PGBA (S1) 06-2

MARKETING MANAGEMENT

SEMESTER - 1

BUSINESS ADMINISTRATION

BLOCK - 2



KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

Subject Experts

Prof. Nripendra Narayan Sarma, Maniram Dewan School of Management, KKHSOU.
Prof. U. R Dhar, Retd. Professor, Dept of Business Administration, GU.
Prof. Mukulesh Baruah,Director, Assam Institute of Management.

Course Co-ordinator : Dr. Smritishikha Choudhury, Asst. Prof., KKHSOU

Dr. Chayanika Senapati, Asst. Prof., KKHSOU

SLM Preparation Team

UNITS	CONTRIBUTORS
6	Mrs. Nandini Baruah, Royal Group Institutions
7	Dr. Smritishikha Choudhury, KKHSOU
8	Dr. Sameer Sarkar, G.U.
9	Prof. Nripendra Narayan Sarma, KKHSOU and Prof. Smritishikha Choudhury, KKHSOU

Editorial Team

Content : Prof Nripendra Narayan Sarma, KKHSOU

Structure, Format & Graphics: Dr. Chayanika Senapati, KKHSOU
Dr. Smritishikha Choudhury,KKHSOU

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Headquarters: Patgaon, Rani Gate, Guwahati-781017
City Office: Housefed Complex, Dispur, Guwahati-781006; Web: www.kkhsou.in

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MASTER IN BUSINESS ADMINISTRATION
MARKETING MANAGEMENT

Block 2

DETAILED SYLLABUS

UNIT 6 : Marketing Mix **Page 97 - 116**

Introduction, Marketing Mix-The Traditional 4Ps, The Modern Components of the Mix- The Additional 3Ps, Developing an Effective Marketing Mix, Marketing Planning, Marketing Implementation and Control.

UNIT 7 : Product and Brand Management **Page 117 - 135**

Introduction, Concept of product , Classification of Products, Product-Planning and Development, Product Diversification, PLC, Packaging and Labelling , Branding, Brand Equity, Brand Positioning and Brand Selection

UNIT 8 : Pricing **Page 136 - 157**

Introduction, Factors Affecting Price Decisions, Cost Based Pricing, Value Based and Competition Based Pricing, Product Mix Pricing Strategies, Adjusting the Price of the Product, Initiating and Responding to the Price Changes

UNIT 9 : Marketing Channels **Page 158 - 177**

Introduction, Need for Marketing Channels, Decisions Involved in Setting up the Channel, Channel Management Strategies, Introduction to Logistics Management, Introduction to Retailing, Wholesaling

BLOCK INTRODUCTION:

This is the second block of the course Marketing management.

Block 2 concentrates on marketing mix, product and brand management, pricing, marketing channels.

This block is divided into following units –

UNIT 6: Marketing Mix

UNIT 7: Product and Brand Management

UNIT 8: Pricing

UNIT 9: Marketing Channels

After completion of this block, learners will be able to know different marketing attributes and marketing strategies.

UNIT: 6 MARKETING MIX

UNIT STRUCTURE

6.1 Learning Objectives

6.2 Introduction

6.3 Marketing Mix- The Traditional 4Ps

- 6.3.1 Product
- 6.3.2 Place
- 6.3.3 Price
- 6.3.4 Promotion

6.4 The Modern Components of the Mix- the Additional 3Ps

6.5 Developing an Effective Marketing Mix

6.6 Marketing Planning, Implementation and Control

6.7 Let Us Sum Up

6.8 Further Readings

6.9 Answers To Check Your Progress

6.10 Model Questions

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.

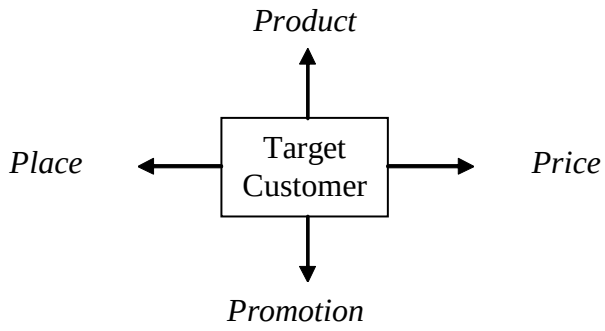


Figure 6.1: Marketing Mix

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 Pirce

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:

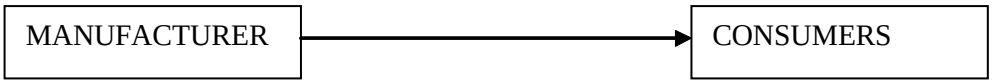
- **Personal selling:** Personal selling is a form of personal communication and is a direct presentation of the product to the present and prospective buyers by salespersons. Salespersons persuade the buyers to buy the product.
- **Advertising:** It is one of the most commonly employed, paid, and non-personal 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.



