name identity to their brands (e.g., Cadbury's Five Star and Cadbury's Bourn Vita).

CHECK YOUR PROGRESS

Q.7: State the function of primary packaging.

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Q.6: Define Brand.

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7.11 LET US SUM UP

In this unit, we have discussed the concepts of product. A product is anything that can be offered to a market and which has satisfying capacity of needs, wants and desires of purchasers. A product may be tangible, intangible or a service, an idea or a combination of all the features. Product may be classified into different groups on the basis of certain common characteristics such as use, durability and tangibility.

Product planning covers all activities which enable producers and middlemen to determine what should constitute a company's line of products, Product development includes the technical activities of product research, engineering and design. Next we have discussed about product life cycle, which helps marketers in deciding correct strategy for the product.

At the end of this unit we have discussed different aspects of branding. Branding is the most important key element for success at the market place. It provides unique identity to products.



7.12 FURTHER READINGS

1) Philip Kotler, Kevin Lane Keller, Abraham Koshy, and Mithileshwar Jha (2007), *"Marketing Management"*, Pearson Education

2) V. S. Ramaswami and S Namakumari (2003), *"Marketing Management"*, Macmillan India Limited

3) Saxena Rajan (2007), Marketing Management 3rd Edition,Tata McGraw Hill Publication,

4). Kaptan S.S. and Pandey S (2004), Brand Imitation, Himalaya Publishing House



7.13 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q.No.1: The essential features of a product are as below:

(a) Tangibility (b) Intangibility (c) Associated attributes. (d) Associated attributes (d) Exchange value (e) Consumer satisfaction.

Ans. to Q.No.2: Classification of product on the basis of durability – (a) Perishable products (b) Non-durable products and (c) Durable products.

Ans. to Q.No.3: The various stages in product development progress are as below.

(a) Idea generation (b) Idea screening (c) Business analysis (d) Prototype product development (e) Test marketing (f) Commercialisation.

Ans. to Q.No.4: Product diversification means adding something new to the product.

Ans. to Q.No.5: Primary packaging is for immediate holding of the product.

Ans. to Q.No.6: Brand can be defined as "a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors."

7.14 MODEL QUESTIONS

1. What is a product?
2. What are the differences between consumer and industrial goods?
3. What is product planning?
4. Explain the different stages in new product development process?
5. State the importance of product diversification?
6. Describe different stages of Product Life Cycle.
7. Discuss the role of brands from a customer perspective.
8. Explain the concept of brand equity.

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UNIT 8 : PRICING

UNIT STRUCTURE

8.1 Learning Objectives

8.2 Introduction

8.3 Concept of Price

8.4 Factors influencing Pricing

8.5 Consumer Psychology and Pricing

8.5.1 Reference Pricing

8.6 Setting the Price

8.7 Pricing Objectives

8.8 Demand Determination, Cost Estimation and Analysis of Competition

8.9 Pricing Methods

8.10 Market Skimming and Penetration Pricing

8.11 Price Adjustment Strategies

8.12 Let Us Sum Up

8.13 Further Readings

8.14 Answers to Check Your progress

8.15 Model Questions

8.1 LEARNING OBJECTIVES

After going through this Unit you will be able to

- explain the concept of price
- explain the role of consumer psychology in pricing
- list the factors affecting pricing
- describe the pricing objectives and corresponding strategies
- describe the market skimming and penetration pricing
- describe the relevance of price adjustment strategies

8.2 INTRODUCTION

Price is one of the four elements of marketing mix. It is the only element in the marketing mix that generates revenue: the other elements produce costs. Price is also unique in a sense that it is the easiest element of the marketing mix to adjust with the change in the environment but other elements like product features, marketing communication, and distribution channel take time to adjust. That is why, whenever, corporate houses need to take any quick decision in accordance with the business dynamics, they simply first adjust price with the situation. In case of inflation or deflation in economy, price is the first element of the marketing programme to adjust. In this Unit, we shall discuss various aspects related with pricing. The objectives and strategies of pricing will be discussed. We shall also understand the factors affecting pricing in addition to the price adjustment strategies.

8.3 CONCEPT OF PRICE

It can be defined as the amount of money charged for a product or service, or the sum of the values that customer trade for the benefits of having or consuming the product or service. Broadly speaking, price is the sum of all the values (worth in money) that customer is ready to pay to get the benefit of keeping or consuming a product or service.

Price also communicates to the market about the company's proposed value proposition of its product/ service or brand. Companies can charge premium price if their brand image is strong in the mind of the customer and can earn big profit. Even in the 21st century, for many, price is the major factor affecting buying decision. This is still valid with large segment of the population across the world. A little change in the price can have a very high impact on sales depending on the price elasticity of the product. Sales volume and profitability of a company is largely depending on how strategically the company set the price of their products. A small mistake in this case can lead to huge loss and decline in sale.

For many managers pricing is a big challenge and they mostly prefer other marketing elements. But smart managers always use pricing as a

big strategic weapon against their competitors to satisfy their customers and attract more customers by creating value.



CHECK YOUR PROGRESS

Q.1: Define price.

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8.4 FACTORS INFLUENCING PRICING

There are a number of factors which have an influence in pricing decision. Some factors are psychological, and some are functional/logical, economic, etc. These factors can be grouped into two, i.e., external and internal.

Internal Factors:

- Costs include Inventory Cost, Production Cost, Marketing cost and Transportation Cost,
- Product characteristics/features,
- The PLC (Product life cycle) stage,
- Company goals,
- Image sought by the firm,
- Extent of distinctiveness and differentiation,
- Length of distribution,
- Degree of promotion

External Factors:

- Customer demand
- Competitions
- Price elasticity of demand of the product
- Marketing power of the members of marketing channel.
- Government control
- Buying behaviour of customers
- Income level of customer,
- Market inflation

Table No.8.1: Factors Influencing Pricing

8.4.1 Internal factors:

Internal factors are those factors which are firm specific and which can be controlled. Internal factors are very important for all the firms in the sense that if managers fail to control these, the efficiency of the firm is lost in the market. A smart manager always has a great control over internal factors and uses them to make strategies to have an extra edge over competitors.

a. **Cost:** Cost is the most important factor among all internal factors that can influence pricing decision. Costs set the floor; the company wants to set at least a price that will cover all costs needed to make and sell its products. Cost differentials in manufacturing or selling among companies can lead to wide differences in pricing. It is important that management considers all relevant costs of manufacturing, marketing and distributing the product. Company costs have two parts: the fixed cost (e.g. overhead) and the variable costs, which change with sales volume (e.g. raw material cost, energy cost, labour cost etc.).

b. **Product Characteristics**: In general case if we increase the features or characteristics of a product, production cost and price also increases at the same time. Higher or superior product characteristics lead to higher price. Added features also cost extra prices to the product. For example, price of a cell phone with 6 GB RAM will be higher than a cell phone with 2GB RAM. HD TVs are higher priced than non HD TVs.

c. **Product Life Cycle**: In different stages of the product life cycle, a product is priced differently. Sales volume, expense to profit ratio and customer base are different in different stages of the PLC which leads marketer to set a different price in each stages. A product newly introduced in the market costs more. Cost of a product at its maturity stage is less.

d. **Company Goals**: The firm needs to decide what it wants to accomplish through its pricing strategy. Its goals might include

maximizing current profits, penetration the marker or projecting a premium image. Company goals will also change over time. When a firm enters a market it may set a relatively low price to help penetrate the market. Once the firm is well entrenched, it may shift its objectives and bring them in line with the original profit making goal.

e. **Image sought**: Psychologists are particularly interested in how we react as individuals to the way products are priced. The relationship between price and quality (perceived quality) is complex. There is an assumption that as price increases so too does quality and that in general price reflects quality. This is the reason why firms try to set higher/ premium price to their products to give them a premium image in the minds of the customers.

f. **Uniqueness**: It is a general belief that if the product is unique/ distinctive, it can be priced higher because of its advantage of distinctiveness over competitors. Differentiation gives a product a positive image which allows marketers to set a higher price for their products. Apple phones and laptops/notebooks are higher priced compared to the other phones and laptops.

g. **Distribution channel**: Length of distribution of products is associated with the distribution/transportation cost. When intermediaries in the distribution channel increases, the cost of distribution increases due to the profit sharing among the channel members. That is why online products when distributed directly from manufacturing hubs is cheaper compared to the any other retail outlets.

h. **Promotion:** Now-a-days in every product, the share of promotion cost on total cost is increasing due to the rising promotion costs of various promotional mediums and the extent of the use of such media. This is mostly applicable for unsought products like cold drinks, fashion items. Higher promotion cost also leads to set higher prices for the product.



CHECK YOUR PROGRESS

Q.2: Does price vary at each stage of PLC?

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8.4.2 External Factors

External factors are those factors which are outside the firm. These factors affect not only the firm concerned, but the entire industry.

a. Consumer demand: While cost set the base for price calculations, the consumers' willingness to purchase the product set a ceiling for the price. Consumer demand is function of buying power, tastes, habits, cultural norms and substitutes. Buying power is a key consideration in pricing decisions. In developing countries due to the lower per capita income, people are far more price sensitive than developed countries. Firms might consider lowering the product quality or downsizing the product (smaller volume, size, fewer units per package). Shampoos are sold in small sachets, soap powder in small sized containers or in a plastic bag and many medicines (tablets) are sold in foil strips of one or two three tablets.

b. Competition: Competition is another key factor in pricing. Differences in the competitive situation across countries usually lead to cross boarder price differentials. The competitive situation may vary for several reasons. The number of competitors differs from country to country and market to market. In some countries or market, the firm faces very few competitors (monopoly), while in others; the company has to combat many competing brands. The nature of competition will also differ, global versus local, private versus govt. owned. In some market, firms have to compete with a knock off version of their own product. The presence of counterfeit products can force the firm to lower its price.

c. **Price elasticity of demand of the product**: If a product is highly price elastic, then a little bit change in the price will impact a very big change in the demand of the product. In this situation, no firm will increase the price and will wait for competitors to increase it first. If in case, a firm need to increase its price, they would first try to make their customer brand loyal by increasing brand value of their products and then they will take that risk of increasing price.

d. **Marketing power of channel members**: The balance of power between manufacturer and their distributors (channel members) is one of the very important factors for setting price. Now with increasing size of the retail chains, the retailers become very powerful in marketing system and can bargain with the manufacturers regarding price. They can control the price according to their needs. For example, retail giants Wall-Mart has the business strategy as Every Day Low Pricing (EDLP). On the other hand, manufacturers of a dominant brand are able to secure strong trade co-operation and support from resellers. Thus Amul, Procter & Gamble and HUL are able to command high level of cooperation from their resellers in connection with display, shelf space, promotion and price policies. They set the price and even the margin for the retailers and wholesalers.

e. **Government Control**: Government can control the entire pricing mechanism of any product or services and can restrict the price of any product or commodity. They set the maximum price of product in the country and no firm can charge higher than that. By putting sales tax, value added tax or GST, government can increase the price of any products or services if they want and can discourage demand. To promote domestic products, governments of various countries can levy more than 100% tax on the foreign products. For example, for cars, the sales tax varies from as low as 15% In Luxembourg to 213% in Denmark.

f. **Buying behaviour and income level of customers**: If customers are brand loyal, it is easier to charge premium prices for products from them. But if people are price sensitive like developing countries, then companies have to be very careful about to charge higher price from the customer. Income levels of the customers are directly related with the product they use. Higher income makes premium products or service affordable. This is the reason why marketers reduce their price by eliminate frill features from their products and make it affordable for the masses.

g. Inflation: Companies have to adjust price with the trends in the economic environment for sustainability. Basically companies charge higher prices during inflation and lower down their prices during deflation and economic recessions.

8.5 CONSUMER PSYCHOLOGY AND PRICING

Although consumers are price takers but before purchasing anything, consumers often actively process price information with their existing knowledge of price from their earlier experiences. Generally, consumers compare price or asses the value of any product with the information provided or collected from friends, relatives, colleagues and also from online references, advertisements, sales calls and advertising brochures. So, price perception plays most important role in purchase decisions.

Again for many, price is a signal for quality. Several studies have been done to determine the relationship between price and quality. One study conducted by Zeithaml, Sjolander found out that general price-perceived quality relationship does not exist except perhaps for wine and perfume. Consumer's purchase decision is highly guided by the perceived price of the product. Consumers always set certain range in their minds for all products; we can call it floor price and ceiling price. If marketers set price below floor price, then consumers hesitate to buy it in fear of low quality (inferior/unacceptable quality). And if the price is set above the ceiling price,

the consumers consider it not worth for money. The phenomenon can be presented as shown in the Following figure.

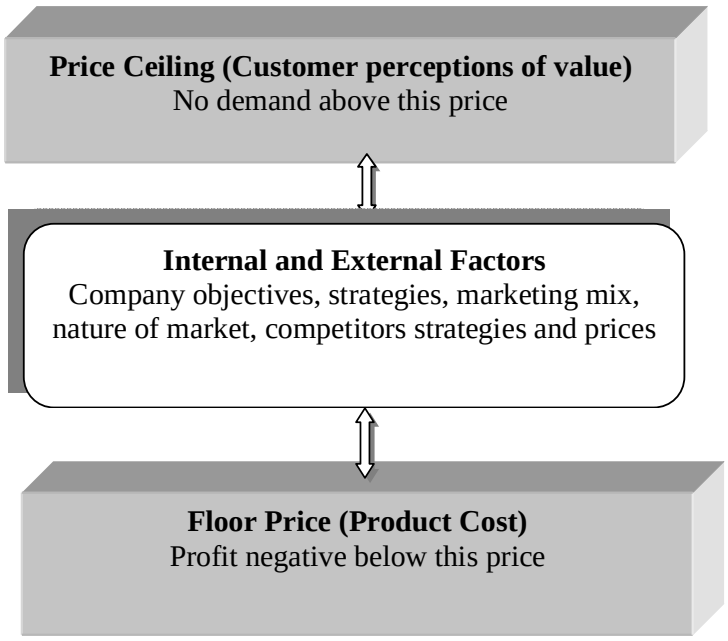


Figure 8.1: Considerations in Price Setting

8.5.1 Reference Prices

Why do consumers see some products prices as fairer than others and some products as of higher value than others? If we are able to price a goods or services according to customer needs, we must have some idea of what customers think is a fair price to pay for that goods or service, or what they expect to pay, or what they think others might pay.

Reference pricing is a kind of psychological pricing. It can be defined as prices that buyers carry in their minds and refer to when looking for a given product. The reference price might be formed by noting current prices, remembering past prices or assessing the buying situation. Seller can influence or use these consumers' reference prices when setting price. For example, super market or departmental stores, keep same range of products in

one department and can keep more expensive products in another department. The points are listed in the following Figure.

Consumer Reference prices:

1. Fair Price (What product should cost)
2. Typical Price
3. Last Price Paid
4. Competitor Price
5. Expected Future Price
6. Usual Discounted Price
7. Upper-Bounce Price (What most consumers would pay)
8. Lower- Bounce Price (the least consumer would pay)

Figure 8.2 : Consumer Reference Pricing

Source: Adapted from Russell S. Winter, "Behavioural Perspectives on Pricing: Buyers' Subjective Perceptions of Price. Revisited, "in Issue in Pricing: Theory and Research, edited by Timothy Devinney (Lexington, MA: Lexington Books, 1988), pp 35-57.



CHECK YOUR PROGRESS

Q.3: State the meaning of Reference Pricing.

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8.6 SETTING THE PRICE

Pricing setting is one of the most difficult tasks of the marketers. As we have discussed a number of factors play a crucial role. Entire success of business and also the product is also depending on how accurately marketers price their products. Company only can charge price for their product in between the Floor price (the cost of the product) and ceiling price (above which there is no demand) as we have discussed already.

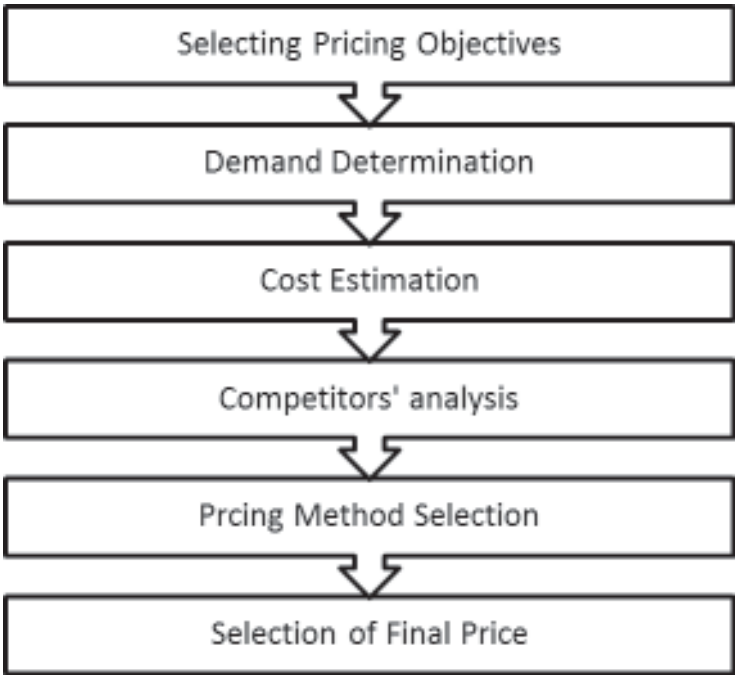


Figure 8.3 : Steps to follow for Price Setting

8.7 PRICING OBJECTIVES

It is the pricing objective of a company which decides how a company will price its products. Typically, these can be financial with offerings priced to maximize profit or sales or to achieve a satisfactory level of profit or sales, or particular return on investment. Companies may set price by offering discounts for quick sale. It's pricing objectives could be marketing based (market penetration) or to position the brand so that it is perceived as premium brand. It is important to consider that the pricing objective should be reasonable and measurable. The clearer a firm's objective, it is easier to set right price for a firm's product. There can be five major pricing objectives of a firm as shown in the following figure.



