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GBA S2 06-01

MARKETING MANAGEMENT

SEMESTER - 2

BACHELOR OF BUSINESS ADMINISTRATION

BLOCK - 1

KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

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7.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No1. (i). d (ii) c (iii) b
(iv) b (v) b (vi) d

Ans to Q No 2. a) Speciality Shop and ii) Deep Assortrment

b) Super Market and ii) Self Service

c) Convenience Store and iii)Family

d) Factory Outlet and iv) Irregulars

7.12 MODEL QUESTIONS

1. What do you mean by channel of distribution?
2. What are the different types of Channel?
3. Discuss the importance of marketing channel.
4. What are 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, (c) Marketing logistics,
   (d) Supply chain management

*** ***** ***



7.9 LET US SUM UP

In this unit, we have discussed about marketing channel. Channel is the system through 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.Then we have discussed about physical distribution and direct marketing.

The main aim of the marketer is to make 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.



7.10 FURTHER READINGS

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

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

COURSE INTRODUCTION:

The course “Marketing Management” of B.B.A. 2nd Semester will focus on different aspects of marketing management. Because of the increasing expectations of customers, the process of marketing also has become very complex. Todays marketing concept mainly focuses on customers. This course aims at equipping the learners with the required knowledge and skill for using marketing processes for diverse professional purpose.

So it is very important for the learner of B.B.A programme to be well versed with the concept of marketing.The course consists of 14 units and the course is divided into two blocks :

Block 1 deals with the Fundamentals of Marketing Mangement , consumer behaviour, market segmentation , concept of product , branding, pricing and managing marketing channels.

Block 2 concentrates on some of the most important concepts of logistics and supply chain management, , promotion, selling functions in marketing, service marketing, international marketing, international marketing promotion, and case studies in marketing.

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

BLOCK INTRODUCTION:

This is the *First Block* of the course '***Marketing Management***'. After completing this block, which consists of seven units, you will be able to get a fair idea on the different concepts in marketing management.

This block comprises the following seven units :

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

The second unit gives us a broad overview of the definition of consumer behavior and the factors influencing consumer behavior.

The third unit gives us an idea on the concept of market segmentation and the factors involved in market segmentation.

The fourth unit gives us an idea on the concept of product.

The fifth unit will help us in understanding the concept of branding and brand equity.

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

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

The structure of Block 1 is as follows :

UNIT 1 : Introduction to Marketing Management

UNIT 2 : Consumer Behaviour

UNIT 3 : Market Segmentation

UNIT 4 : Concept of Product

UNIT 5 : Branding

UNIT 6 : Pricing

UNIT 7 : Manageing Marketing Channels



CHECK YOUR PROGRESS

Q.1 Fill in the blanks with appropriate words

(i) Companies that search for customers and may negotiate on the producer's behalf but do not take title to the goods are called _____.

a. marketers b. merchants
c. facilitators d. agents
e. none of the above

(ii) One of the chief roles of marketing channels is to convert potential buyers into profitable _____.

a. sales b. marketers
c. customers d. orders

(iii) Intermediaries include retailers, _____, and logistical organizations.

a. Internet companies b. wholesalers
c. competitors d. box stores
e. none of the above

(iv) Retailers are rapidly improving their skills in demand forecasting, merchandise selection, stock control, space allocation, and _____.

a. advertising b. display
c. choosing the media mix d. selecting the marketing channels
e. none of the above

(v) _____ is(are) a key positioning factor for retailers and must be decided in relation to the target market, the product-and-service assortment mix, and the competition.

a. Hours of operation b. Advertisement
c. Prices d. Assortment

Q2: Match the following

a) Speciality Shop	i) Self Service
b) Super Market	ii) Deep Assortment
c) Convenience Store	iii) Irregulars
d) Factory Outlet	iv) Family

- ***Hypermarkets:*** 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.

7.8 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. Most of the dealers today 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. With the increase in competition and the advent of a buyer's market, dealers are asserting themselves more and more. In consumer electronics market for example, with the change over to a buyer's market, the relationship between manufacturers 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.