LET US KNOW

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.

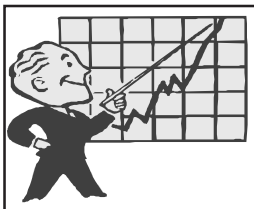
3. **Planning Marketing Programs:** Even a great marketing strategy can be impaired by poor implementation. To transform a marketing strategy into a successful marketing program, managers must make basic decisions on expenditures, marketing mix, and marketing allocation. Typically, managers establish 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.

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

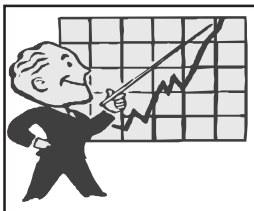
A company with the existing products can not meet the consumer's desires and requirements all the time. By diversification we generally mean that something new will be added. It may be new products, new markets,

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:

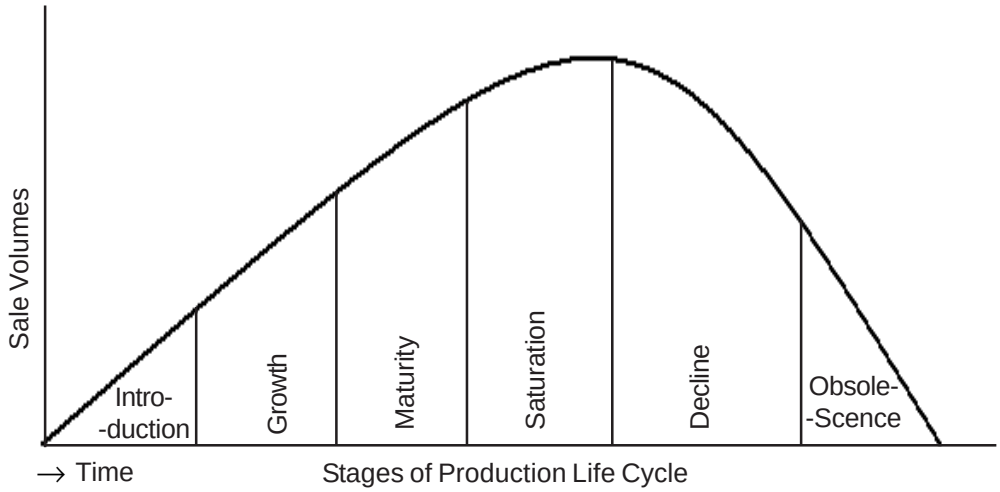


Figure 7.1: Product Life Cycle

- **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).



• **orate name combined with individual product names:** Certain ies 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.

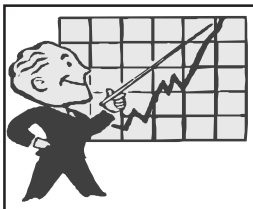
8.3 CONCEPT OF PRICE

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

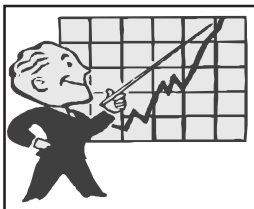
maximizing current profits, penetration the marker or projecting a premium image. Company goals will also change over time. When a firm enters a market it may set a relatively low price to help penetrate the market. Once the firm is well entrenched, it may shift its objectives and bring them in line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