Figure 8.5: Pricing Objectives

a. Survival:

It can be a major objective when a firm faces intense competition, having over capacity or shifting consumer taste and preference. But survival is a short-run objective and it cannot survive with this objective for a long –run and firm must come up with an alternative strategy. Here, firm sets a very low price so that it can only meet variable cost and some part of fixed cost.

b. Maximum Current Profit:

Again maximum current profit is a short run objective. For this type of price setting, a firm must have full understanding about market functions like demand of the product and cost of production. It sets a price, so that the price doesn't have any impact in sales decline and maximum current profit can be generated with uninterrupted cash flow and healthy return on investment. But many a time firm may sacrifice long run performance focusing only current profit and ignoring the effect of other marketing –mix variables.

c. Maximum Market Share:

In this type of pricing, a firm's focus is on sales maximization which will lead to maximize their market share. Higher sales volume will give them the advantage of economies of scale and an add on their profit margin.

They set the lowest price for their products which other cannot. This objective makes sense when market is price sensitive and production and distribution costs fall with accumulated production.

d. Maximum Market Skimming:

This is an interesting pricing objective where marketer first sets a very high price for their products and later decreases over time. Sony and most of the innovative electronic products is a frequent practitioner of Market-Skimming Pricing. This pricing technique makes sense where a sufficient number of buyers have high current demand; unit cost is low even for producing at small quantity and high price communicates a superior product quality.

e. Product-Quality Leadership:

A firm may like to give their product a premium image by charging higher value by providing superior quality products which most of the competitors cannot provide. Its aim is to be the Product-Quality Leader of the market. The technique is to charge higher price but up to a level that it should not go out of customer's reach. Luxury car manufacturers like BMW, Mercedes Benz etc are very good example of this.

8.8 DEMAND DETERMINATION, COST ESTIMATION AND ANALYSIS OF COMPETITION

Demand sets ceiling, the maximum price the marketer can charge from the customer but cost sets the floor. Price of a product should cover the basic cost of product, distribution cost, selling and advertising cost, a margin of profit for the marketers as a return of their effort and risk. But in all the situations, a company cannot charge a price that includes all the above costs. Many a time, company can decide to continue with the production process where they only can charge variable cost for survival. A company's cost can be of two type, fixed cost and variable cost. Fixed costs are known as overheads and it doesn't vary with production and level of sales. Land, building's rent, equipment and machineries, salaries paid to employees are some of the example of fixed costs.

On the other hand, variable costs directly vary with product level. Cost of raw materials, energy, wage etc. are the example of variable cost.

Before setting price, a firm must check and analyze the cost, price and offers of its competitors. First, out of the many, the firm must find out the nearest competitors whose products as well as market is more or less similar. Second, the firm should match the features, offers and price of their competitors. If the firm's offer contains features not offered by the nearest competitors, it should evaluate the worth of the extra features to the customer and add that value to the competitor's price. If the competitor's offer contains some features not offered by the firm, the firm should subtract their value from its own price.

8.9 PRICING METHODS

There are various techniques for setting price. The most appropriate pricing method contains three considerations viz. Cost, Competitor and Customer. Here for our understanding, we will discuss only six pricing methods.

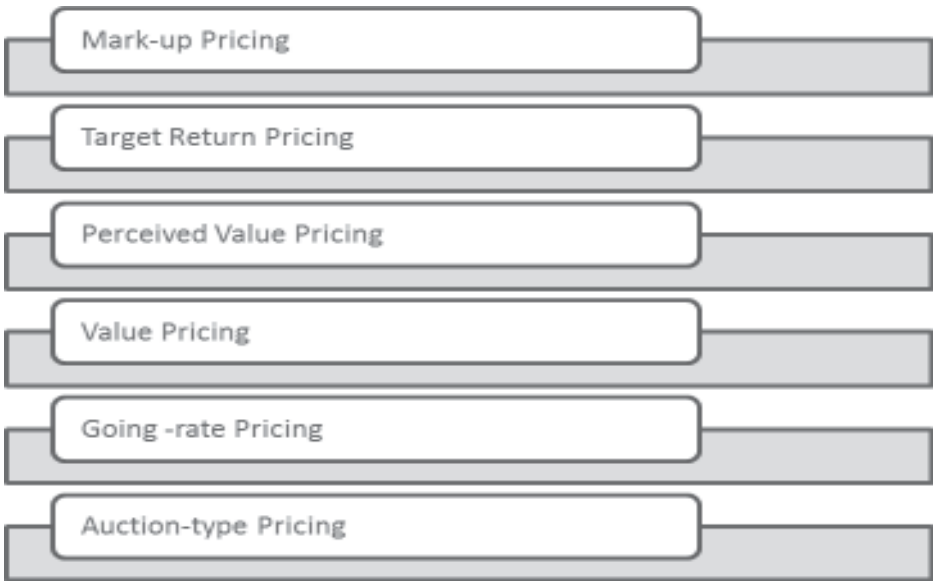


Figure 8.5: Pricing Methods

a. Mark-up Pricing:

This method operates on the base of a set percentage mark-up. This is the most elementary pricing method. It is very easy to calculate, just

adding a standard mark-up to the company's product cost. In British supermarket retailing the mark-up is around 6-8 percent but in American supermarket retailing it is often even less than 4 percent.

Suppose a pen manufacturer has the following costs and sales expectations:

Variable cost per unit Rs. 10

Fixed Cost Rs. 200,000

Expected Unit Sale 100,000

The manufacturer's unit cost is given by:

Unit Cost = Variable cost + Fixed Cost/ unit cost

= Rs.10+ Rs.200,000/Rs.100,000

= Rs. 12.

Suppose, manufacturer wants to earn 20% mark-up on sale. The mark-up price will be

Mark-up price = unit cost/ 1-desired return on sale

= Rs.12/1-0.2

= Rs.12/0.8

= Rs. 15

The manufacturer would charge dealer Rs.15 per pen and make a profit of Rs. 3 per unit.

b. Target- Return Pricing:

Many companies now-a-days focus mostly on return on their investment. General Motors target 15% to 20% return on their investment.

Suppose the pen manufacturer has invested Rs. 500,000 in the business and wants to set a price to earn a 20% ROI, specifically Rs.100,000. So, the target Return Pricing will be:

Target-return pricing= unit cost+ desired return x invested capital/unit sale

= Rs.12 + 0.2 x Rs. 500,000/100,000

= Rs.12 +1

= Rs. 13.

The manufacturer can easily earn this 20% ROI when they can sell their 100,000 pieces of pen at Rs. 13 which will give them a total Rs. 100,000 return on their sales.

c. Perceived –Value Pricing:

Good pricing begins with a complete understanding of the value that a product or service creates for customers. In this method, buyers' perception of value, not the sellers' cost, is the key to pricing.

Perceived value is made up of several elements, such as the buyer's image of the product performance, the channel deliverables, the warranty quality, customer support and softer attributes such as the supplier's reputation, trust-worthiness and esteem. Companies must deliver the value promised by their value proposition, and the customer must perceive this value. The key to perceived-value pricing is to deliver more value than the competitor and to demonstrate this to perspective buyers.

d. Value Pricing:

Value pricing is a technique of pricing where marketer not only charges a very low price for their offerings but it is provided without compromising any quality. It is a matter of reengineering the company's operation to become low cost producer without sacrificing quality of the product to attract the bottom of the pyramids or value conscious customers.

The basic concept of value pricing is to prove value at an affordable price. EDLP (Every Day Low Pricing) strategy of Wall-mart is one of the very interesting value pricing examples. In India, Big Bazaar, Vishal, Bata, Peter England all use value pricing methods.

The differences between cost based pricing and value based pricing are indicated in the following figure.

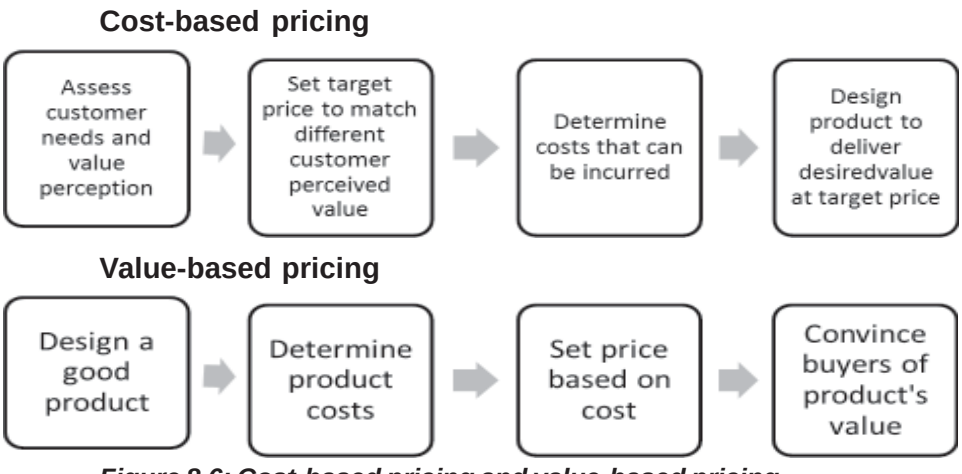


Figure 8.6: Cost-based pricing and value-based pricing

e. Going-rate Pricing:

Going-rate pricing is simply a pricing technique where the seller uses the same price, more or less than major competitors. It is a technique where competitors' price is given more importance than the cost of the product. In oligopolistic markets selling commodities such as paper, fertilizer or steel; all firms normally charge the same price. Here, everybody is used to follow the price of the leader.

Industries where costs are difficult to measure or competitive response is uncertain, going-rate pricing is quite popular. Here, the price of the product is changed not because of the cost changes or fluctuates but because of the leaders' price change. Some company used to charge a premium or discount price compared to their leaders but they also preserve the amount of difference whenever they change prices.

f. Auction-type pricing:

EBay is a very good example that use auction –type pricing for selling their merchandise. It has become more popular with the growth of internet. The major advantage of auction type pricing is disposal of excess inventories or used goods. There are three different types of auctions-

- English Auction (Ascending bids)
- Dutch Auction (Descending bids)
- Sealed bid auction

Online auctions with a large number of bidders, greater economic stakes, and less visibility in pricing have led to in greater satisfaction, more positive future expectations and fewer perception of opportunism.

8.10 MARKET SKIMMING AND MARKET PENETRATION PRICING

There can be two strategies that mostly a firm can make using pricing as a weapon. These are popularly known as Marker-Skimming Pricing and Market –Penetration Pricing. These two pricing strategies have been already discussed in the earlier part of this chapter but here we shall have a detailed discussion.

8.10.1 Market-Skimming Pricing

As the word skimming indicates, this strategy literally skims the market in the first instance through high price and subsequently settles down for a lower price. In other words, it aims at high price and high profits in the introduction stage of the product. It profitably taps the opportunity for selling the product at high prices to those segments of the market that do not bother much about the price. This strategy is especially useful in the pricing of new products that have a luxury or specialty element. When a new product is luxury item, enjoying the patronage of an affluent and price insensitive segment of the market, the firm can opt for the skimming strategy. Skimming pricing will also help the firm get the feel of the market/ demand for the product and then make appropriate changes in the pricing strategy. When Sony introduced the world's first hi-definition television (HD TV) in the Japanese market in 1990, the hi-tech sets cost $43,000. These televisions were purchased only by customers who really wanted the new technology and could afford to pay a high price for it. Sony rapidly reduced the price over the next several years to attract new buyers. By 1993, a 28 inch HD TV cost a Japanese buyer just over $6,000. In 2001, a Japanese consumer would buy a 14 inch HD TV for about $2,000, a price that many more customers could afford. An entry-level HD TV set now sells for less than $500 in the United States and prices continue to fall. In this way Sony skimmed the maximum amount of revenue from the various segment of the market.

Market Skimming makes sense only under certain conditions.

- The product quality and image must support its higher price and enough buyers must want the product at that price.
- The cost of producing a smaller volume cannot be so high that they cancel the advantage of charging more.
- Finally, competitors should not be able to enter the marker easily and undercut the high price.

8.10.2 Penetration Pricing

Penetration pricing, as the name indicates, seeks to achieve greater market penetration through relatively low prices. It is the opposite of skimming pricing. This strategy too is quite useful in pricing of new products under certain circumstances. For example, when the new product is capable of bringing in large volume of sales, but is not a luxury item and there is no affluent/price insensitive segment backing it, the firm can choose the penetration pricing and make large-size sales at a reasonable price before competitors enter the market with a similar product. The strategy suits products at the introductory phase and also brings many advantages to the firm. Also, soon after introduction, the product may encounter stiff price competition from the brands/substitutes. Penetration pricing in such cases will help the firm have a good coverage of the market and keep completion out for quite some time. Moreover, for such products, large sales may be necessary for break-even, even in the initial stages, and penetration pricing alone can bring in the high volume of sale required.

Several conditions must be met for this low-price strategy to work.

- The market must be highly price sensitive so that a low price produces more market growth.
- Production and distribution cost must fall as sales volume increases.
- The low price must help keep out the competition and the penetration pricer must maintain its low-price position. Otherwise, the price advantage may be only temporary.

8.11 PRICE-ADJUSTMENT STRATEGIES

Setting the base price for a product is only the start. The company must then adjust the price to adjust for customer and situational differences. Some of the price adjustment strategies are:

- Segmented Pricing

- Discount and allowance pricing
- Psychological Pricing
- Promotional Pricing
- Geographical Pricing
- Dynamic Pricing
- International Pricing

We shall briefly discuss the price adjustment strategies.

Strategy	Description
Segmented Pricing	This pricing strategy implies where to match the differences in customers, products or location. Firms adjust their pricing according to the customer, products or location
Discount and allowance pricing	This strategy implies where to reward customer responses such as for early payment or for more purchase.
Psychological Pricing	It is a pricing approach that considers the psychology of prices and not the economics.
Promotional Pricing	Based on buyer preferences, prices are changed.It means adjusting price to generate sales in the short term.
Geographical Pricing	It means temporarily pricing products below the list price and sometimes even below cost, to increase short-run sale.
Dynamic Pricing	It implies setting prices for customers located in different parts of the world.Adjust prices continually to meet the characteristics and needs of individual customers and situations. In case of airlines, oil etc. dynamic pricing is quite common.

International Pricing	It calls for adjusting prices for international markets depending upon cost, buyer preferences etc.

Table 8.2: Price adjustment Strategies



8.12 LET US SUM UP

In this Unit we have discussed about the concept and importance of pricing. We have also discussed the factors affecting pricing, pricing objectives and strategies. After discussing market skimming and penetration pricing, we have also discussed about the price adjustment strategies. As the Unit indicates, pricing decisions are crucial and subject to the changes to the internal and external forces.



8.13 FURTHER READINGS

1) Kotler,P, et.al.(2009). *Marketing Management- A South Asian Perspective*. 13th Edition. pp 366-397

2) Ramaswamy, V.S. & Namakumaru, S. (2009) *Marketing Management- Global Perspective Indian Context*. 4th Edition. pp 632-647.

3) Kotler, P. et.al. (2010). *Principles of Asian Perspective*. 13th Edition. pp. 266-287.

d) Vasudeva, P.K. (2010) *International Marketing* , 4th edition. pp 399-418.



8.14 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q.No.1: Price can be defined as the amount of money charged for a product or service, or the sum of the values that customer trade for the benefits of having or consuming the product or service.

Ans. to Q.No.2: Prices vary depending upon the stage of product life cycle. In different stages of the product life cycle, a product is priced differently. In the introductory phase, price is high. Sales volume, expense to profit ratio and customer base are different in different stages of the PLC which leads marketer to set a different price in each stages. A product newly introduced in the market costs more. Cost of a product at its maturity stage is less.

Ans. to Q.No.3: Reference pricing is a kind of psychological pricing. It can be defined as prices that buyers carry in their minds and refer to when looking for a given product. The reference price might be formed by noting current prices, remembering past prices or assessing the buying situation.

8.15 MODEL QUESTIONS

1. Discuss the importance of pricing.
2. Describe the internal factors affecting pricing.
3. Describe the external factors affecting pricing.
4. What could be the various objectives of pricing?
5. Explain market skimming pricing.
6. Explain penetration pricing.
7. Discuss price adjustment strategies.

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UNIT 9: MARKETING CHANNELS

UNIT STRUCTURE

9.1 Learning Objectives

9.2 Introduction

9.3 Concept of Marketing Channel

9.4 Types of Channel and Their Importance

- 9.4.1 Characteristics of Different Types of Intermediaries
- 9.4.2 Importance of Marketing Chnnels

9.5 Channel Strategies

- 9.5.1 Channel Integration and System
- 9.5.2 Other Alternatives

9.6 Designing and Managing Marketing Channel

- 9.6.1 Main Steps Involved in developing the Channel Design
- 9.6.2 Channel Member Selection

9.7 Managing Wholesaling and Retailing

9.8 Emerging Trends in Channel Management

9.9 Let Us Sum Up

9.10 Further Readings

9.11 Answers To Check Your Progress

9.12 Model Questions

9.1 LEARNING OBJECTIVES

After going through this unit you will be able to

- describe the importance of marketing channel.
- explain different types of channel
- explain channel strategies, wholesaling and retailing
- describe the emerging trends in channel management

9.2 INTRODUCTION

In this unit, we are going to discuss about marketing channels. The decisions on marketing channel have a vital bearing on the marketing

performance of a firm. Pricing for example, is related to the type of channel adopted by a firm and the compensation paid to it by the firm. Similarly, decisions on sales force, its size, type, etc., also depend on the nature and extent of the marketing channel. The channel normally sets the pattern for the salesman's operations. Channel policies also determine to a significant measure, the size and complexity of the marketing department of the firm. The channel decisions usually bind the enterprise with long term commitments. In this unit we shall discuss the different issues and aspects related with decision making in the area of marketing channel.

9.3 CONCEPT OF MARKETING CHANNEL

Marketing channels are sets of interdependent organizations involved in the process of distribution. Producers normally use a number of marketing intermediaries for taking their products to users. Marketing intermediaries bear a variety of names such as: sole selling agents, marketers, wholesalers, distributors, stockist, semi-wholesalers, franchised dealers, retailers, authorized representatives, brokers / commission agents etc. All such intermediaries and modes of distribution constitute the marketing channel which is also referred to as distribution channel. The process of delivering the product to the customer is termed as distribution. Distribu-tion management consists of two major tasks - physical distribution and management of marketing channels. A marketing channel performs the work of moving goods from producers to con-sumers. Members of the marketing channel perform a number of key functions. They gather information about potential and current customers, competitors, and other actors and forces in the marketing environment. They develop and disseminate persuasive communications to stimulate purchasing. They can convert prospective buyers into customers.