BACHELOR IN BUSINESS ADMINISTRATION

MARKETING MANAGEMENT

BLOCK-I

DETAILED SYLLABUS

UNIT 1. Introduction to Marketing Management

Meaning of Market; Meaning and Definition of Marketing; Importance of Marketing; Basic Concepts Underlying Marketing : Evolution of basic marketing concepts; Nature of Marketing; Scope of Marketing; Marketing Mix; Composition and Function of Marketing Environment : Micro-Environment [Task Environment], Macro-Environment

UNIT 2. Consumer Behaviour

Definition, factors influencing consumer behaviour, buying process

UNIT 3. Market Segmentation

Concept of Market Segmentation : Definitions of Market Segmentation, Importance of Market Segmentation, Requirements or Criteria for Market Segmentation; Bases for Market Segmentation : Segmentation of Consumer Markets, Segmentation of Organisational Markets; Market Targeting : Evaluating Market Segments and Target Market Selection; Market Positioning : Definitions, Positioning Strategies

UNIT 4. Concept of Product

Concept of Product : Essential Features or Attributes of a Product; Classification of Products; Product Planning and Development : Stages in new product Development Process, Product Diversification; Product Standardisation; Product Simplification; Meaning of Product Life Cycle Concept : Definition of Product Life Cycle Concept, Stages of Product Life Cycle Concept, Factors Affecting Product Life Cycle; Basic Concepts of Branding; Packaging; Labelling

UNIT 5. Branding

Definition, brand name, charectaristics of branding, brand image, brand identity, brand personlaity, concept of brand equity

UNIT 6. Pricing

Pricing; Importance of Pricing in Marketing; Factors affecting Price of a Product / Service; Pricing Strategy

UNIT 7. **Managing Marketing Channel:** Concept Of Marketing Channel; Types Of Channel And Their Importance : Characteristics, Importance; Channel Strategies : Designing and managing Marketing Channel : Main steps involved in developing the Channel Design, Channel Member Selection; Managing Wholesaling and Retailing;

the brands and non-stop working hours are characteristic features of these channels.

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 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*:** Off price retailer is another kind of retailer where merchandise bought at less than regular wholesale prices are sold at less than retail.The items are often leftover goods, overruns, and irregulars.
- ***Factory outlets:*** Factory outlets are owned and operated by manufacturers and normally carry the manufacturer's surplus, discontinued, or irregular goods.
- ***Independent off-price retailers:*** Indepenent off price retailers are owned and run by entrepreneurs or by divisions of larger retail corporations

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 acts as an intermediary between the manufacturer and the retailer.
2. Wholesaler reduces the cost of storage and cost of delivery of the manufacturer.
3. Wholesaler offers financial support to manufacturer by timely payment.
4. They provide market information to the manufacturer.

- **Services to Retailer:**

1. Wholesaler keeps large stock of varied goods for retailers.
2. They provide quick delivery of goods 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 customers. 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. The supermarkets, department stores, suburban shopping centers, retail chain stores, consumer cooperative stores, etc. constitute the spectrum of the retail market intermediaries. The prices in different formats vary and help retailers in positioning their services. In fact, supermarkets and chain stores have become common feature not only in the metropolitan cities but also in most towns. The chain store, as the very name indicates, consists of a chain of retail stores owned by a single agency and operated under the same name and style in different locations. The supermarkets and chain stores supply a complete range of groceries, vegetables, fruits, dairy products, and household items. Ample stocks, availability of all

UNIT 1: INTRODUCTION TO MARKETING MANAGEMENT

UNIT STRUCTURE

1.1 Learning Objectives
1.2 Introduction
1.3 Meaning of Market
1.4 Meaning and Definition of Marketing
1.5 Importance of Marketing
1.6 Basic Concepts underlying Marketing
1.6.1 Evolution of basic marketing concepts
1.7 Nature of Marketing
1.8 Scope of Marketing
1.9 Marketing Mix
1.10 Marketing Environment
1.10.1 Micro-Environment
1.10.2 Macro-Environment
1.11 Let Us Sum Up
1.12 Further Reading
1.13 Answers To Check Your Progress
1.14 Model Questions

1.1 LEARNING OBJECTIVES

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

- explain the meaning and importance of Marketing.
- describe the various concepts of marketing and the differences between selling and marketing concept.
- state the nature and scope of marketing.
- explain the meaning of marketing mix.
- narrate the evolution of marketing concepts.
- state the enviornmental forces having impact on marketing.

1.2 INTRODUCTION

In this unit we are going to discuss about marketing. Marketing as a subject of study is now attracting attention from business firms,

companies, institutions and even from countries. In history, its origin dates back to the days when the people realised that he should specialize only in the activity to which he was best suited for and he found it to be his advantage to utilize the services of others when they could do things better than him. This specialization created the necessity of exchange and thus the foundation of business was started. After Industrial Revolution, there were changes in the techniques, methods and volume of production. Large scale production was possible which required introduction of the new methods of marketing to create demand for products and services.