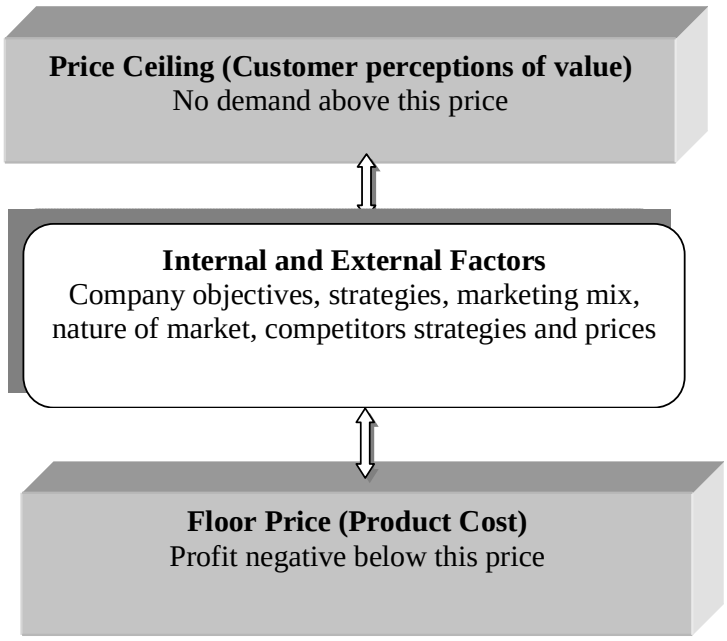


Figure 8.1: Considerations in Price Setting

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

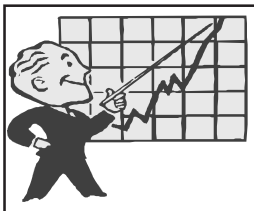
in one department and can keep more expensive products in another department. The points are listed in the following Figure.

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.

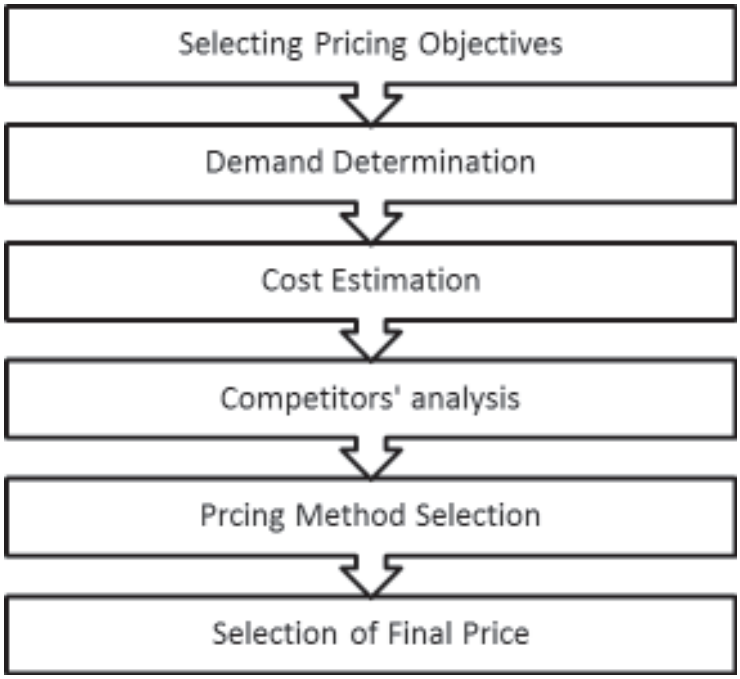


Figure 8.3 : Steps to follow for Price Setting

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.

8.8 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.

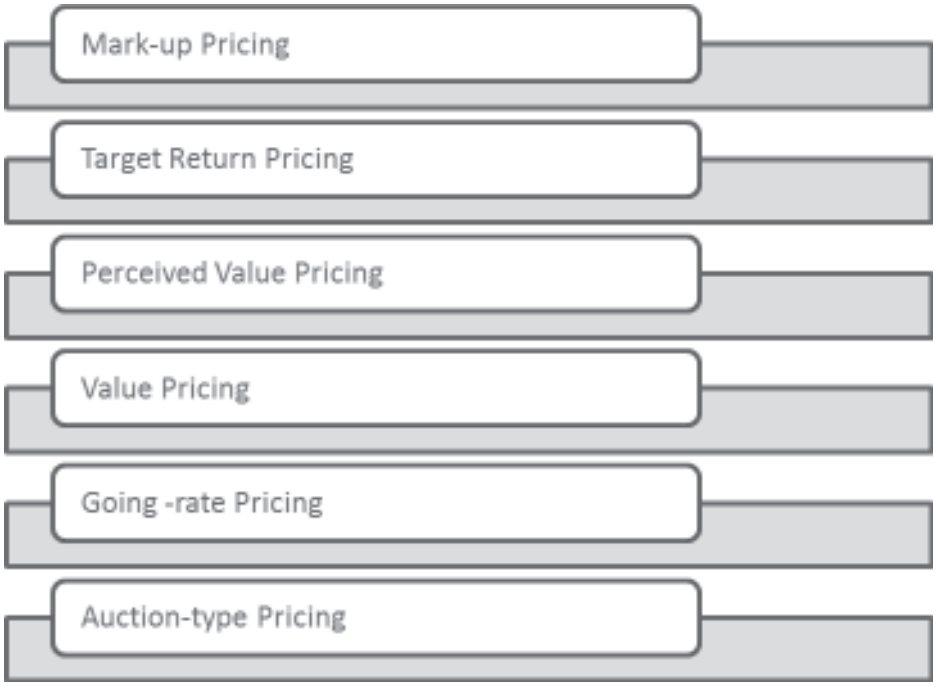


Figure 8.5: Pricing Methods

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.