9.4 TYPES OF CHANNELS AND THEIR IMPORTANCE

The simplest type of distribution channel is the one where the producer takes his products directly to the consumer without any marketing

intermediaries. The other types involve varying number of tiers and various types of intermediaries.

Different types of Distribution Channels

- Manufacturer – Consumer (zero level channel or Direct marketing)
- Manufacturer - Retailer – Consumer (one level)
- Manufacturer - Wholesaler - Retailer – Consumer (two level)
- Manufacturer – Stockiest / Distributor - wholesaler - Retailer – Consumer (four level)

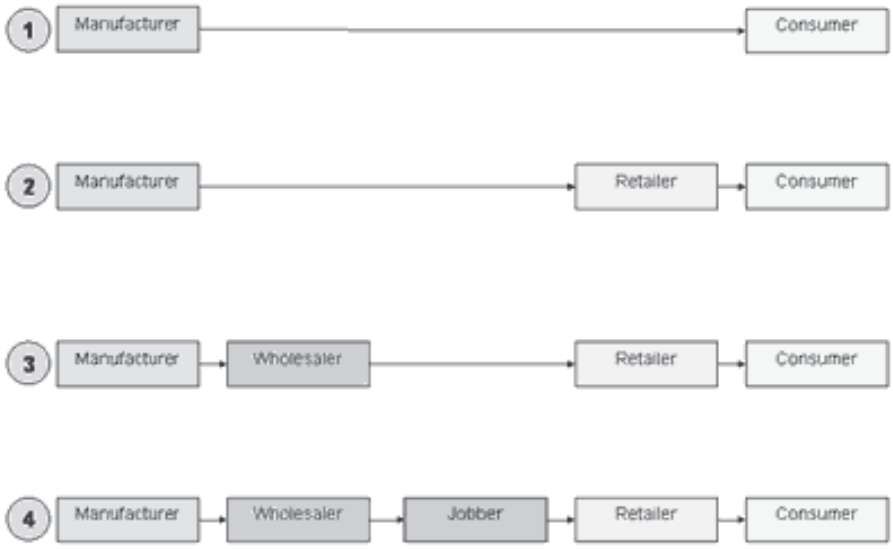


Figure 9.1 : Different types of Distribution Channels

All marketing intermediaries in a distribution chain do not operate at one and the same level; they operate at different levels. Each distinctive tier of intermediaries is referred to as 'level' in the channel; and each link in each level of the channel is referred to as a 'channel member'. The number of 'levels' determines the 'length' of the channel; the more the levels, the longer is the channel. One critical decision concerns the number of levels. How many levels should there be in the distribution channel? The choice depends on a number of factors. A particular channel pattern may be existing for many years as a standard trade practice of that business. Both the *single tier and two tier channel patterns have their advantages* and *disadvantages.* The single tier pattern provides better motivation to each member in the channel as they may be entitled for higher discount with the

elimination of the wholesale tier. Elimination of one tier *also* brings *in savings in distribution* expenses to the firm by *avoidance* of multiple transport and handling requirements. The firm can also service all the outlets directly. But the single tier results in inadequate market coverage. The two tier pattern helps quicker outflow of stocks and more intensive coverage of the market. But two tier pattern results in lower profits to retailers as the available margin has to be shared between the wholesaler and the retailer. It also weakens principal's control over the outfit, compared with the case of a single tier pattern.

Some intermediaries-such as wholesalers and retailers-buy and take title to merchandise; they are called merchants. Some others search for customers and may negotiate on the producer's behalf, do not take title to the goods are called agents. Some manufacturers sell directly to the final customers. The major examples are door-to-door sales, home par-ties, mail order, telemarketing, TV selling, Internet selling, and manufacturer-owned stores. It can be easily discerned from the above types that the difference between one channel and the other can arise on account of:

(i) Difference in the number of tiers/levels, and

(ii) Difference in the nature of intermediaries.

Hybrid Channels: When two or more marketing **channels** set up by a single firm to reach one or more customer segments is known as hybrid channel. In this form of multichannel **distribution** a variety of direct and indirect approaches are used to deliver the firm's goods to its customers. In order to understand the intricacies of channel management, we need to be familiar with some terms used in marketing channel. Let us discuss some of them.

9.4.1 Characteristics of different types of Intermediaries

The different types of intermediaries differ significantly in their roles, capabilities, territories, resources, size of operation, cost of operation and amenability to control by the marketer

(I) Marketer/Sole Selling Agent

Compared to small agents who normally do not take title, a

'marketer' or a 'sole selling agent' is usually a big marketing intermediary with large resources and extensive territory of operations. He usually has his own net-work of stockiest, semi-wholesalers and retailers. He normally takes over a major share of the marketing responsibility and functions on behalf of the manufacturer.

(II) Stockiest/Distributor/Wholesaler

A 'stockiest' or 'distributor' or 'wholesaler' is also a large sized operator but not at par with the marketer or sole selling agent in level, size, territory and scale of operation. The stockiest or distributor operates under the marketer / sole selling agent wherever the manufacturer does use a marketer or sole selling agent and as such, stockiest/ dis-tributors are one level below the marketer/sole selling agent. Stock holding and sub-distribution as per the policies laid down by the manufacturer or the marketer are the main functions of stockiest / distributors.

(III) Retailer/Dealer

A retailer as the name indicates does retailing; i.e., he sells to ultimate consumers. In the distributional hierarchy, retailers are below the level of stockiest or distributors or wholesalers. Sometimes, retailers are termed as dealers or authorized representatives. The retailer often operates in a smaller territory or at his specific location; earns lesser commission compared to higher levels in the channel; he does not carry out stock holding and sub-distribution functions.

9.4.2 Importance of Marketing Channels

Marketing channels play a pivotal role in the successful marketing of products and services. The importance of marketing channels can be understood clearly by analysing the wide variety of functions performed by them.

- ***Channels provide distributional efficiency* to manufacturers**
  Marketing channels bring together the makers and the users in an efficient and economic manner. It will not be practical for any

manufacturer to organize a network of his own independent selling points throughout the market and sell his products directly to consumers totally avoiding outside distribution channels. Even assuming that the marketer has the resources, the question arises whether it would be advantageous for the manufac-turer to carry out the distribution function himself, totally avoiding marketing intermediaries.

- ***Channels supply* products *in required assortments***

  Marketing channels combine the products and components manufactured by different firms and offer them in the form of 'assortments' that are convenient to final consumers. They also break the bulk and meet the small-size needs of individual consumers.

- ***Channels p*rovide s*alesmanship***

  Marketing channel members assist in establishing new products in the market. The dealers promote the products through their word-of-mouth communication. They also provide the pre-sale and after-sale service to consumers. In addition, they provide market intelligence and feedback to the manufacturers. The channels can provide the right type of information, since they are in constant and direct contact with -customers, and are feeling the pulse of the market all the time.

- ***Channels help merchandise the* product**

  Merchandising, which includes display, is another important function performed by marketing channels. Through merchandising, the channels members help reinforce the awareness about the product among the customers. When a customer visits a retail shop, his attention can be gained by an attractive display of a new product/brand, increasing his awareness of the product and his interest in the product. The merchandising activities complement the selling efforts of the manufacturer and act as a silent salesman at the retail outlet.

- ***Channels help implement the* price mechanism**

  Marketing channels also help implement the price mechanism in the market; they assist in arriving at the price level that is acceptable to the manufacturer as well as the user. This is very vital for the smooth running of the marketing process. Without the active role of the channel members, it would be very difficult to administer the pricing mechanism.

- ***Channels look after physical distribution and financing functions***

  Marketing intermediaries also look after a good part of the physical distribution functions like transportation, warehousing, sub-distribution and inventory manage-ment. They look after financing of the goods, credit transactions, negotia-tions with buyers etc. Sometimes the wholesalers/ stockists share the financial burden of the manufacturer. They often give substantive amounts to their principals as deposits; alternatively, they pay cash and lift the product; and the manufacturer gets his money long before the product reaches the actual users. Marketing intermediaries at the wholesale level also extend credit facilities to the subordinate level in the channels and thus relieve the principals of their financial strain.

- ***Channels act as change agents and generate demand***

  In certain cases, marketing channels go far beyond the conventional functions of distribution. For example, the marketing intermediaries in the agri-business often act as 'change agents' among the farmers and generate demand for new products. They perform a useful role in creating awareness and support services. As discussed above, the marketing channels play a very important role in the smooth running of the marketing process. So It is quite natural that most business firms consider the channel as a very important component of the marketing mix.



CHECK YOUR PROGRESS

Q.1: Define marketing channel.

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Q.2: What is "Zero level" channel?

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9.5 CHANNEL STRATEGIES

A **channel strategy** is a plan of the marketer for moving a product or a service through the chain of commerce to the end customer. Product manufacturers and service providers face a number of **channel** options.

9.5.1 Channel Integration and System:

Marketing channels are characterized by continuous and sometimes dramatic change. Three of the most important trends are the growth of vertical marketing systems, horizontal marketing systems and multichannel marketing systems.

A **vertical marketing system** (VMS) comprises the producer, wholesaler(s) and retailer(s) acting as a unified system. One channel member, the channel captain, owns the others or franchises them or has so much power that they all cooperate.

Horizontal marketing system: In this system two or more unrelated companies put together resources or programs to exploit an emerging marketing opportunity. Each company lacks the capital, know how, production, or marketing resources to venture alone, or it is afraid of the risk. For example, many supermarket chains have arrangements with local banks to offer in-store banking.

Integrating multichannel marketing system: Multichannel

marketing occurs when a single firm uses two or more marketing channels to reach one or more customer segments. An integrated marketing channel system is one in which the strategies and tactics of selling through one channel reflect the strategies and tactics of selling through other channels.

9.5.2 Other alternatives

a) *Vending Machines*

Marketing through vending machines also belongs to the category of non-store marketing techniques. It enables the principals to have the benefit of intensive and extensive retail distribution without having to employ manned retail stores. Usually products which belong to the 'buy on impulse' category like soft drinks, cigarettes, candy, etc., lend themselves to be marketed by this method. The banks make extensive use of ATMs to distribute their services. This kind of distribution has been catching up in urban India and is bound to acquire increased importance in the coming years.

b) Home Selling

Home selling, also known as door-to-door selling or direct selling to users is another method of non-store marketing. This method and network marketing are likely to gain further ground in the years to come. Eureka Forbes is a good example for home selling. In this method, the salesman/ agent of the principal directly meets the consumer and demonstrates the product, arranges for home delivery of the product once the consumer places an order for the supply. This method provides for transfer of detailed information to the prospective buyer; enables demonstration of the product right in the home of the prospect; and it provides for personal service and personal delivery. This method is however quite expensive.

From the above discussion on the different options and examples, it becomes obvious that having the right kind of channel strategies is quite difficult. The firm has to be quite clear about its channel objectives. That will only help the marketer to design the channel

and manage the channel functioning and logistics. In view of the above, let us discuss the channel design.

c) Multi Level Marketing

Multi-level marketing (**MLM**), is a form of **Network Marketing**. It is a marketing strategy that compensates promoters of direct selling companies not only for product sales they personally generate, but also for the sales of others they introduced to the company. The products and company are usually marketed directly to consumers and potential business partners by means of relationship referrals and word of mouth marketing

9.6 DESIGNING AND MANAGING MARKETING CHANNEL

9.6.1 Main steps involved in developing the channel design

The following are the main steps involved in developing the channel design:

- Formulation of channel objectives and identification of channel functions
- Analysing the product characteristics and linking channel design to the product
- Evaluation of the distribution environment
- Evaluation of competitors' channel patterns
- Evaluation of company resources and matching the channel design to the resources
- Development of alternative channel designs and selection of the one that suits the firm most.

Let us elaborate the above steps.

a) Formulation of channel objectives and identification of channel functions

Any business firm seeks to achieve the following main objectives through its channel:

- Coverage of the target market

- Ensuring convenience to the consumer.
- Ensuring that the channel will take care of the distribution job leaving the firm to carry on with its manufacturing activities,
- Ensuring that the distribution is cost effective

The intensity of market coverage sought, the service level sought to be maintained and other objectives will naturally vary from firm to firm. And they will flow largely from the marketing objectives of the firm. When Hindustan Lever decides that Lifebuoy should be available in eighty per cent of the villages of India, the firm's channel objectives are also getting framed. The channel designs of firms will differ from one another if their channel or marketing objectives differ from one another.

b) *Analysing the product characteristics and linking channel design to the product*

The firm should analyse the characteristics of the product and choose the channel design suited to the product. For example, the channels used for consumer and industrial products have to be different from one another. Products like consumer durables, consumer specialties, agri-inputs, industrial goods, spares, capital goods etc. require different types of distribution. In the case of industrial products, the products are complex and technically sophisticated. They need extensive pre-sale services, installation services, commissioning services, post-sale services and repairs and maintenance. Consumer products differ from industrial products in all these respects. Hence, the channel requirements are also going to be different. As a general rule, industrial products require specialist distributors and entrusting the products to general purpose (consumer product) distributors does not produce the best results. Product characteristics influence not only the basic channel design, but also the type and number of channel intermediaries required. For example, for textiles or shoes, the showroom may be an effective type of marketing intermediary. For a product like detergent, conventional wholesaler-retailer arrangements may be the

appropriate ones. For a product like tea, the channel members may have to be spread out in every nook and comer and must be serviced directly by the manufacturer.

c) Evaluation of the distribution environment

Selection of channel should also take into account the distribution environment. A firm has to evaluate the vital features of the distribution environment and ensure that the channel model to be adopted is compatible with them. Distribution environment in the broader sense includes the legal environment as well, in so far as its implications on distribution are concerned. The legal implications of the channel model too have to be examined before taking the decision on channel design.

d) Evaluation of competitors' channel patterns

The firm should also study the channel patterns followed by competitors before deciding on its own channel design. While the firm may not necessarily follow the competitors, it is important for the firm to analyse in depth the pros and cons of the channel patterns adopted by each of the major competitors. They should study the strengths and weaknesses of the channel systems adopted by their competitors and reflect those on their own design.

e) Matching the channel design to company resources

The choice of the distribution channel is also governed by the resources available at the disposal of the marketer. Small firms with limited resources and small volume of business will normally depend on conventional channels. As a matter of fact, they find it most economical to sell to a small number of conventional inter-mediaries operating in the market. Firms with larger resources have greater options to set up own channels.

f) Identifying alternative channel designs and selecting the one which suits the firm best

The range of alternatives in channel design open to a firm will get narrowed down after the firm goes through the steps described in the preceding paragraphs. The two main elements for evaluation

are cost and efficiency. A compromise may be called for between the efficiency expected of the channel and the cost of the channel. The channel that is efficient but relatively less expensive has to be chosen.

9.6.2 Channel member selection

The marketer has to take great care in the selection and appoint-ment of channel members. Granting franchise on undeserving or unsuitable dealers will be detrimental to the business interests of the firm. An indicative check list of qualities/qualifications/ attributes that are to be looked for while selecting individual dealers is furnished below.

- Business reputation and previous experience in the line
- Business capacity and salesmanship
- Financial capacity and willingness to invest in the line
- Credit worthiness
- Capacity and willingness to extend credit to customers
- Capacity to provide storage facilities, showrooms, shops, service workshops, salesmen and service men etc.

Depending on the product characteristics, the marketing environment and the objec-tives of the firm, the criteria could be modified appropriately.

9.7 MANAGING WHOLESALING AND RETAILING

Wholesaling: As we have discussed in section 9.4.1 wholesaling includes all activities involved in selling of goods and services to those who buy for resale or business use.

- **Basic Characteristics of Wholesaler:**
    1. Wholesaler plays a very important position in the channel of distribution.
    2. He assembles the goods from different sources for the retailers to buy.
    3. Wholesaler does not sell to the ultimate consumer.

4. Normally wholesaler sells large quantities.

- **Services rendered by Wholesalers to Manufacturer:**
  1. Wholesaler act as an intermediary between the manufacturer and the retailer.
  2. Wholesaler reduces the storage and cost of delivery of the manufacturer.
  3. Wholesaler offers financial help to manufacturer.
  4. They provide market information to the manufacturer.
- **Services rendered by Wholesalers to Retailers:**
  1. Wholesaler keeps large stock of varied goods for retailers.
  2. They provide quick delivery of good to retailer.
  3. Wholesaler grants credit to their permanent retailer.

Retailing: Retailing involves the sale of merchandise from a fixed location for direct consumption by the customer. Retailers take title, organize the availability of merchandise on a large scale and supply them to consumers on a relatively small scale. In the process, they provide the accessibility of location and convenience of timing, size, information, display and other support. Retailers create value for customers, who pay for these services. The supermarkets, department stores, suburban shopping centers, retail chain stores, consumer cooperative stores, etc. constitute the spectrum of the retail market intermediaries.

Major functions of retailers are :

1. Breaking the bulk.
2. Creating place utility.
3. Stocking goods.
4. Providing credit facilities to customers.
5. Providing information to customers and wholesalers.
6. Connecting link between the wholesaler and the customer.

Retailer also perform other marketing functions like sales promotion, advertising and point of purchase display.