Marketing includes various activities which are involved in the generation of demand and the satisfaction of consumer needs. Marketing is not a single activity nor it is the sum of several activities. It is the result of a balanced interaction of several activities. In this unit, we will explain the basic concept of marketing, its nature, scope, importance and the evolution of marketing concepts.

LET US KNOW



Industrial Revolution: The **Industrial Revolution** was a period in the late 18th and early 19th centuries when major changes in agriculture, manufacturing, mining, and transportation had a profound effect on the socioeconomic and cultural conditions in Britain. The changes subsequently spread throughout Europe, North America and eventually the world. The onset of the Industrial Revolution marked a major turning point in human society; almost every aspect of daily life was eventually influenced in some way. The industrial Revolution facilitated mass and production which led to mass marketing.

1.3 MEANING OF MARKET

The term 'Market' refers to a place where goods are bought and sold by the buyers and sellers. In wider sense, market includes the whole of any region in which buyers and sellers are brought into contact with one another and by means of which the price of goods tend to be equalized easily and quickly.

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.

7.6.2 Channel member selection

The marketer has to take great care in the selection and appointment of channel members. 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 objectives of the firm, the criteria could be modified appropriately.

7.7 WHOLESALING AND RETAILING

Wholesaling: 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.

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) Evaluation of company resources and matching the channel design to 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 intermediaries operating in the market. Firms with larger resources have greater options to set up own channels.

Basically, there are two concepts of market –

(a) Place Concept: A convenient meeting place of buyers and sellers for exchange of goods e.g. physical or spot market.

(b) Demand Concept: A market is equated with the total demand. Market means buyers having unmet wants and purchasing power to make their demand effective with the will to spend their income to fulfill those wants. This is a right approach to determine a target market as it implies that a market is a set of actual and potential buyers of a given product or service. Demand concept of market assumes unique importance in the marketing concept.

1.4 MEANING AND DEFINITION OF MARKETING

The traditional view of marketing states that marketing is mainly concerned with the physical and ownership transfer of goods and services from the producer to the ultimate consumers. But the modern concept of marketing states that marketing involves the production of the product acceptable to the customers and the activity which helps physical transfer and ownership from the producer to the ultimate consumers. The modern view assumes that marketing means identifying, anticipating and satisfying consumer's needs and desires. Thus, marketing creates place utility, time utility and possession utility.

Marketing is a human activity directed at satisfying needs and wants through exchange processes.

A need is a state of felt deprivation. Marketers create wants on the basis of needs. For example, food is an essential element to satisfy the hunger needs. Marketers produce various types of food such as pulao, sweets, tea, and coffee etc. to create wants. Creating wants means creating demand for a product by providing an opportunity for choice or selection. Suppose, a buyer may have an opportunity to select out of the four alternatives –pulao, sweets, tea or coffee to satisfy their hunger needs. The exchange process means the transfer or transaction of goods which cannot be made free of cost i.e. it should be on payment basis.

The process of marketing starts with the identification of needs and wants through market survey and converting them into products or services and distributing the same to ultimate consumers through buyer oriented channel with suitable sales promotion technique at logical price to make a reasonable profit.

Definition of Marketing

The term "marketing" has been defined by a number of scholars in a variety of ways. We shall describe a few definitions here to realize how dynamic the subject marketing is–

1. "Marketing is the performance of business activities that direct the flow of goods and services from producer to consumer or user".

   - Committee of the American Marketing Association.

   This definition merely emphasizes one particular aspect i.e. movement of goods and services from producer to consumer. It makes marketing production oriented rather than consumer oriented.

2. "Marketing is that part of economics which deals with the creation of time, place and possession utilities"

   - American Marketing Association

Place utility is created by marketing the goods and services available to the consumer at the place where such goods are needed.

Time utility is created by making the goods available at the time when they are needed.

Possession utility is created by transferring the goods to those who need them.

This definition expresses the traditional views of marketing and it covers only few aspects of marketing.

3. "Marketing is a total system of interacting business activities designed to plan, promote and distribute want satisfying products and services to present and potential consumers"

   - W. J. Stanton

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 Unilever Ltd 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. We have discussed channel functions at the preceding sections. Channel functions must be identified in the specific context of the concerned firm in order to get a practical direction in working out the channel design for the firm. Obviously, channel functions have to be in tune with the channel objectives of the firm.

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 specialities, 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

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

7.6 DESIGNING AND MANAGING MARKETING CHANNEL

7.6.1 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
- Identifying 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

The above definition given by Stanton appears to be more suitable as it covers almost all the modern views like –

(a) It views marketing as a total concept.

(b) It describes marketing as dynamic process.