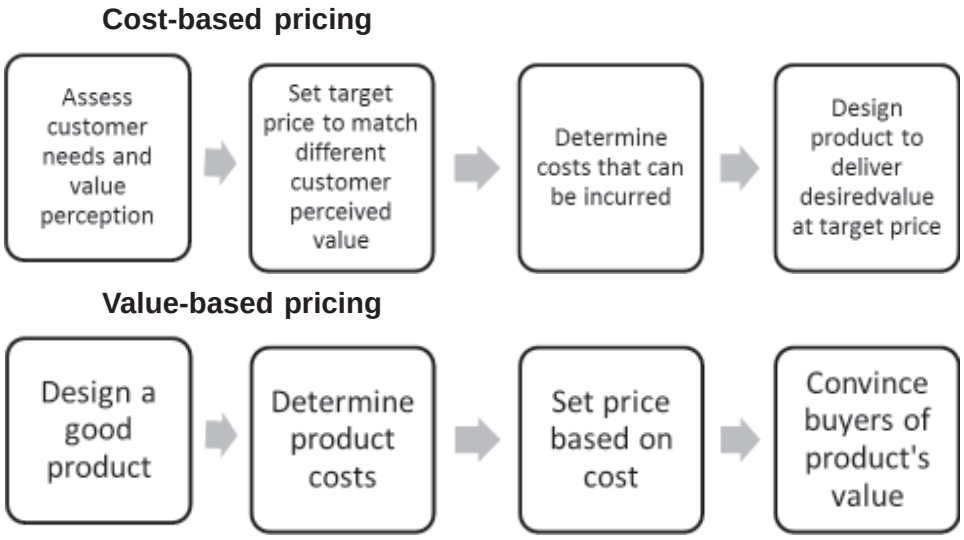


Figure 8.6: Cost-based pricing and value-based pricing

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.

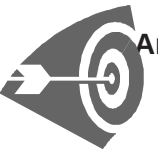
3) Kotler, P. et.al.(2010). *Principles of Asian Perspective*. 13th Edition. pp. 266-287.

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, stockiest, 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)

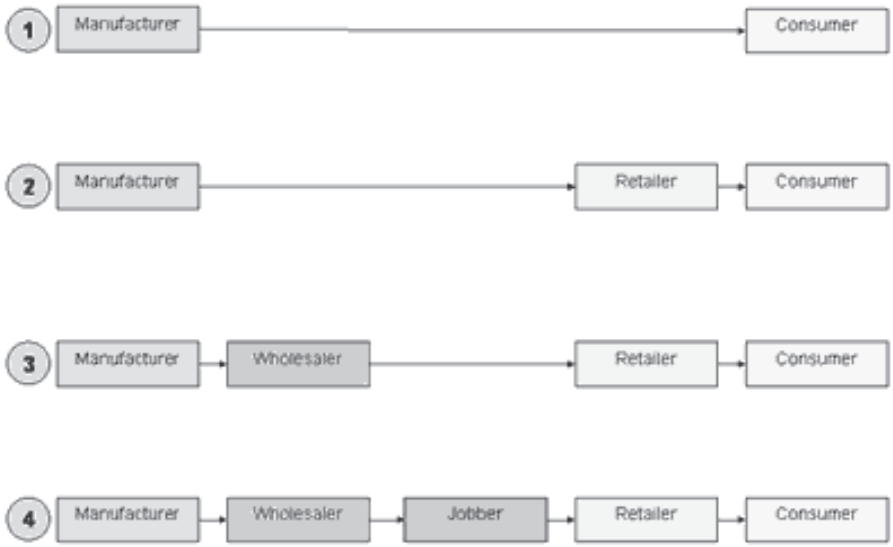


Figure 9.1 : Different types of Distribution Channels

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.

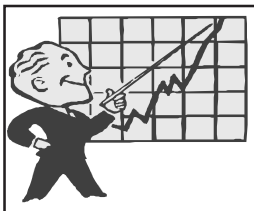
- ***Channels look after physical distribution and financing functions***

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

- ***Specialty 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.

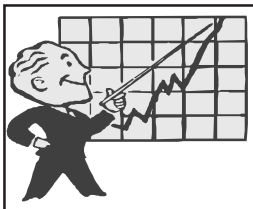
9.8 EMERGING TRENDS IN CHANNEL MANAGEMENT

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

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

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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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