Major Retailer Types

- ***Speciality Store*:** This kind of store has narrow product line with a deep assortment. A clothing store would be a *single-line store;* a

men's clothing store would be a *limited-line store;* and a men's custom-shirt store would be a *super specialty store*

- ***Department Store*:** This kind of store has several product lines-typically clothing, home furnishings, and household goods-with each line operated as a separate department managed by specialist buyers or merchandisers.
- ***Supermarket:*** This kind of store has relatively large, low-cost, low-margin, high-volume, self-service operation designed to serve total needs for food, laundry, and household products.
- **Convenience Store:** This kind of store has relatively small store located near residential area, open long hours, seven days a week, and carrying a limited line of high-turnover convenience products at slightly higher prices.
- ***Discount Store*:** This kind of store has standard merchandise sold at lower prices with lower margins and higher volumes. Discount retailing has moved into specialty merchandise stores, such as discount sporting-goods stores, electronics stores, and bookstores.
- ***Off-Price Retailer*:** is another kind of retailer where merchandise bought at less than regular wholesale prices are sold at less than retail: often leftover goods, overruns, and irregulars.
- ***Factory outlets:*** are owned and operated by manufacturers and normally carry the manufacturer's surplus, discontinued, or irregular goods.
- ***Independent off-price retailers:*** are owned and run by entrepreneurs or by divisions of larger retail corporations
- ***Hypermarkets:*** are large stores which combine supermarket, discount, and warehouse retailing. Product assortment includes furniture, large and small appliances, clothing, and many other items. They feature bulk display and minimum handling by store personnel, with discounts for customers who are willing to carry heavy appliances and furniture out of the store. Hypermarkets originated in France.

Large scale retailing has assumed great importance these days. Retailing is undergoing unprecedented change in developing economies.

9.8 EMERGING TRENDS IN CHANNEL MANAGEMENT

There has been a big quantitative expansion in distribution channels in India during the past few years. The organized sector of retailing has started emerging and becoming stronger and stronger. Today's dealers belong to the second generation in the distribution business and almost all of them are better educated and more aggressive compared to the earlier generation of dealers. Many of them are professionally qualified persons and are capable of dealing with the company executives on equal terms. With the increase in competition and the advent of a buyer's market, dealers are asserting themselves more and more. In consumer electronics for example, with the change over to a buyer's market, the relationship between manufac-turers and dealers has vastly changed. Liberal credit, free replacement of defective set, incentive schemes to best selling dealers which include attractions like luxury cars and holiday trips have become the order of the day. As a matter of fact, today, in many businesses, companies do not have much choice in selecting dealers; dealers have become choosy of manufacturers they would represent.

Another noteworthy development in distribution channels is that non-traditional channels have become popular in many businesses. A whole range of new market institutions / market intermediaries have also emerged, partly displacing and partly coexisting with conventional intermediaries like the wholesaler and the retailer. Manufacturers' own outlets / showrooms are an important part of the non-traditional channels.

Companies also ensure that all their exclusive shops, whether they are company owned or run by franchisees, are alike so that they create a common store image. Franchising is another special form of distribution arrangement. It has become popular in India in recent years as the days of brands have emerged. Franchising deals are seen mutually beneficial both by franchisors and franchisees. The franchisors feel that tie-ups are a key to rapid growth. For manufacturers who want to set up a wide marketing network without incurring large investments, franchising obviously makes

sense. And the franchisees realize that they can gain a lot by having a tie-up with brands that have gained high equity. Moreover, financing becomes easier as the principal's name offers credibility and in most cases, the promotion costs are borne by the principal.



CHECK YOUR PROGRESS:

Q.3: Define "Horizontal marketing system".

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Q.4: State any two services of wholesaler to retailer.

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9.9 LET US SUM UP

In this unit, we have discussed about marketing channel. Channel is the system though which the product moves from the manufacturer to the ultimate consumers. There are different types of channel of distribution used by the marketer based on their product and marketing strategies.

Place i.e. placing the product in one of the four "P"s of marketing and it refers to the distribution of the product covering channels of distribution and physical distribution. Effectiveness of marketing depends among other things on making the products available at the right places and at the right time at the minimum possible distribution cost. Distribution is a very difficult area in marketing. Each member of a channel is a link in a distribution network of organizations. Several organizations are linked together in a marketing channel to carry out the various activities of storage, transportation, repackaging, customer service etc. The firm has to be clear about the distribution objectives. Then only the channel management and

physical distribution related functions can be executed for rendering cost effective services to the end users i.e. the final customers.



9.10 FURTHER READINGS

1) Satish K Kapoor and Purva Kansal,(2003) *Basics of Distribution Management*, Prentice Hall of India, New Delhi

2) Agarwal D. K (2003)*Textbook of Logistics and Supply Chain Management*, Macmillan

3) Agarwal D. K. (2007) Distribution and Logistics Management – A strategic marketing approach;, Macmillan India Ltd.

4) B. S. Sahey and A K Gupta (2007), Supply Chain Management**:** *Modelling & Solutions*, Macmillan India Ltd.

9.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: *Marketing channels* are sets of interdependent organizations involved in the process of distribution.

Ans to Q No 2: When product is sold directly from manufacturer to customer it is called as zero channel or direct channel.

Ans to Q No 3: A system is called as Horizontal marketing system when two or more unrelated companies put together resources or programs to exploit an emerging marketing opportunity. Each company lacks the capital, know how, production, or marketing resources to venture alone, or it is afraid of the risk.

Ans to Q No 4: Two functions of wholesalers to retailer are:

1. Wholesaler keeps large stock of varied goods for retailers.
2. They provide quick delivery of good to retailer.



9.12 MODEL QUESTIONS

1. What is channel of distribution?
2. What are the different types of Channel?
3. Discuss the importance of marketing Channel.
4. Describe the emerging trends in channel management?
5. What are the services performed by wholesalers?
6. What is retailing?
7. Write short notes on
   (a) Vending Machine, (b) Home Selling
8. Describe the major retailer types available in India.

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UNIT 10: MARKETING PROMOTION-I

UNIT STRUCTURE

10.1 Learning Objectives

10.2 Introduction

10.3 Defining Promotion

10.4 Promotion Mix

10.5 Factors affecting Promotional Mix and Strategies

10.6 Forms of Promotion

10.6.1 Advertising

10.7 Let Us Sum Up

10.8 Further Readings

10.9 Answers To Check Your Progress

10.10 Model Questions

10.1 LEARNING OBJECTIVES

After reading this unit you will be able to -

- define promotion
- describe different types of promotion
- differentiate between promotion and advertisement

10.2 INTRODUCTION

In the earlier units you have obtained a fairly good insight into marketing and its implications. We have been reading, watching, listening and looking at different promotion since our childhood. Promotion is one of the components of marketing mix (marketing mix-Product, price, promotion and place) which helps the marketer to promote the product in the market. Its main purpose is to inform, persuade and influence people towards the product or services. Promotion is a basic ingredient in non-price competition and it is an essential element in modern marketing. This unit introduces you to the different promotional strategy of marketing.

10.3 DEFINING PROMOTION

Generally, promotion is communicating the benefit of the product or service to the target customers in an attempt to influence them toward buying the products services on offer.

The marketers should provide information to the customers about its products and services and motivate customers to buy. Advertising, personal selling, publicity and other sales promotional programes are the various promotional activities. All these activities increase the volume of sales by expanding as well as retaining the market share for the products. Basically, promotion deals with no price competition in the market. Promotion is done for three purposes – (a) informing, (b) persuading and (c) influencing consumers.

Promotional techniques are used by both Industrial as well as Consumer marketers. Different marketers use different advertising Media (newspaper, magazine, television, hoardings, radio etc.).For example, a machine tool marketer can use magazine advertising, dealer sales – incentive contest, trade shows, and press release to promote the products. IBM, Apple and other computer supplier combine extensive personal selling with advertising and public relations. For expensive, complex products and systems, close interaction between buyer and seller is often required, which lead to a lot of personal selling in such markets.

Marketers' selection of advertising media reflects their overall promotional strategy for a product.

10.4 PROMOTION MIX

Promotion is one of the major components of marketing mix. The purpose of promotion is to reach the desired consumers and persuade them to act positively towards the specific product or services. A company may have a well-designed product offering with a price and distribution system appropriate to its target market. But if it is unable to reach that market, then all its efforts will have been in vain. Promotion is responsible for awakening and stimulating consumer demand for the product.

Businesses use various promotional methods to communicate with individuals, groups and organizations. Just as product, price, distribution, and promotion make up the marketing mix, so four components make up the promotion mix. The promotion mix is the specific combination of these four promotional methods-advertising, personal selling, sales promotion, and publicity or public relation that an organization uses for a specific product.

10.5 FACTORS AFFECTING PROMOTIONAL MIX AND STRATEGIES

There are many factors which influence promotional mix and they are known as product market factors.

1. **Nature of the product:**

   Different product requires different promotional mixes. Consumer goods and industrial goods require different strategies. Consumer goods are sold through advertising, personal selling and displays. But industrial goods require more personal selling. Based on the following attributes, the promotional strategy may vary.

   (a) Product complexity: If a product is technically sound and complex in nature then it requires personal selling. For example, Industrial products. On the other hand if the product is simple we can go for advertising. For example, most of the FMCG products.

   (b) Brand differentiation: Promotional mix is affected by brand differentiation and the degree to which the brand is differentiated from competitor's brand.

   (c) Purchase frequency: If buyers buy frequently a product, such as soap, tooth paste etc. the marketer will invest a good amount on advertising to push competition brands.

2. **Nature of the market:** Different markets require different promotional mixes and strategies. In industrial market, advertising plays a more informative role then the persuasive role for industrial buyers. Personal selling emphasizes on two roles, i.e. information and persuasion in the industrial and consumer's market.

3. **Stage in the product life cycle:** The promotional product mix varies within stage in the product life cycle. The nature of demand varies according to the stages in the life cycle. During the introductory stage, the customers do not realize the qualities of the product. Here, information about the product and its benefits are made known to the buyers. In this stage, more importance must be given to personal selling and trade shows. In the growth stage, customers know the qualities of the product. Hence to stimulate demand, advertising must be increased. In the maturity stage, sales and profits decline and hence all the promotional activities should be cut down.
4. **Market penetration:** Here the product is already known to the buyers. In that situation, a sustaining promotional strategy is suitable. A brand has insignificant market penetration means it has a small market or struggling market.
5. **Market size and location:** Product's market size and location also influences the promotional mix. In narrow market, where the numbers of potential buyers is small, direct mail is used. In a broad market advertising is used.
6. **Characteristics of buyers:** The characteristics of prospective buyers strongly influence the promotional mix. Experienced professional buyers such as industrial purchasing agents need personal selling. Inexperienced buyers need advertising. Some buyers give importance to time, some to purchase of products, buyers act according to the influence of friend, relatives etc.
7. **Distribution strategy;** Companies fighting more through distribution for establishing their brands, invest more money on personal selling and advertising. Companies which have already established their brand in the market have to invest only a small amount in personal selling and advertising.
8. **Pricing strategy:** Pricing strategy influence the promotional mix strategy. If the brand is priced higher than the competition, more personal selling is needed to get a middleman to stock and push the brand. If the brand is priced lower, little promotion is needed.



CHECK YOUR PROGRESS:

Q.1: Give the definition of promotion**.**

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Q.2: State any two factors which influence promotional strategies.

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10.6 FORMS OF PROMOTION

In this section we will discuss about different promotional forms and corresponding marketing strategies. Different forms of promotion are as follows:

- Advertising
- Personal Selling
- Sales promotion
- Publicity and public Relation

  Direct Marketing

In this unit we will briefly discuss advertising as a fomr of promotion, other promotional mixes will be discussed in the next unit.

10.6.1 Advertising

Advertising provides information about product and services to the customer. It is a medium of mass communication to convey the benefits about the products and services. Advertising can enhance sales only if they promise a benefit to the customer.

Definition: Advertising is a paid form of non- personal communication about an organization, its products, or its activities that is transmitted through a mass medium to a target audience. The mass medium could be television, radio, newspaper, magazine, direct mails, sign, outdoor displays, handbills, catalogues or directories. Advertising can be used to build up a long term image for a product trigger quick sales.

Advertising is one of the most cost efficient methods because it can reach a large number of people at a low cost per person. Advertising also helps in creating brand image about a company. Advertisement permits the seller to repeat a message for many times, which will help the customer to remember the product. Advertising also has several drawbacks. Even though the cost per person may be low, but the total cost can be very high. These high cost can limit, and sometimes eliminate advertising as an element of the promotion mix. As advertising is a one way of communication (generally), the feedback from advertising is generally slow, if it occurs at all, and measurement of the effect of advertising on sales is difficult.

Developing the advertising strategy:

1. Identify and understand the target audience:

The target audience is the group at which the advertising is aimed for. The target market should be selected very carefully and it should comprise the best prospects that would buy the product. The target market may be defined in terms of the socio economic group, age, gender, buying frequency and lifestyle for consumer markets. In business markets, the target market may be defined in terms of the industry, order size, product specifications and buyer seller relationships.

After the identification of the target audience, next step is the analysis of the buyers' choice. Different factors based on which buyers make their purchase decisions are : external factors (such as income, social class, reference group influence, culture, buy situations) and psychological factors (such as perceptions, attitude, involvement levels).

2. Advertising objectives:

All advertisement should enhance sales. Some may induce purchase action immediately, while some may stimulate demand for a later period. The objective of the advertising can be framed under following headings:

- **Position the offering:** Advertisements are primarily used for positioning products in the mind of target audience.
- **Create awareness:** When awareness is created, it legitimizes a company, its representatives and products in the eyes of customers.
- **Stimulate trial:** Advertising stimulates trial purchase among the target customers.
- **Remind and reinforce:** After the customers have become aware of the brand, its advertisement should keep reminding the customers of its existence until the brand image sticks to the minds of the targeted customers.
- **Provide support for sales force:** Advertising helps the sales force in convincing the customers.
- **Correcting misconceptions:** Advertisements can also be used to correct misconceptions which consumers hold against brands.

3. Methods of setting the advertising Expenditure

The advertising expenditure is a part of the total communications spends of a company. The company must therefore decide the percentage of advertising spend as one of the components of its integrated communication campaign.

Though there are several methods of arriving at the budget, the individual brand budget will depend upon several factors such as profitability, marketing objective and competitor's position. The various methods, which are used, for setting advertising budgets are:

- **Percentage of Sales Method**: The percentage of sales method is the most widely used method of setting the appropriation. The percentage is based on the past years' sales or on estimated sales for the coming year or on some combination of these two. This is simplest method, as it requires little decision making. But this method suffers from a basic drawback in that it does

not take into account any specific need of the market situation which may change rapidly.

- **Unit Sales Method**: In this approach, a percentage of the price of each unit of the item sold is allocated to advertising. This approach is useful as it links the price of a brand with its advertising expenditure. This approach is simple to plan and execute. However, it does not lead to efficient marketing since past sales determine how much a firm should spend on advertising, when in fact advertising is a tool to create sales and expand markets.
- **Task Objective Method**: The objective task method concentrates on the marketing/advertising objectives that are pre-decided. Thus under this method a company launching a new product will decide to spend more money as it has to create immediate awareness amongst consumers.
- **The Competitive Parity Method**: In this approach an advertiser bases his budget decision primarily on the expenditures of competitors. That is they try to keep pace with their competitor's advertising budgets. This method could be useful in deciding individual brand ad expenditures. It has the advantage of recognizing the importance of competitors and ensures that the competitors do not increase their ad expenditure to a level that affects the advertiser's sales.
- **Affordability Method**: This approach means that the advertising budget will be decided on the basis of whatever money is left after all other fixed and unavoidable expenses have been allocated.
- **The Break Even Method**: The break even or the marginal analysis method attempts to quantify the advertising spending level that will offer an organization the highest additional gross profits. That is the firm continues to spend on the advertising as long as the incremental expenditure are exceeded by the marginal

revenue they generate, thus maximizing the gross profits of the firm.

This method has an advantage because it helps in diagnosing any problem, that is when the company is overspending or under spending. But it suffers from the disadvantage of limited research techniques that cannot isolate the effect of advertising on marginal revenues and gross profits.

Some specific factors that should be considered when setting the advertising budget are:

- Stage in the product life cycle: New products typically need large advertising budgets compared to matured products.
- Market share: High-market share brands usually need more advertising.
- Competition and clutter: More advertising is usually required in a market with many more competitors and their advertising clutter.
- Product differentiation: When a brand closely resembles other brands in its product class, more advertising (and therefore budget) is needed

4. Message decisions:

Advertising strategy consists of two major elements:

a) Creating advertising messages

b) Selecting advertising media

a) Creating advertising messages: No matter how big the budget, advertising can succeed only if commercials gain attention and communicate well. Good advertising messages are especially important in today's costly and cluttered advertising environment.

The first step in creating effective advertising messages is to decide what general message will be communicated to consumers—to plan a message strategy. Developing an effective message strategy begins with identifying customer benefits that can be used as advertising appeals. Ideally, advertising message strategy will follow directly from the company's broader positioning strategy. Message

strategy statements tend to be plain, straightforward outlines of benefits and positioning points that the advertiser wants to stress.

b) Selecting advertising media: In order to decide the media vehicle the marketers choose from the following: Print media (news paper, magazine, Hoardings, posters etc), Broadcast media (Television, Radio and online media). More than creativity considerations of cost per thousand customers reached is more dominant. This requires readership and viewership figures.

Different types of media are discussed as follows:

(i) Print Media: Print advertising includes advertisement in newspaper, magazines, brochures, posters etc. Print media provides more detail information, rich imagery and longer message life. But the drawback is that many readers do not read the advertisements. In case of a news paper, the readers will read the news not the advertisement.

Different forms of print advertising are discussed below -

- **News paper advertising:** The news paper may be daily, weekly or fortnightly and can also be of different languages. When we consider the news paper as an advertising medium, we have to asses the advantages of the news papers as it provides more flexibility than other media do. News paper conveys messages very rapidly to the mass media. Cost of advertising is also low in case of local news papers. But the drawback here is that it has short life span and many readers do not read the advertisements.
- **Magazine Advertising:** A magazine is a periodical publication, consisting of specific information to the target group (e.g. business magazine for businessman, health magazine for health concerned people etc.). Advertisers can easily target their audience and give advertisement on specific magazines. The presentation of material in a magazine is better than news paper. Both printing and paper qualities are good in magazines. Magazines have the longest life span in all media.

- **Packaging:** In today's marketing environment, a package is both a container and a communication vehicle. The package serves as a critical reminder of the product's important benefits at the moment the consumer is choosing among several competing brands.
- **Direct mail advertising:** Direct mail advertising is one of the media communication that brings the product message

(ii) Broadcast media:

Radio advertising: The radio is a major and one of the most popular media vehicles of advertising. Its coverage area is more than 90% of India's total land mass. The radio ads rate structure depends upon the day, date and time. There are different radios systems through which one can listen to radio. FM is an emerging example. Radio allows the listener to imagine and it has high acceptance at the local level. But the drawback is that it cannot give the visual impact.

Television advertising:

It is said that today television advertising is the best appealing media vehicle. It is a means of bringing actual demonstration in the homes of the prospects and therefore more effective media when compared with radio. Television makes full use of sight, sound and motion and thereby maximizes impact on audience.

Online advertising:

Internet is another media that is being used by advertisers. With the advent of the internet, distance is no longer an obstacle for commerce. It is inexpensive, but getting the attention of the viewers is difficult.

5. Message Execution

The advertiser now has to turn the big idea into an actual ad execution that will capture the target market's attention and interest. The creative people must find the best style, tone, words, and format for executing the message. Any message can be presented in different execution styles, such as the following:

Slice of life: This style shows one or more "typical" people using the product in a normal setting.

Lifestyle: This style shows how a product fits in with a particular lifestyle.

Fantasy: This style creates a fantasy around the product or its use.

Mood or image: This style builds a mood or image around the product, such as beauty, love, or serenity. No claim is made about the product except through suggestion.

Musical: This style shows one or more people or cartoon characters singing about the product.

Technical expertise: This style shows the company's expertise in making the product.

Scientific evidence: This style presents survey or scientific evidence that the brand is better or better liked than one or more other brands.

Testimonial evidence or endorsement: This style features a highly believable or likable source endorsing the product

6. Evaluating advertising effectiveness:

Effective advertisements have a positive impact on the sales of a product. The three relevant questions about measuring effectiveness are what, when and how to evaluate advertising. There are different tests and several techniques in each of the test to evaluate advertising effectiveness. Based on Philip Kotler's views, let us discuss different measures to evaluate advertising effectiveness.

Pre-test and Post Test:

Pre-test implies testing advertising message before it is sent to specific media. Post test implies testing impact of advertising message after it is published in any of the media.

Communication and Sales Effect Test: Communication test measures communicability (ability to communicate) of the message, whereas sales-effect test measures advertising impact on sales volume.

Laboratory and Field Test:

Clearly, a laboratory test is conducted in a controlled environment in a limited scale. Respondents are invited in a laboratory to state their response. Quite opposite, a field test is conducted in original setting, artificial climate is not created. It is similar as conducting survey to measure what customers think about company's advertisement.

Experimental and Survey Test:

Experimental test involves testing advertising effect by conducting test by manipulating independent variable (i.e., advertising efforts) and measuring the effect of the manipulation on other dependent variables like sales, profits, consumer satisfaction, etc. Experimental test may be laboratory or field test. Survey test involved knowing consumers' view's through a survey method.

Message and Media Effect Test:

While message test involves measuring clarity, contents, believability, action ability, etc., of the message, the media test measures effectiveness/ suitability of one or more media.

7. Organising campaign development:

An advertiser has four options when organizing for campaign development. These include:

- One can tie up with different agencies to develop an advertisement. Small companies develop the advertising in cooperation with people from the media.
- The companies may have their own advertising team. Thus advertising function is conducted in house by creating an advertising department staffed with copy writers, media buyers and product personnel.
- The company can involve a reputed advertising agency for developing its advertising campaign. The professionally run agencies have varied experience of working with different companies, therefore, a company can expect good results from these agencies.

- Some companies organizes their advertising campaign by using a mix of services from in house personnel and those from specialized agencies because of their experience in some of the particular activities.



CHECK YOUR PROGRESS

Q.3: Define advertising.

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Q.4: State two methods for setting advertising budgets.

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Q.5: State two measures for evaluating advertising effectiveness.

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10.7 LET US SUM UP

In this unit we have discussed different promotional strategies, which can be summarized as follows:

- Promotion is communicating the benefit of the product or service to the target customers in an attempt to influence them toward buying your products or services.
- The promotion mix is the specific combination of four promotional methods-advertising, personal selling, sales promotion, and publicity or public relation that an organization uses for a specific product.
- An advertising strategy involves identifying a target audience, defining the objective, the budget and the message, depending on this the media through which the message will be communicated is decided.



10.8 FURTHER READINGS

1) Philip Kotler, Kevin Lane Keller, Abraham Koshy, and Mithileshwar Jha (2007), *"Marketing Management"*, Pearson Education

2) V. S. Ramaswami and S Namakumari (2003), *"Marketing Management"*, Macmillan India Limited

3) Alan R. Andreasen and Philip Kotler (2006), Strategic Marketing for Non Profit Organizations, 6th Edition, Pearson Education, pp 10-12

10.9 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No.1: Promotion is the aspect of selling, sales promtion, personal selling and advertising on communicating the benefit of the product or service to the target customers.

Ans. to Q. No.2: Two factors which influence promotional mix are:

1. Nature of the product
2. Market size and location

Ans. to Q. No.3: Advertising is a paid form of non- personal communication about an organization, its products, or its activities that is transmitted through a mass medium to a target audience.

Ans. to Q. No.4: Two methods for setting advertising budgets are:

1. Percentage of sales method
2. Unit of sales method

Ans. to Q. No.5: Two measures for evaluating advertising effectiveness are:

1. Pre-test and Post Test:
2. Communication and Sales Effect Test



10.10 MODEL QUESTIONS

1. Define Promotion. Do you think promotion is necessary to sell a product?
2. Explain promotional mix and its strategies in different marketing conditions.
3. Explain different forms of promotion.
4. Elaborate the steps to be followed for developing an advertising strategy.
5. Explain how the effectiveness of an advertisement can be measured.
6. Discuss different techniques of sales promotion.
7. Discuss the functions of public relations.

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UNIT 11: MARKETING PROMOTION- II

UNIT STRUCTURE

11.1 Learning Objectives

11.2 Introduction

11.3 Forms of Promotion

- 11.3.1 Sales Promotion
- 11.3.2 Personal Selling
- 11.3.3 Public Relations
- 11.3.4 Direct Marketing

11.4 Let Us Sum Up

11.5 Further Readings

11.6 Answers To Check Your Progress

11.7 Model Questions

11.1 LEARNING OBJECTIVES

After reading this unit you will be able to -

- explain different forms of promotion
- explain sales promotion, personal selling and publicity
- explain the need for promotional strategy

11.2 INTRODUCTION

In the earlier units you have obtained a fairly good insight into promotion and promotion mix. Promotion is a basic ingredient in non-price competition and it is an essential element in modern marketing. Promotion tries to communicate the company's message to customers in different forms. The four main forms of promotion are advertising, sales promotion, personal selling and publicity or public relation. This unit introduces you to the different forms of promotional strategy of marketing. Most of you must have heard about various promotional strategies like advertising, sales promotion (offer), personal selling (face to face interaction) and publicity, direct marketing etc. In this unit, we will discuss these in detail.

11.3 FORMS OF PROMOTION

As we know that there are four types of promotionnal mixes in marketing, in this section we will discuss about different promotional forms and corresponding marketing strategies. Different forms of promotion are as follows:

- Advertising
- Personal Selling
- Sales promotion
- Publicity and public Relation

  Direct Marketing

In the earlier unit, we have discussed in detail about advertising. In this unit we will discuss other three forms of promotion, namely personal selling, sales promotion and publicity and direct marketing.

11.3.1 Sales Promotion

Sales promotions are incentives to consumers or traders that are designed to stimulate purchase. Consumer sales promotion is a marketing technique that is used to entice customers to purchase a product. The promotions typically last for a set period of time and are used to achieve a specific purpose, such as increasing market share or unveiling a new product.

Definition: Sales promotion is an activity or material that offers consumers, salespersons, or retailers a direct inducement for purchasing a product.

Different sales promotional tools are- coupons, contests, premiums, sweepstakes, refund, demonstration or display. Some classic examples are 25% off, buy one get one free, money back offer etc. Companies use sales promotion tools to draw a stronger and quicker buyer response. Sales promotion can be used for short run effects such as to dramatize product offers and boost sales. In contrast to advertising and personal selling, which are generally used on a continuous or cyclical basis, sales promotion devices get more

irregular use. They are used mainly for short term gains.

Some of the important ***consumer sales promotion*** techniques are as follows :

(1) Rebate: Under it in order to clear the excess stock, products are offered at some reduced price.

(2) Discount: Under this method, the customers are offered products on less than the listed price. For example, giving a discount of 30% on the sale of certain products.

(3) Refunds: Under this method, some part of the price of an article is refunded to the customer on showing proof of purchase. For example, refunding an amount of 5/- on showing the empty packet of the product priced 100/-.

(4) Product Combination: Under this method, along with the main product some other product is offered to the customer as a gift. The following are some of the examples:

(5) Quantity Gift: Under this method, some extra quantity of the main product is passed on as a gift to the customers. For example, 25% extra toothpaste in a packet of 200 gm tooth paste etc.

(6) Instant Draw and Assigned Gift: Under this method, a customer is asked to scratch a card on the purchase of a product and the name of the product is inscribed thereupon which is immediately offered to the customer as a gift. For example, on buying a car when the card is scratched such gifts are offered – TV, Refrigerator, Computer, Mixer, Dinner Set, Wristwatch, T-shirt, Iron Press, etc.

(7) Lucky Draw: Under this method, the customers of a particular product are offered gifts on a fixed date and the winners are decided by the draw of lots.

(8) Usable Benefits: Under this method, coupons are distributed among the consumers on behalf of the producer. Coupon is a kind of certificate telling that the product mentioned therein can be obtained at special discount. It means that if a customer has a coupon of some product he will get the discount mentioned therein whenever he buys it.

(9) Full Finance @ 0%: Under this method, the product is sold and money received in installment at 0% rate of interest. The seller determines the number of installments in which the price of the product will be recovered from the customer. No interest is charged on these installments.

(10) Samples or Sampling: Under this method, the producer distributes free samples of his product among the consumers. Sales representatives distribute these samples from door-to-door.

(11) Contests: Some producers organise contests with a view to popularizing their products. Consumers taking part in the contest are asked to answer some very simple questions on a form and forward the same to the company. The blank form is made available to that consumer who buys the product first.Result is declared on the basis of all the forms received by a particular date. Attractive prizes are given to the winners of the contest.

(12) Free Trial: A free trial is a way for a consumer to try a new product while eliminating risk. It may be used when a product is unique to the marketplace, which can make consumers leery of trying it out.

Trade Sales Promotion

While consumer sales promotions help pull a product through a marketing channel by increasing the consumer's demand for a product, trade sales promotions have the opposite effect. They work to push a product through the channel by increasing a retailer or other intermediary's demand. **Trade sales promotion** is a promotional incentive directed at retailers, wholesalers, or other business buyers to stimulate immediate sales.

Some of the important trade-oriented promotion tools are as follows:

Cash bonuses: It can be in the form of cash discounts or straight cash payments to encourage volume sales, product display, or in support of a price reduction to customers.

Stock return: Some firms take back partly or wholly the unsold stocks lying with the retailers, and distribute it to other dealers, where

there is a demand for such stocks.

Credit terms: Special credit terms may provide to encourage bulk orders from retailers or dealers.

Dealer conferences: A firm may organize dealer conferences and dealers may be given information of the company's performance, future plans, and so on.

Push incentives: It is a special incentive given to the dealer in the form of cash or in kind to push and promote the sale of a product, especially a newly launched product.

Objectives of sales promotion:

Sales promotion aims at enhancing sales by giving customers an extra value. Some of the objectives of sales promotion are:

- Fast sales boost.
- Encourage trial purchase
- Encourage repeat purchase
- Stimulate purchase of larger stocks
- Gain distribution and shelf space

Evaluating sales promotion:

The evaluation of an effective sales promotion program is generally divided into three phases:

1. **Pre-testing:** Before a sales promotion is offered.
2. **Monitoring and Follow Up:** When the sales promotion is operational i.e. when it is going on.
3. **Post-testing:** At the end of the sales promotion event.

Pre-testing

We can pre-test what a sales promotion would be communicating and how it would communicate with the target group of customers. We would like to know whether the customer here is at risk of buying an unfamiliar brand. Using "Focus Groups" and "Consumer Panels", we can conduct a pre-test to analyze these factors.

At times, it is advisable to gather and assess the responses of resellers before launching a promotion program. The best way is to visit certain retailers, dealers and wholesalers, discuss the program

with them and ask for their valuable suggestions. This is of paramount importance when the reseller's support is very important in making the promotional campaign a success.

Concurrent testing

This phase of testing takes place during the promotion program i.e. when it is in progress. It allows the manager to make necessary changes to the program whenever and wherever requires. Sales data is used to carry out this kind of test; this data should be collected on a weekly or monthly basis. For e.g. the promotional tool used is a "Contest". In that case, the promotional response can be assessed on the basis of entries received and requires the manager can also extend the contest period. We can have another example here. If "Coupons" are being used, the response can be evaluated on the basis on number of coupons redeemed by customers.

Post-testing

Post-testing is conducted after the promotion program has come to an end. Here, customers are contacted telephonically, questionnaires are also mailed to them, and personal interviews are also conducted to evaluate any change in their attitude towards or awareness of the brand. Personal Interview is the most expensive method here. Mail is the least expensive one.

To assess the affect of sales, one must take into account the sales level prior to the promotion period and compare it with the sales level that exist at the end of the promotion period. It must also be compared with the sales figure of the period one month after the promotion has ended.

11.3.2 Personal Selling

Personal selling is the most effective tool at later stages of the buying process, particularly in building up buyer preference, conviction, and action. Personal selling has three distinctive qualities:

1. **Personal confrontation**: Personal selling involves an immediate and interactive relationship between two or more persons. Each

party is able to observe the other's reactions.

2. Cultivation: Personal selling permits all kinds of relationship to spring up, ranging from a matter of fact selling relationship to a deep personal friendship.

3. Response: Personal selling makes the buyer feel under some obligation for having listen to the sales talk.

In the early part of this unit, we saw how marketers can use advertising and sales promotion reach a large number of customers. While these methods of promotion offer many advantages, they each share one major disadvantage; they are a non-personal form of communication. And whether a company is in retailing or manufacturing, sells goods or services, is a large multi-national or a local startup, is out to make a profit or is a non-profit, in all probability at some point they will need to rely on personal contact with customers. In other words, they will need to promote using personal selling.

Personal selling holds a key role in the promotional activities of a large number of organizations. Personal selling is more costly and time consuming method compared to the other methods of promotion.

11.3.3 Public Relations

Of the four promotional mix options available to marketers' public relations (PR) or publicity is probably the least understood and, consequently, often receives the least amount of attention. Many marketers see public relations as only handling rudimentary communication activities, such as issuing press releases and responding to questions from the news media. But in reality, public relation offers powerful methods for convincing the customer.

Functions of Public relations:

- **Facilitates company's overall operations:** It leads to the development of an image for the organization which can be exploited to gain advantages in the field of sales and marketing.

- **Aids promotion:** Public relations may also contribute towards generation of awareness and interest in the company's products which will help in promoting the products.
- **Helps in tackling social and environmental issues:** It helps in handling social and environmental issues and ensures that they are settled to the mutual benefits of all parties involved. If the company has a good record of fulfilling its societal obligations and safeguarding the environment, its occasional fault may be spared by customers.
- **Ensures that customers are treated well:** Public relations also play a role in ensuring that the customers are not just treated well by the company but also they are presented with useful information.
- **Develops reputation as a good supplier and customer:** It helps in building the overall reputation of a company not just as a good as well as trustworthy manufacturer and marketer for its customers and suppliers but also as a good customer for its suppliers.

Publicity:

One of the methods of public relation is publicity. It generally involves communication about an organization or any of its products in the media. Publicity is a non paid form of non personal communication about an organization or its products that is transmitted through a mass medium in the form of a news story. Publicity can be done in the form of news releases, news conferences, publishing feature articles, setting up interviews, conducting seminar and conferences etc. Publicity differs from other promotion mix in that it does not directly facilitate exchanges instead, its purpose is to provide information to the general public and to create and maintain a favorable public image of the organization.

11.3.4. Direct Marketing

Now a days direct marketing is also considered as one of the

component of promotion mix. Direct marketing is a form of communication that involves directly communicating a marketing message to a potential customer, usually through mail, email, telemarketing, or door-to-door visits. There are many forms of direct marketing tools. Some of these tools are discussed in the later part of the SLM, like social media marketing, mobile marketing etc. The succes of direct marketing is high as it directly targets the potential customers.



CHECK YOUR PROGRESS

Q.1: State any two techniques of sales promotion.

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Q.2: Define Personal Selling.

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Q.3 Define Publicity

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11.4 LET US SUM UP

In this unit we have discussed different forms of promotions other than advertising, which can be summarized as follows:

- Sales promotions are incentives given to consumers to make them believe that they are getting more value for the money they are spending. It also encourages trial and repeat purchases.
- Personal selling is the most effective tool at later stages of the buying process, particularly in building up buyer preference, conviction, and action.
- Public Relations are a strategic communication process that builds mutually beneficial relationships between organizations and their

publics."

At the end of the unit we have discussed the concept of direct marketing and how this promotional comunication helps in marketing.

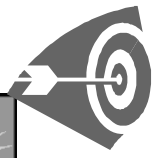


11.5 FURTHER READINGS

1) Philip Kotler, Kevin Lane Keller, Abraham Koshy, and Mithileshwar Jha (2007), *"Marketing Management"*, Pearson Education

2) V. S. Ramaswami and S Namakumari (2003), *"Marketing Management"*, Macmillan India Limited

3) Alan R. Andreasen and Philip Kotler (2006), Strategic Marketing for Non Profit Organizations, 6th Edition, Pearson Education, pp 10-12



11.6 ANSWERS TO CHECK YOUR PROGRESS



Ans. to Q. No.1: Two techniques of sales promotion are Rebate and Discount.

Ans. to Q. No. 2: Personal selling implies no. of salesmanship in building up buyer preference, conviction, and action towards purchase.

Ans. to Q. No. 3: Publicity is not directly paid form of non-personal communication about an organization or its products that is transmitted through a mass medium in the form of a news story.

11.7 MODEL QUESTIONS

1.. Explain different forms of promotion.

2. Discuss different techniques of sales promotion.

3. Discuss the functions of public relations.

4. State the concept of Direct Marketing.

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UNIT 12: CUSTOMER RELATIONSHIP MANAGEMENT

UNIT STRUCTURE

12.1 Learning Objectives

12.2 Introduction

12.3 Relationship Marketing Vs. Relationship Management

12.4 Definitions of Customer Relationship Management (CRM)

12.5 Forms of Relationship Management

12.6 Managing Customer Loyalty and Development

12.7 Reasons behind Losing Customers by Organisations

12.8 Significance of Customer Relationship Management

12.9 Let Us Sum Up

12.10 Further Readings

12.11 Answers to Check Your Progress

12.12 Model Questions

12.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- explain the meaning of Customer Relationship Management
- distinguish between Relationship Marketing Vs. Relationship Management
- know the various forms of Relationship Management
- discuss the tips of managing Customer Loyalty and Development
- identify the possible reasons behind losing customers by organisations
- realize the significance of Customer Relationship Management

12.2 INTRODUCTION

Customer Relationship Management (CRM) is an integrated approach in identifying, acquiring and maintaining customers. It is a process which allows companies to coordinate their approach across customers,

channels and departments. Relationship Management is an integrated approach to identifying, acquiring and maintaining customers. It allows companies to coordinate their approach across channels, departments and also other entities geographically. Customer Relationship Management is the strongest and the most efficient approach in maintaining and creating relationships with customers. The features of CRM system are as follows.

1. CRM system consists of a historical view and analysis of all the acquired or to be acquired customers. This helps in reduced searching and correlating customers and to foresee customer needs effectively and increase business.
2. CRM contains each and every bit of details of a customer, hence it is very easy for tracking a customer accordingly and can be used to determine which customer can be profitable and who is not.
3. In CRM system, customers are grouped according to different aspects according to the type of business they do or according to physical location and are allocated to different customer managers often called as account managers. This helps in focusing and concentrating on each and every customer separately.
4. A CRM system is not only used to deal with the existing customers but is also useful in acquiring new customers. The process first starts with identifying a customer and maintaining all the corresponding details into the CRM system which is also regarded as an 'Opportunity of Business'. The Sales and Field representatives then try getting business out of these customers by sophistically following up with them and converting them into a winning deal. All this is very easily and efficiently done by an integrated CRM system.
5. The strongest aspect of Customer Relationship Management is that it is very cost-effective. The advantage of decently implemented CRM system is that there is very less need of paper and manual work which requires lesser staff to manage and lesser resources to deal with. The technologies used in implementing a CRM system

are also very cheap and smooth as compared to the traditional way of business.

6. All the details in CRM system is kept centralized which is available anytime on fingertips. This reduces the process time and increases productivity.
7. Efficiently dealing with all the customers and providing them what they actually need, increases the customer's satisfaction. This increases the chance of getting more business which ultimately enhances turnover and profit.
8. If the customer is satisfied they will always be loyal to the marketer. This will help the marketer to remain in business resulting in increasing customer base and ultimately enhancing net growth of business.

In this Unit we are going to discuss the aspects related with relationship marketing and relationship management.

12.3 RELATIONSHIP MARKETING Vs. RELATIONSHIP MANAGEMENT

While Relationship Marketing is a sales and marketing concept, Relationship Management refers to the tools used to carry out the concept. Relationship Marketing is implemented as a strategy and includes activities such as identifying long-term sales and retention of goals, maintaining public relations, marketing and advertising campaigns. Some of the techniques which businesses use in relationship marketing include providing consistently excellent customer service, getting to know the individual and anticipating their future needs and offering discounts and special perks through loyalty programs for repeat customers.

In brief Relationship Marketing seeks to increase sales by building trust and engaging customers. On the other hand a Customer Relationship Management System allows a salesperson to quickly and consistently deliver what customers are looking for with each and every interaction, because their preferences and buying history are recorded. Relationship Management systems coordinate, automate and deliver marketing activities which help

to build the long-term customer relationships that are crucial to a successful relationship marketing strategy.

12.4 DEFINITIONS OF CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

The literal and original meaning of the expression "Customer Relationship Management" was simply managing the relationship with customer. Today it is used to describe information technology systems and software designed to help and manage relationship with customers.

Customer relationship management is not only pure business but also ideation of strong personal bonding amongst people. Development of this type of bonding drives the business to new levels of success. Once this personal and emotional linkage is built, it is very easy for any organization to identify the actual needs of customer and help them to serve them in a better way. It is a belief that more the sophisticated strategies involved in implementing the customer relationship management, the more strong and fruitful is the business.



CHECK YOUR PROGRESS

Q.1: Distinguish between relationship marketing and relationship management.

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12.5 FORMS OF RELATIONSHIP MANAGEMENT

Customer Relationship Management systems have evolved over the years from virtually being a contact book to a holistic all-encompassing solution to enhance and nurture relationships with customers. There are various forms of Relationship management. It concentrates basically on

three areas i.e. (i) Operational CRM (ii) Analytical CRM & (iii) Collaborative CRM. A brief discussion of each one of them is given below.

1. Operational CRM

In this role, the primary aim of the CRM system is to automate and integrate three backbone functions of any business: Sales, Marketing and Support. Such system generally consists of a dashboard that provides a snapshot view of all three functions in a single page for any given customer. Operational CRM systems basically aim to streamline the business itself in three ways:

(i) ***Sales force automation*****:** This feature deals with all the stages in the sales cycle, beginning from entering all the information of a contact, through the contact's journey from being a prospect to lead to client. This deals with sales forecasting, opportunity and lead management, sales quota allocation and monitoring sales performance to dole out the right incentives. Sales force automation basically handles all sales responsibilities.

(ii) ***Marketing automation*****:** This feature concentrates primarily on automating the marketing processes. Campaign management helps in planning, creation and execution of multi-touch, multi-channel campaigns. Data obtained from analytics is used here to create finely targeted segments. Today's latest CRM systems also work on customer engagement through social media.

(iii) ***Service automation*****:** This part of the system is all about customer service, exception handling and support. Customers are supported through multiple channels like email, phone, ticketing portals, knowledge bases, FAQs and more.

2. Analytical CRM

In Analytical CRM, the primary aim of the CRM system is to critically analyse customer data obtained through multiple sources and present findings so as to enable the management to make better informed decisions. Analytical CRM systems make use of techniques such as data mining, correlation and pattern recognition. These analytics help ameliorate

customer service by discovering minor issues which, if undetected, have the potential to blow out of proportion and hamper brand image. This proactive study will help in building customer trust and loyalty. It also helps to find gaps in the execution of business strategy so that corrective measures can be taken to steer the business in the right direction. Basically, Analytical CRMs are all about data analysis and reporting.

3. Collaborative CRM

In Collaborative CRM, the primary aim of the CRM system is to incorporate external stakeholders like suppliers, vendors and distributors as well as share any information gleaned from customer interactions across the organization. The primary objective of collaboration is to enhance the quality and levels of customer service being offered, ultimately leading to enhanced customer satisfaction, retention and loyalty. Today, social media is a new dimension of Collaborative CRM as it increases customer engagement on a number of platforms helping businesses gain customer mind share and build brand awareness. Customer issues resolved on social media also helps to improve trust in the organization and adds to learning curve of the support structure.

12.6 MANAGING CUSTOMER LOYALTY AND DEVELOPMENT

Loyalty programs are offered by both retailers and manufacturers to stimulate continued patronage among consumers through discounts, cash, free goods, or special services (such as free magazines on specialized topics of interest to loyalty program members). Retail cooperatives pioneered loyalty programs through giving members allowances based on their annual purchases. Modern loyalty programs offer consumers points based on purchases; these points are redeemable for a broad selection of merchandise. In case the business is done directly the relationship is direct so also the loyalty. But if the selling is through two or more intermediaries then the loyalty has to be measured at different levels. In that case the end customer loyalty is influenced by the loyalty of the intermediate customers. Then the supplier has to focus his loyalty retention

plan accordingly and has to judge and analyse the loyalties of the intermediaries. This process depends on what amount of importance he gives to each of the intermediaries and how much to the ultimate customer.

There are four broad categories of loyalty programs:

Type 1: In this type of program, any customer receives a discount on selected items on the basis of swiping his/her membership card at a point-of-sale terminal. In many instances, store clerks are trained to swipe a card kept at the register if customers forget their card or are not a member. While this format may be viewed as a loyalty program by some merchants and consumers, it is not a true loyalty program since membership is open to all customers and each member receives the same discount regardless of his/her purchase history. Many of these programs are able to enrol a large number of participants due to ease of registration and low members concern for privacy.

Type 2: In this type of program, consumers get one item free, after they have purchased a selected number of items at full price. These programs resemble a quantity discount that is based on a member's total purchases, not the purchase frequency**.** Type 2 programs are typically self-managed by consumers. The consumer keeps a detailed account of his/her purchases (often on a card), which gets marked at every qualifying purchase. When the number of qualifying purchases is reached, the consumer becomes eligible for a free good or service.

Type 3: In this type of programs reward points are awarded to members based on their past purchases. Unlike Type 1 and Type 2 programs, marketers of Type 3 programs require a comprehensive database that can track a member's purchases and points. Some Type 3 programs encourage consumers to increase their purchases or reward heavy purchasers by having program tiers. Many Type 3 programs involve partnerships with complementary marketers (such as an airline, hotel chain, and car rental firm) to facilitate a member's accumulating points and to increase the variety of reward options.

Type 4*:* In this type of program, though most of the rules are based on points (like Type 3 programs), these programs are able to offer individual members specialized communications, promotions, and rewards based

on their purchase history. The best Type 4 programs go beyond offering discounts based on past purchases. Type 4 merchants have a major commitment to loyalty programs and use these programs as an important element in their marketing strategy. Merchants that use this type of program need to develop and maintain a complex database, be adept at data mining, and be able to administer a complex communication and reward program.

12.6.1 Developing and Maintaining the Loyalty Program Database

Unlike direct marketers, many store-based retailers generally collect and analyse data based on products, not customers. Retailers need to see the role of loyalty programs as an important source of customer-based data. Without a database that tracks member behaviour and offers different rewards to each major consumer group, a firm cannot achieve the full potential benefits of its Type 3 or Type 4 loyalty program. The loyalty program database needs to reflect purchase data from each of the firm's channels, as well as its loyalty program partners. Firms also need to integrate members' demographic and credit history data into their loyalty program database. This enables marketers to build an integrated profile of its members.

Managing an Internal Data Warehouse and Data Mining Capacity: In addition to developing and maintaining the loyalty program database, a Type 4 loyalty program provider needs to manage its data warehouse and data mining capability to enable the data to be used for promotional, marketing research, and segmentation purposes. The best loyalty programs gather information on product usage, purchasing habits, and attitudes and use this information to tailor products to the specific needs of consumers. The best loyalty programs also use enrolment forms to capture demographic, usage frequency, and preference-related data.

Evaluating the Success or Failure of the Loyalty Program: The success or failure of the loyalty program has to be evaluated. Many

firms use multiple measures to assess a loyalty program's success. The success or failure of a program needs to reflect multiple activities beyond increased sales. A loyalty program's profitability can also vary significantly by market segment. In determining the cost effectiveness of any loyalty program, a manager needs to select the proper time horizon. The time interval should be sufficient to realize the program's goals based on the time necessary to communicate the new program, enrol members, and for members to accumulate sufficient points.

Enhancing Customer Loyalty: It is necessarily required for an organization to interact and communicate with customers on a regular basis to increase customer loyalty. In these interactions and communications it is required to learn and determine all individual customer needs and respond accordingly. Following are some important aspects which suppliers should always keep in mind to increase customer loyalty:

Emotional attachment: Emotional and sentimental attachment plays a vital role in increasing customer loyalty. Hence it is important for the suppliers to identify the factors which force the customers to get emotionally attached with them and should mould this information accordingly to enhance this emotional relationship.

Supplier's credibility: Supplier's credibility helps to elevate customer loyalty. Credibility provides confidence and comfort to the customers regarding the reliability, durability, quality and performance of products and services. In industrial sector, the products provided by suppliers are actually used by customers for production purpose. Hence unavailability, malfunctioning or low performance of these products could highly affect the profitability in business.

Customer satisfaction: Customer satisfaction is the measure of how the needs and responses are collaborated and delivered to excel customer expectation. It can only be attained if the customer has an overall good relationship with the supplier. In today's competitive business marketplace, customer satisfaction is an important differentiator of business strategies.



CHECK YOUR PROGRESS

Q.2: Why is suppliers' credibility important in CRM?

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12.7 REASONS BEHIND LOSING CUSTOMERS BY ORGANISATIONS

Without customers, it is not possible to do business. With the onset of online retailing, the competition for the customer has never been greater. The demand for an exceptional shopping experience has never been higher from customers. But too often, retailers have practices in place that work against an exceptional buying experience. Some of the reasons for which customers are lost are stated below.

1. ***Wrong Product Pricing***: Besides cost, some of the things to consider when choosing the best strategy for retail business are the market, the channels of distribution and the competition.
2. ***Terrible Customer Service:*** It's inevitable that there will be the occasional disgruntled customer. No matter how wonderful the products are or how committed the marketer is to provide the best customer service, problems do occur.
3. ***Poor Store Atmosphere****:* A retailer cannot afford to turn off a single customer due to poor store atmosphere.
4. ***Not Knowing the Competition:*** It is important for new businesses to complete a competitive analysis during the business planning stage, but competitive intelligence can also be useful for marketing, pricing, managing and other strategic planning for retailers.
5. ***Lack of Product Knowledge:*** It is difficult to effectively sell to a consumer if one cannot show how a particular product will address a shopper's needs. A retailer has to be well versed with some of the benefits of the products which he sells.

12.8 SIGNIFICANCE OF CUSTOMER RELATIONSHIP MANAGEMENT

Customer Relationship management is the strongest and the most efficient approach in maintaining and creating relationships with customers. Customer relationship management is not only pure business but also facilitates strong personal bonding. Development of this type of bonding drives the business to new levels of success. Looking at some broader perspectives given as below we can easily determine why a CRM System is always important for an organization.

1. A CRM system consists of a historical view and analysis of all the acquired or to be acquired customers. This helps in reduced searching and correlating customers and to foresee customer needs effectively and increase business.
2. CRM contains each and every bit of details of a customer, hence it is very easy for track a customer accordingly and can be used to determine which customer can be profitable and which not.
3. In CRM system, customers are grouped according to different aspects according to the type of business they do or according to physical location and are allocated to different customer managers often called as account managers. This helps in focusing and concentrating on each and every customer separately.
4. A CRM system is not only used to deal with the existing customers but is also useful in acquiring new customers. The process first starts with identifying a customer and maintaining all the corresponding details into the CRM system which is also called an 'Opportunity of Business'. The Sales and Field representatives then try getting business out of these customers by sophistically following up with them and converting them into a winning deal. All this is very easily and efficiently done by an integrated CRM system.
5. The strongest aspect of Customer Relationship Management is that it is very cost-effective. The advantage of decently implemented CRM system is that there is very less need of paper and manual work which

requires lesser staff to manage and lesser resources to deal with. The technologies used in implementing a CRM system are also very cheap and smooth as compared to the traditional way of business.

6. All the details in CRM system is kept centralized which is available anytime on fingertips. This reduces the process time and increases productivity.
7. Efficiently dealing with all the customers and providing them what they actually need increases the customer satisfaction. This increases the chance of getting more business which ultimately enhances turnover and profit.
8. If the customer is satisfied they will always be loyal to you and will remain in business forever resulting in increasing customer base and ultimately enhancing net growth of business.

Installing a CRM system can definitely improve the business and help in challenging the new ways of marketing in an efficient manner. Hence in the era of business, every organization should be recommended to have a full-fledged CRM system to cope up with all the business needs.



12.9 LET US SUM UP

- The literal and original meaning of the expression "Customer Relationship Management" was simply managing the relationship with customer. Today it is used to describe information technology systems and software designed to help and manage relationship with customers.
- Customer Relationship Management (CRM) is an integrated approach in identifying, acquiring and maintaining customers. It is a process which allows companies to coordinate their approach across customers, channels and departments. Relationship Management is an integrated approach to identifying, acquiring and maintaining customers.

- Customer Relationship Management systems have evolved over the years. There are various forms of Relationship management. It concentrates basically on three areas i.e. (i) Operational CRM (ii) Analytical CRM & (iii) Collaborative CRM.
- Loyalty programs are offered by both retailers and manufacturers to stimulate continued patronage among consumers through discounts, cash, free goods, or special services (such as free magazines on specialized topics of interest to loyalty program members). There are four broad categories of loyalty program. They are (i) Type 1 (ii) Type 2 (iii) Type 3 (iv) Type 4:
- Customers may be lost for (i) Wrong Product Pricing (ii) Terrible Customer Service (iii) Poor Store Atmosphere (iv) Not Knowing Your Competition and (v) Lack of Product Knowledge
- We have learnt that Customer Relationship management is the strongest and the most efficient approach in maintaining and creating relationships with customers. Customer relationship management is not only pure business but also facilitates strong personal bonding within people.



12.10 FURTHER READINGS

1) Philip Kotler, Kevin Lane Keller, Abraham Koshy, and Mithileshwar Jha (2007), *"Marketing Management"*, Pearson Education

2) V. S. Ramaswami and S Namakumari (2003), *"Marketing Management"*, Macmillan India Limited

3) Alan R. Andreasen and Philip Kotler (2006), Strategic Marketing for Non Profit Organizations, 6th Edition, Pearson Education, pp 10-12

12.11 ANSWERS TO CHECK YOUR PROGRESS

Answer to Q.No. 1: Relationship Marketing is a sales and marketing concept. Relationship Management refers to the tools used to carry out the concept. Relationship Marketing is implemented as a strategy

and includes activities such as identifying long-term sales and retention of goals, maintaining public relations, marketing and advertising campaigns. On the other hand a Customer Relationship Management System allows a salesperson to quickly and consistently deliver what customers are looking for with each and every interaction, because their preferences and buying history are recorded. Relationship Management systems coordinate, automate and deliver marketing activities which help to build the long-term customer relationships that are crucial to successful relationship marketing strategy.

Answer to Q.No. 2: Supplier's credibility helps to elevate customer loyalty. Credibility provides confidence and comfort to the customers regarding the reliability, durability, quality and performance of products and services. In industrial sector, the products provided by suppliers are actually used by customers for production purpose. Hence unavailability, malfunctioning or low performance of these products could highly affect the profitability in business.



12.12 MODEL QUESTIONS

1. Explain the importance of Customer Relationship Management in an organization.
2. Distinguish between Relationship Marketing and Relationship Management
3. Define Customer Relationship Management (CRM)
4. Describe the various forms of Relationship Management
5. How can Customer Loyalty Programs be mearged in airline services?
6. Identify the possible reasons behind losing customers by organizations
7. Write a note on the significance of Customer Relationship Management

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UNIT 13 : EMERGING TRENDS IN MARKETING

UNIT STRUCTURE

13.1 Learning Objectives

13.2 Introduction

13.3 Customer Relationship Management

13.4 E-commerce

13.5 Green marketing

13.6 Social Marketing

13.7 Rural and Developmental Marketing

13.8 Services Marketing

13.9 Let Us Sum Up

13.10 Further Readings

13.11 Answers to Check Your Progress

13.12 Model Questions

13.1 LEARNING OBJECTIVES

After going through this unit you will be able to

- explain the emerging trends in CRM
- explain the emerging trends in E-commerce
- know the emerging trends in green marketing
- know the emerging trends in social marketing
- know the emerging trends in rural and developmental marketing
- state the emerging trends in services marketing

13.2 INTRODUCTION

The first two decades of 21st century have changed the ways and means of conducting marketing activities. There have been paradigm shifts in marketing mainly because of the advent of the digital modes and the changes in the environmental forces. The changes have been all pervasive. The product life cycles are getting shorter. The rate of introducing new products in the market has gone up. Prices have become more competitive.

Even the buyers are in apposition to decide on the prices that they will pay. In the distribution and logistics scenario lot of changes have taken place because of the advent in ICT and supply chain management. Likewise, digital advertising and out of home advertising etc. have changed the landscape of marketing. All the emerging trends in all the areas cannot be discussed in one unit. In this Unit we shall discuss about the indicative trends in marketing with a sectoral approach. The sectors identified are CRM, e marketing, green marketing, social marketing, rural marketing, developmental marketing and services marketing.

13.3 CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

CRM is the process of carefully managing detailed information about individual customers and all the interaction points (touch points) to maximize loyalty. It has been stated that CRM trends will give marketing and sales professionals all the required data inside their inbox.

CRM software helps businesses to manage customer relationship and enhance customer loyalty. With the help of CRM, marketing programs can be optimized. There is a new trend in CRM which exploits the power of internet. Electronic Customer Relationship Management (ECRM) aims at developing and integrating all CRM functions with the use of digital communication tools. These tools are Email, chatrooms, instant messaging, forums, etc. ECRM is facilitated by the ease of internet access from various computing devices such as desktops, laptops, tablets, and smartphones.

13.3.1 FEATURES OF ECRM

- It enables the businesses to interact with their customers and employers using internet.
- ECRM offers seamless integration of CRM processes.
- ECRM is speedy and reliable.
- It is highly secured from threats.

13.3.2 DIFFERENCE BETWEEN CRM AND ECRM

The differences between CRM and ECRM can be understood with the help of the following table.

CRM	ECRM
Conventional CRM uses telephone, fax, and retail store for contacting customers.	ECRM uses internet with Personal Digital Assistant (PDA) devices.
It takes care of the customers via Internet.	The customer is able to take care of himself using internet.
It needs the user to download supporting Apps to access web-enabled applications.	In ECRM environment, there is no such requirement.
CRM system design is products and functions oriented.	ECRM system is customer oriented.
Cost of maintenance is high.	Cost of maintenance is lesser.
Time taken for maintenance is long.	Maintenance time is lesser.

Table 12.1 : Difference between CRM and E-CRM

13.3.3 FUTURE CRM TRENDS

Some of the upcoming trends in CRM are listed below

i. *Integrating Data from Multiple Channels*: The CRM solution providers are working on moving social media data to more secure communication channel. Unstructured data coming from multiple channels such as Email and mobile smartphones can also be integrated.

ii. *Handling Big Data:* CRM solution providers are also exploring how big data can be managed well to be able to use effectively.

iii. *Shifting to Cloud-based CRM:* The cloud-based CRM lessens the burden of business for investing in infrastructure and its use are being explored.

*iv. Social CRM***:** The social media presence of marketers is increasing. All major marketers like Lakme, P&G etc. have presence in Facebook. The new age customers read reviews, recommendations, and judge the product or service before deciding to purchase. Social CRM tools are in use in the CRM software of marketers as the social media brings new insights.

v. The Mobile CRM is emerging powerful. CRM solution providers are investing heavily in the mobile platforms of CRM applications.

vi. User friendliness*:* CRM solution providers are also working on providing simpler and easier ways of handling customer data using all forms of devices.

vii. CRM Software Systems with Wearables: It is another emerging trend. Wearable are the devices worn by the consumers to track their health and fitness and to get real time information of customers. The businesses can then engage with their customers effectively and discover opportunities of selling and enhancing customer relationships.

*viii. CRM to xR*M **: x**RM is eXtreme Relationship Management, or Any (replace X with any value) Relationship Management. The scope of XRM includes any entity, not only customers. For example, a business has to managing contracts, grievances, policies, assets, taxes, employees, provident fund, etc. With xRM, a business can manage the relationship of any entity within itself.



CHECK YOUR PROGRESS

Q.1: What are the features of ECRM?

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Q.2: What is the main difference between CRM and ECRM?

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13.4 E-COMMERCE

E-commerce uses a Web site for transaction and facilitation of sale of products and services online. As we all know, online sales have exploded in the last few years. Because of online marketing, different types of consumers can avail convenient, informative and personalized experiences. Cost of retail floor space, staff and inventory can be reduced. The widespread penetration of cell phones and smart phones allows people to connect to the Internet and do online shopping. In India, where financial inclusion is not there to the desired extent, mobile phones may serve as an alternative. Prominent service providers are partnering with various banks and financial institutions to provide such services. ICICI iMobile is a mobile phone based banking application. It allows users to access a host of banking services like fund transfer and shopping like booking air tickets. Because of the personalized approach, there are some privacy issues. Location based services may enable a company using GPS technology to know the private matters of the customers. M-commerce has a strong foothold in many countries. Millions of Japanese teenagers carry DOCOMO phones to engage in multifarious transactions. In the United States also, mobile marketing is becoming widely prevalent. Retailers like Amazon.com, Sears etc. have launched m-commerce sites that allow buyers to buy books, medicines and even services like lawn mowing from their smart phones. Consumers are also sharing their use experiences of products and services.

Companies like Procter & Gamble, which used traditional physical channels of distribution for years has embraced e marketing. They are selling some big brands like Tide, Pampers Olay etc. online. This enables them to track online habits of customers. With the traditional big players in physical distribution, managing online and offline channels has become a big priority. In today's context, the emerging question is how to sell both through intermediaries and online.

No business is restricted to one place, one city or even one country anymore. Everything is global. E-commerce industry has taken a ride and has come to become the need of the hour. There are new trends emerging in this space, such as:

i. **Moving to Mobile Commerce:** E- commerce stores must fit in all screens in order to enhance customer experience. As per recent Forbes study, 87 % of the gen-X people spend most of their time on digital devices every day than ever.

ii. **Options in payment:** New payment modes are emerging to enhance online shopping experience with increased payment security for both buyers and sellers. Many new models and gateways have emerged like e-wallets, Chip card readers, magnetic cards, EMV and cashback services.

iii. **Multi-Channel Model: I**t has been observed that many customers may surf net all day but at the end do need a brick and mortar store to make the final purchase. In store digital services are emerging to make the physical store experience better. Marketers need to strike the balance between online and offline presence.

iv. **Seamless Shopping experience:** Easy wallets with discounts and coupons or unique store debit cards, recharge vouchers etc. facilitate smooth experiences in shopping.

v. **Social E-commerce:** Social media is increasingly being used as lead sales medium.

vi. **Quality rather than quantity: C**ustomised shopping experiences are being enhanced by introducing new features. The emphasis is now being laid on unique online features like virtual trial rooms, zoom in pictures, 360-degree image view.

vii. **Customer Relationship:** It requires well integrated technology supporting easy payments and high tech shopping experience. The focus is now being shifted from discounts to better integrated technology services.

viii. **Customer service:** With the increasing online shopping, customers can choose amongst great variety at the comfort of their own space anywhere, anytime 24/7. new facets of customer service are emerging.

With more shopping and payment options than ever, customers have become more informed and empowered. The marketers are facing the

need to merge online and offline systems to facilitate easy working. It is the need today to stay upbeat with the changing trends and technology to stay long.

13.5 GREEN MARKETING

Green marketing is an emerging trend in modern market. Consumers' environmental concerns are real. Global warming has been an emerging threat. Converting this concern into concerted actions by marketers and consumers is an emerging challenge.

The environmentalists are targeting the industrial sectors as the major contributors for depleting natural resources and environmental destruction. Production and marketing divisions of industries are stressed more for the environmental concerns and fulfilling the market demands as well. The new concept of green marketing addresses the issues of production, consumption and marketing of the products to ensure environmental safety. Green marketing is the marketing of products that are presumed to be environmentally safe. Green marketing incorporates a broad range of activities, including product modification, changes in the production process, packaging changes as well as modifying advertising.

Consumer expectations as regards corporate behavior with the environment have been changing in a significant manner. Consumers characteristics vary with regard to their environmental sensitivity. The consumers can be categorized as follows based on their degree of commitment.

Genuine greens: These consumers think and act green to a great extent

Not-me greens: These consumers are pro-green, but moderately exhibit green behaviors

Go-with-the-flow greens: These consumers are engaged in green some green behaviours

Dream greens: these customers seem to care a lot about the environment, but they do not seem to have the required knowledge or resources to something about green

Business first greens: For this category, the environment is not a huge concern

Mean greens: This category of consumers claims to be aware of environmental issues but does not express pro-green behaviours.

The categories as outlined above indicate that concern for green marketing is there but the responses are not that uniform. Some marketers may assume that the new age young customers are more concerned about the green issues. However, there are research evidences which show that older consumers take their eco-responsibilities more seriously. It is difficult to generalize issues on green marketing.

Companies like Toyota, HP, IKEA, P&G etc. have linked themselves to environmental and sustainability programmes. Some marketers keep a low profile as regards their green marketing initiatives. For example, Nike uses recycled sneakers in its soles of new shoes. But, Nike chooses not to publicize that fact. They want to keep their focus on performance,

The practices in green marketing are changing rapidly. Both the consumers and marketers have started responding to the issues, problems and proposed solutions to the environmental problems. That green marketing has been a concern of marketers and stakeholders of marketing is an important emerging trend of marketing.



CHECK YOUR PROGRESS

Q.3: What is the difference between genuine greens and mean greens?

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13.6 SOCIAL MARKETING

Social marketing is an application of generic marketing to a specific class of problems. In this sense it is similar to retail marketing, political marketing or industrial marketing. What, then, distinguishes social marketing from other types of marketing? Social marketing differs from other areas of

marketing only with respect to the objectives of the marketer and his or her organization. Social marketing seeks to influence social behaviours not to benefit the marketers but to benefit the target audience and the general society. Social marketing programmes, by definition, are generic marketing programmes carried out to change behaviours that are in the individual's or society's interests. It can be carried out by anyone: individuals, informal groups, or formal organizations.

Marketing is a pervasive societal activity that goes considerably beyond the selling of toothpaste, soap and other consumer goods. The election campaigns and political contests remind us that candidates are marketed as well like any other marketing entities. Recruitment in colleges and universities remind us that higher education is marketed; and fundraising for some socially desirable activities reminds us that "causes" are marketed. A number of different types of organizations conduct social marketing exercises. The organizations include government departments, autonomous institutions supported by foundations, political parties, religious groups, business houses, NGOs etc.

Behaviours are always the focus. It is this focus and commitment that distinguishes social marketing from education. The social marketing aims at modification of behavior of the target participants on a regular basis. Advertising alone cannot move people from awareness to interest and then, to action. In the area of health, social marketing efforts have been used to reduce tobacco use, exercise regularly, prevent and control diabetes and heart attack, curb the spread of HIV/AIDS, improve oral health, defect concerns early by self-examination etc. All these require changes in individual behaviours. For a variety of reasons, this is one of the toughest of all marketing assignments, because this asks people to-

i) Give up pleasure (save water)

ii) Be uncomfortable (wear a helmet)

iii) Be embarrassed (take a colonoscopy)

iv) Develop new habits (take the pool car)

v) Learn a new skill (compost food waste)

In the 21st century, we have to gear ourselves to many changes; changes interact with time – whether demographic changes, political changes, technological changes or simple changes of any kind. Most of these changes will come any way – it we do not manage them, they will overwhelm us. To that extent, productivity will always have to be in focus. Banks in India have a developmental role. A marketing and service orientation in this regard can go a long way in improving the effectiveness.

13.7 RURAL AND DEVELOPMENTAL MARKETING

In the context of a rural economy how a service product is defined and offered has a great significance. Let us take the example of banking services. Accepting deposits and extending credit is no longer the only core product the banks have to offer. The product has been augmented and the augmented product embraces several dimensions. Banks have initiated credit plus services such as setting up rural training centres for small enterprises, farmers' clubs, knowledge centres and credit counseling centres for educating the semi urban and rural population with respect to minimizing yield risk and price in agriculture.

To address the last mile challenges in rural areas, marketers are adopting innovative solutions like cloud computing. Cloud computing refers to internet based computing where the delivery of services is through servers; storage and other resources are served from the web rather than on-premise assets. Dependence on hard elements is reduced significantly. Branchless banking uses cloud computing to take banking services to the un-banked.

The huge un-banked population presents a great opportunity for marketers to tap the rural market. Rural customers need credit not only for productive purposes but also for their consumption needs. To meet the credit needs of rural people, loans to MFI (Micro Finance Institutions) for relending purposes have evolved as effective instruments. SHG Bank linkage model has been a successful micro finance approach. All these experiments indicate a huge scope for rural, social and developmental marketing in the context of an emerging economy.

The organizations in the corporate sector need to go way beyond simply selling to the rural masses at the Bottom of the Pyramid (BoP). They should look at the poor not only as consumers, but also as producers/ suppliers of goods and services. This kind of an approach offers the promise of adding economic value to the goods and services contributed by the poor and can therefore impact poverty positively. This approach is called inclusive marketing. ITC's e-choupal is an example of inclusive marketing. The business model ensures that farmers as producers get better value for their produce. Once their incomes are enhanced, the model then uses the same channel created for procuring produce to push the relevant goods and services needed by the farmers as consumers. The government and the private sector need to come together to promote inclusive marketing and grow the size of the rural pie through the development of reverse distribution channels.

The share of rural wallet has been rapidly shifting from food to nonfood items over the last decade, primarily in favour of education, travel recreation and personal care. The rural consumers are evolving and cannot be simply categorized as ones like the poverty stricken who is illiterate, stereotyped with a fear of change and a reluctance to spend.

The rural economy has changed from a slow growth, subsistence agriculture economy to a fast growth economy. Economic liberalization and government led infrastructure development have opened up the rural economy. Better access to goods, markets and funds has kick started the more resilient non-farm sector towards growth. The farm earnings have increased. The rural economy has undergone a favourable transformation in terms of rising income and aspiration levels fueling consumption growth. The importance of the rural economy can be gauged from the fact that nearly 70 percent of India's population, 56 percent of its income, 64 percent of its expenditure and 33 percent its savings come from rural India. Rapid increase in rural literacy levels, improvement in health indicators, increase in per capita expenditure, improvement in housing, decline in poverty levels, increase in life expectancy etc. are factors that have resulted in the improvement of human development indicator in India despite the daunting

challenges. For all these aspects, rural and developmental marketing is an emerging phenomenon.

13.8 SERVICES MARKETING

The share of services sector to the gross domestic products of many countries exceeds the share of manufacturing in many countries today. The government sector with hospitals, schools, courts, military, fire departments etc.; the nonprofit sector like zoos, museum, foundations, business sector like airlines, private hospitals, motion picture companies etc.- all provide a variety of services. Many workers like accountants, lawyers etc. in the manufacturing organizations are service providers. Service firms once lagged behind manufacturers in their use of marketing because they were small and did not face much competition. The scenario has changed in late 20th and early 21st century. The future trend is also towards more and more of services only. Service marketers are recognizing the new service realities like

i. Newly empowered customer because of enhanced competition and digital facilitation
ii. Customer coproduction i.e. customers are taking active part in service design and delivery making it a customized/ mass customized approach
iii. Employee engagement in service touchpoints and customer contact positions as the service quality of a firm is tested at each service encounter.

Consumers value convenience in services. An emerging trend in marketing of services is to facilitate the use of self-service technologies (SST) replacing many persons to persons' interactions. Not only the traditional vending machines, we find ATMs, self-updating of bank pass books, self-check in at airports, self-check-out at hotels and a variety of other activities on the Internet. Investment trading, air ticketing, customization of products are the new things which are emerging.

The services sector is the lifeline for the socio economic growth of a country. As stated earlier, today it is the largest and fastest growing sector.

This sector has witnessed a major boom and recently it has been one of the major contributors to both employment and national income in many countries. It contributes 57 percent of the GDP and employs 34 percent of the workforce in India. This growth is also reflected in the rural economy, which has moved from farm to non-farm. In rural markets, services primarily comprise of retail trading, transportation and communication, financial services, healthcare, housing, construction, education and community/social services. Among services, sectors like telecommunication, finance, healthcare and entertainment have witnessed an impressive growth in rural markets and marketers have used innovative ways to take these services to rural markets. For example, launched in Maharashtra in 2008, Nokia Life Tools aims to provide users with direct access to information that can change how they do business. It delivers agricultural information along with other educational resources and entertainment to users over SMS. The agricultural part of the service is provided in conjunction with Reuters Market Light. Information provided in the localized context includes weather conditions, advice about crop cycles and general tips and techniques as well as market prices for crops, seeds, fertilizers and pesticides.



13.9 LET US SUM UP

In this Unit we have discussed that marketing has changed a lot. In the late 20th century and the first two decades of the 21st century, the marketers have to be more focused on customer relationship management. Not only with customers, the new reality is any stakeholders. In this context we discussed xRM. The marketers have to be highly concerned with the green issues. As we have discussed rural marketing is changing rapidly. Developmental marketing is the call of the day. Likewise, in social marketing also, marketers have to be more focused with the new age issues. We have also discussed that marketing of services faces new realities in the 21st century due to customer empowerment, customer coproduction and the need to satisfy employees as well as customers.



13.10 FURTHER READINGS

1) Philip Kotler, Kevin Lane Keller, Abraham Koshy, and Mithileshwar Jha (2007), *"Marketing Management"*, Pearson Education

2) Alan R. Andreasen and Philip Kotler (2006), Strategic Marketing for Non Profit Organizations, 6th Edition, Pearson Education, pp 10-12

3) https://www.tutorialspoint.com/customer_relationship_management/crm_emerging_trends.htm

13.11 ANSWERS TO CHECK YOUR PROGRESS

Answer to Q.No. 1: The features of ECRM are as follows

a) It enables the businesses to interact with their customers and employers using internet.

b) ECRM offers seamless integration of CRM processes.

c) ECRM is speedy and reliable.

d) It is highly secured from threats.

Answer to Q.No. 2: The main difference between CRM and ECRM is conventional CRM uses telephone, fax, and retail store for contacting customers, whreas ECRM uses internet with Personal Digital Assistant (PDA) devices and web based applications

Answer to Q.No. 3: The difference between Genuine Greens and Mean Greens are in two extremes.

In case of genuine greens consumers think and act green to a great extent. The Mean Greens represents the category of customers who claim to be aware of environmental issues but do not express pro-green behaviors.



13.12 MODEL QUESTIONS

1) What are the emerging trends in CRM?
2) Distinguish between CRM and ECRM.
3) What are the emerging trends in E-commerce?
4) What are the emerging trends in green marketing?
5) Discuss the emerging trends in social marketing.
6) Discuss the emerging trends in rural and developmental marketing.
7) Discuss the emerging trends in services marketing.

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UNIT 14: CASE STUDIES

An Introduction on Management Cases

In simple terms, a case is a description of a management situation. The length of a case may vary from one page to several pages. In some cases to present quantitative and analytical data and information, exhibits and figures are provided. All these information provide the required inputs for case analysis. While reading and analysing the case, the reader should try to find out the management problem in the case. The focus of the case should be identified. Cases may be prepared from field data or from published sources. The websites of the concerned business organizations or the published reports etc. provide the required information. Information related with some of the cases may be available in the public domain. Some cases may require analysis of interpersonal relations, disciplinary issues in an organization. In those situations, in house materials in the organization provide the required information and those information are presented in the case. A case is not written or analysed to illustrate correct or incorrect handling of an administrative situation. There is no bias towards a particular conclusion. The analysis should be rational, free from bias. A chronological series of cases based on a single organization is sometimes used to expose the learner to an organization's cumulative experience with a situation.

Cases are used to develop an analytical bent of mind and also for class discussion in a variety of educational programs. At the KKHSOU in the Master of Business Administration (MBA) Programme a few cases have been offered in this Unit for reading and analysis by the learners. The short cases (can also be said as case lets) offer the learners an experience in dealing with complex, realistic situations. The emphasis is on analysis and exposure to decision making in real life organizational situations.

In some cases questions are given at the end of the case. In those cases the learners should read the case and answer the questions with an analytical approach. In the cases, where information may be available in the public domain, the learner may update himself or herself accordingly before approaching the issues. In some cases, there may not be some

questions at the end. In those cases, while answering the questions the learners should try to identify the main problem and the key issues, search for the decision alternatives and should try to contemplate measures towards solving the management problem.

Case Study 1: Hyundai

The **Hyundai Motor Company** is a multinational automotive manufacture of South Korea with headquarters in Seoul, South Korea. The company was founded in 1967. Along with Kia Motors, (its 32.8% owned subsidiary) Hyundai is one of the world's largest automakers. In 2008, Hyundai Motor (without Kia) was ranked as the eighth largest automaker. Hyundai operates the world's largest integrated automobile manufacturing facility in South Korea which has an annual production capacity of 1.6 million units. The company employs about 75,000 people worldwide. Hyundai vehicles are sold in 193 countries through some 5,000 dealerships and showrooms.

Hyundai has six research and development centres, located in Korea, Germany, Japan and U.S. Hyundai has invested in manufacturing plants in U.S., India, the Czech Republic, Russia, China and Turkey. Hyundai has a manufacturing plant at Irungattukottai near Chennai, India. Hyundai Motor India Limited is one of the second largest auto exporters of India. It has a strategy of making India the global manufacturing base for small cars.

India

Hyundai sells several models in India, the most popular being the Santro Xing, i10, i20, Hyundai EON etc. On 3rd September 2013, Hyundai launched its much-awaited car, Grand i 10 in petrol and diesel variants. Other models include the Getz, Accent, Elantra, Verna, Santa Fe. The manufacturing plants in Tamil Nadu have a combined annual capacity of 600,000 units. In the year 2007, Hyundai opened its R&D facility in Hyderabad. Hyundai Motor India Engineering (HMIE) gives technical & engineering support in vehicle development and CAD and CAE support to Hyundai's main R&D centre in Namyang, Korea. In mid-2014, Hyundai launched Xcent and Elite i20, based on success of Grand i10.

Kia motors Corp is likely to announce its plans for India entry in 2016 as it is finalising the finer details of the product mix, production, sales and marketing strategies. The car maker may set up a plant in India with an initial production capacity of 2.5 lakh per annum and option of scaling it up later.

Japan

Despite having growing sales worldwide, Hyundai struggled in Japan. Following an announcement on November 2009, Hyundai pulled their passenger car division out of the Japanese market and focused on their commercial vehicle division instead. The company is hopeful about the market potential in Japan.

Egypt

Hyundai cars are also manufactured in Egypt. They have a wide range of products including offers of sports models.

Once synonymous with cheap and unreliable cars, Hyundai motor Company has experienced a massive global transformation. In 1999, its new Chairman, Mong Koo Chung, declared that Hyundai would no longer focus on volume and market share but on quality instead. A number of changes were instituted: Hyundai began to benchmark industry leader Toyota, adopted six sigma processes, organised product development cross functionally, partnered more closely with suppliers, and increased quality improvement meetings. From a place near the bottom of JD Power's study of U.S. new vehicles' quality in 2001 – 32nd out of 37 brands – Hyundai zoomed to number four by 2009, surpassed only by luxury brands Lexus, Porsche and Cadillac. Hyundai also transformed its marketing and advertising campaigns.

The U. S. market was not the only one receiving attention from Hyundai and its younger, more affordably priced brand sibling Kia. Hyundai is the second largest car maker in India, it is supplying Europe with a new 1billion Euro factory in the Czech Republic, and a joint venture with Beijing Automotive Hyundai is targeting China also.

Question: *What could be the reasons of success of Hyundai in some countries? What could be the reasons of Hyundai not doing well in some markets?*

(The case is written from materials available in the book on Marketing Management by Kotler et al, 14 e, 2013, page 538, web *materials from http://m.hyundai.co.in and* https://en.wikipedia.org/wiki **Hyundai**_Motor_Company*, and The Business Telegraph dated 15th November, 2016)*

Case Study 2: Local Dynamos

An extensive study by Boston Consulting Group (BCG) identified 50 firms in 10 emerging economies as 'local dynamos'. According to BCG, the characteristics of local dynamos are:

i. It is prospering in home market
ii. It is fending of multinational rivals
iii. It is not focused on expanding abroad

In Mexico, a retailer and financial corporation called Group Elektra is selling washing machines, refrigerators, televisions and other items on credit to people making less than 10 dollar a day. They have many stores where people can withdraw, deposit and transmit cash.

Brazilian budget airline Gol targeted thrifty Brazilian consumers willing to sacrifice convenience for price; planes often depart at odd hours and make multiple stops.

In India, Gujarat Cooperative Milk Marketing Federation (GCMMF), owner of Amul, with about 3 million farmer members, sells dairy products through a distribution network of dealers comprising more than 5000 and 1 million retailers. The brand is supported by one of the longest running and best loved ad campaigns in India. The ice cream and chocolate milk businesses have survived the entry of Unilever and Nestle.

Amul hit a top line of over Rs 20,000 crore for the first time in the financial year ended March 2015 equivalent to the combined revenue of the food businesses of its three closest rivals Nestle, Hindustan Unilever and ITC (based on their figures for FY14).

Speaking to Business Standard, R S Sodhi, GCMMF's MD, said, "Yes, we are ahead of these companies. But our top line growth for FY15 was 14.28 per cent over the previous year's. While this rate of growth was lower than what we had achieved in FY14, the domestic consumer business grew at the rate of 21 per cent during the period under review.

In FY15, milk prices crashed by as much as 20/25 per cent, as private dairies cut purchases resulting in excess supply to cooperatives such as GCMMF. This up and down movement of milk prices has prompted GCMMF in the last few years to shift its attention to value added products, which, according to industry sources, give the cooperative about 35 40 per cent of its top line today. The balance comes from liquid milk. Five years ago, liquid milk was 80 per cent to 90 per cent of the company's top line, say experts tracking the sector. However, categories such as as UHT milk (or milk in tetra packs), dahi, butter, milk based beverages and ice-creams have seen higher growth, Sodhi says, in the region of about 25 35 per cent per annum.

In contrast, liquid milk has been stagnant, growing in low single digits, experts say. Youth products, in specific, is something that the dairy major, Sodhi explains, has been focusing attention on aggressively this year. "Products such as Amul Cool, Epric icecream,a malted beverage called Amul Pro and an energy drink called Stamina are some of the products that we are counting on," he said. Of the above four, Epic ice-cream, Amul Pro and Stamina were launched in the last two months. While Epic ice-cream has been launched in metros such as Delhi and Mumbai, GCMMF is expected to take it to more cities and is expected to begin promoting Amul Pro and Stamina in the next few months. The cooperative will also launch Amul Cool in PET bottles shortly.

***Question**: What are the emerging trends in the business environment of Amul? Can Amul be considered as a local dynamo of India?*

Note : The case is adapted from news material published in The Business Standard on May 5, 2015 (Topping the Chart with ease and Amul owner tastes Rs.20.k crore mark in annual turnover) and also from the website of Amul.) In addition to these materials available on Local dynamos

in the book on Marketing Management by Kotler et al, 14 e, 2013, page 541 has also been studied.

Case Study 3: McDonald's

McDonald's is the world leader in QSR (Quick Service Restaurants). Their presence in 118 countries with 33,000 restaurants glorifies its position as world leader and as a fast food giant. This huge network is not easy to manage where guest expectations in different countries are clean, hygienic, tasty and quick food every time. The credit of this successful availability goes to the unique supply chain management the company follows and control over its huge network.

McDonald's allows countries and regions to customize its basic layout and menu staples. In China, corn replaces fries in Happy Meals, some U.S. stores blend fruit smoothies, and Australia and France have Starbucks-like lounges. In India, the mutton based Maharaja Mac replaces the beefy Big Mac, and cottage cheese wraps and potato patties are offered for vegetarians. In cities plagued by traffic tie-ups like Manila, Taipei, Jakarta and Cairo, McDonald's delivers via fleets of motor scooters.

McDonald's is present in more than 40 cities of India with 250 eating outlets and adding more every now and then. The company outsources the huge supply chain. This supply chain is multi-layered but very well coordinated. McDonald's Supply Chain is quite uniquely handled with least number of employees on McDonald's payroll. The control on outsourced entities is commendable. With ever growing business of fast food, McDonald's has laid down its systems efficiently and the company is expanding at a fast speed.

For training their staff company takes all its measure through intensive programmes. Utmost care is taken for management of quality in all aspects of management functioning.

McDonald's being a limited menu restaurant is characterised by speed of operations, serving more than 67 million customers each day globally. In India, the first outlets of the chain threw open their doors to the public in Delhi and Mumbai in. In India McDonald's serves 650,000 customers daily.

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***Question** : Can the model of McDonalds be replicated in global markets of other sectors as well?*

Note: The case let is adapted from the Case Study on the McDonald's Supply Chain in India, by Prof. Kshitiz Sharma, published in Asia Pacific Journal of Marketing & Management Review, Vol.2 (1), January (2013) Online available at indianresearchjournals.com. In addition to these materials available on McDonald's in the book on Marketing Management by Kotler et al, 14 e, 2013, page 549 has also been studied.

Case Study 4: IKEA

IKEA retailing started as an idea in Sweden more than 70 years ago. What today is the IKEA concept has evolved during many years of its functioning. The idea is still improving. Inter IKEA Holding B.V. (located in the Netherlands), is the holding company for all IKEA-related businesses that were previously part of Inter IKEA Group. A corporate restructuring was done with the ambition for planned transaction to simplify and improve the IKEA franchise system, creating better conditions for increased customer focus and future expansion.

Around the globe, a large number of companies operate under the IKEA trademarks. All IKEA franchisees are independent of Inter IKEA Group. A large group of franchisees are owned and operated by INGKA Group. Inter IKEA Group and INGKA Group have the same founder, and a common history and heritage, but have operated under different owners and management since the 1980s.

To improve the IKEA franchise system and clarify roles, IKEA range, supply and production activities were transferred to the new Inter IKEA Group headed by Inter IKEA Holding B.V. The ownership changes came into effect on 31 August 2016. The Inter IKEA Group is now composed of three core businesses – franchising, range and supply and industry. The entities were

designed to work together to build a stronger franchise system, to build an even better IKEA offer together with retailers and suppliers based on existing and new strengths in their value chain.

The IKEA Concept is a living concept. It was developed together with IKEA retailers and other contributors. Together they strive to stay in the forefront of global trends and changes in retailing. The company has a policy of listening to the needs of IKEA retailers based on real-life shop floor experience. And they work to get better insight into what many people need in order to improve their life at home. All these are likely to ensure that the IKEA Concept remains successful in a dynamic world.

Inter IKEA Systems business units are focused on the following key areas:

Conceptualisation

They continuously develop the IKEA Concept and ensure that the foundation of the IKEA Concept is always relevant, available and known. A team of individuals develops the IKEA Concept for customer participation, convenience and accessibility.

Expansion

The company always strive to ensure successful implementation and protection of the IKEA Concept in existing and new markets.

Intelligence

They inspire and enable IKEA people to make well-founded decisions based on relevant and actionable business and consumer knowledge.

Competence

They work to strengthen the IKEA culture and enable IKEA people to develop their competence to meet customer and business needs.

The experience in China

IKEA used market penetration pricing to derive the advantages in China's market for home furnishings. When the Swedish home furnishing giant opened its first store in Beijing in 2002, shops were selling copies of its designs at a fraction of IKEA's prices. The only way to attract price sensitive and deal prone customers in China was to slash prices. The strategy of western brands was remarkable. These brands in China usually

priced products such as makeup and running shoes 20-30 per cent higher than in their other markets. This was done to make up for China's high import taxes and to give their products added cachet. By stocking its Chinese stores with Chinese made products, IKEA had been able to slash prices as low as 70 per cent below their level outside China. IKEA maintained sizable stores in Beijing, Shanghai, Guangzhou, Chengdu, and Tianjin, opening one or two new locations each year.

Question **:** Analyse the marketing strategy of IKEA. What precautions are required for success in markets like China?

Note : The case is developed from contents in the website of IKEA http://www.ikea.com. In addition to these, materials available on McDonald's in the book on Marketing Management by Kotler et al, 14 e, 2013, page 554 has also been studied.

Case Study 5: L'Oreal

For more than a century, L'Oréal has devoted itself solely to one business: beauty. It is a business rich in meaning, as it enables all individuals to express their personalities, gain self-confidence and open up to others. When it comes to globalizing beauty, no one does it better than L' Oreal. L'Oréal has set itself the mission of offering all women and men worldwide the best of cosmetics innovation in terms of quality, efficacy and safety. It pursues this goal by meeting the infinite diversity of beauty needs and desires all over the world.

Since its creation by a young chemist 100 years ago, the group has been pushing back the frontiers of knowledge. Its unique research arm enables it to continually explore new territories and invent the products of the future, while drawing inspiration from beauty rituals the world over. By drawing on the diversity of its teams, and the richness and the complementarity of its brand portfolio, L'Oréal has made the universalisation of beauty its project for the years to come. Their ambition for the coming years is to win over another one billion consumers around the world by creating the cosmetic products that meet the infinite diversity of their beauty needs and desires.

With a portfolio of 27 international brands and an organisational structure based on distribution channels, they have the ambition to meet

the needs of every consumer according to his or her habits and lifestyle. In its own way, L'Oréal is pushing back boundaries and taking up the challenge of increasingly accessible innovation. Passion, Innovation, Entrepreneurial spirit, Open-mindedness, quest for Excellence: Our values are embedded in L'Oréal's genetic code. They continue to this day to express themselves in the daily actions of all the teams across the globe. The ethical principles are Integrity, Respect, Courage and Transparency.

L'Oreal focuses on five areas of expertise: skin care, hair care, makeup, hair coloring and perfume. Its brands fall into different groups like cosmetic products, luxury products, professional products and dermo-cosmetic products sold at pharmacies. The company believes in perfect target marketing for global success. Each brand is positioned on a very precise segment with little scope for overlapping. The company has built its portfolio by acquiring local beauty companies and developing them with strategic direction backed by its powerful marketing. The company also invests a lot on research and development. It spends about 3 per cent of its annual sales on research and development. Understanding the diversities of different customers in different countries with diversities in their daily routines and preferences is quite critical for the global success of L'Oreal. Hair and skin differ a lot in different parts of the world. They are as strong as locals backed by international image and strategy. This makes them stronger than locals.

***Question*:** Review the global marketing strategy of L'Oreal with respect to acquisition, brand portfolio, investment in research and development. If you were the CEO of L'Oreal how would you sustain the company's global leadership?

Note : The case is developed from contents in the website of L'Oreal www.**loreal**.co.in *and http://www.loreal.com.* In addition to these, materials available on L'Oreals in the book on Marketing Management by Kotler et al, 14 e, 2013, page 561 has also been studied.

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