(c) It covers all the activities ranging from product planning to distribution.

(d) It indicates that marketing is the result of interaction of several activities.

(e) It pays importance for satisfying consumer's needs and wants.

4. "Marketing is the process of discovering and translating consumer wants into product and service specifications and then in turn helping to make it possible for more and more consumers to enjoy more and more of these products and services".

- Harry L. Harsen

5. "Marketing as the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return."

-Kotler and Armstrong,2011

This definition has also covered all the activities of marketing starting from identification of needs and wants of consumers, converting them into product and service and making things available to consumers in a manner that they can enjoy more and more.

1.5 IMPORTANCE OF MARKETING

The success or failure of any organization, profit making or otherwise depends on marketing. As the economy progresses, the importance of marketing also increases. With the progress of economy, the demand and supply of certain new products and services start increasing and some of the existing products or services start losing their demands.

Below we will discuss the importance of marketing from society point of view:

(I) Marketing improves standard of living: Marketing promotes large scale production and sales which bring down the cost of production and increases the amount of profit. Lower price results in large consumption by large number of consumers which improves the standard of living at large.

(II) Marketing connects the producers and consumers: The producers produce goods and services for the purpose of selling. Therefore, the producers should be in touch with the consumers who require such goods and services. In the absence of marketing process, it would have been extremely difficult for producer to find out what customers want.

(III) It provides employment opportunities: Marketing results in large scale production which in turn creates a good number employment in the production process. Thousands of people are employed to manage the retail and wholesale establishments.

(IV) It helps to provide economic stability: Good marketing system enables to maintain the price level stable by matching the demand and supply at various places and different period. This is possible by creating time and place utility.

(V) It helps to utilize our natural resources: It is marketing which collects needs, wants, desires, preferences etc. of domestic consumers and international consumers and analyze the information to produce goods and services for better satisfaction of consumers. In the process of producing various goods, they are utilizing the national resources up to optimum level.

Importance of marketing from producers/firms point of view:

(I) Marketing creates awareness among potential consumers and motivates people to purchase the products and services to satisfy their needs and wants. In this process, the firms generate revenue

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 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 and enables demonstration of the product right in the home of the prospect. It provides for personal service and personal delivery. This method is however quite expensive.

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 introduce 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.

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



Word of mouth—

Spread of message by spoken communication.

Marketing intermediaries also look after a good part of the physical distribution functions like transportation, warehousing, sub-distribution and inventory management. They look after financing of the goods, credit transactions, negotiations 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.

vii) *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.

7.5 CHANNEL STRATEGIES

We have seen that a business firm can take its products to consumers in more than one way. It can use different types of marketing intermediaries; it can structure its channel into a single tier or two tiers or more tiers outfit. But it cannot easily determine which one is the best. How many wholesalers should it have to ensure satisfactory market coverage? Where to locate them? How many retail points should it have? Which are the places where it should have them? Many questions emerge. The firm has to make a careful analysis and then select its channel design.

The choosen marketing channel must have the capability to sell the product and to provide the required market coverage.

7.5.1 Alternatives in Non-store Marketing

a) *Vending Machines , ATM etc*

Marketing through vending machines also belongs to the category of non-store marketing techniques. It enables the principals to

by selling the goods and services with which the firms further produce and grow.

(II) The marketing organization provides a channel of communication between the firm and the consumers. It is furnishing information about the consumers' demands, tastes and preferences to the top management. This process helps the firm to adjust its production schedule to suit the tastes of the consumers.

(III) It helps the producers to increase the volume of sales which forces large scale production and results more profit.

From the above explanation you will be able to realize the importance of marketing in the economic development of a country.

1.6 BASIC CONCEPTS UNDERLYING MARKETING

- **NEEDS**

The needs are in-built in human nature itself and thus naturally existed in the composition of human biology and human condition. When the needs are not satisfied, a person will try to either reduce the need or look for a substitute product that has the ability to satisfy the need.

The need for food, clothing, shelter and safety are the basic physical needs and the needs of belongingness and affection are the social needs. The individual needs include the need for knowledge and self expression.

- **WANTS**

Human wants are desires for specific satisfaction of deeper needs that means the needs become wants when they are directed to specific products that might satisfy the need. For example, a teenager may need water to quench his thirst but wants to have a cold drink. Human needs may be few, but their wants are numerous. These wants are continually shaped and re-shaped by social forces and institutions such as families, colleagues, office neighbours etc. Marketers need not create needs because these needs pre-exist in the market. But they can

influence the wants and suggest and inform the consumers about certain products and persuade them to purchase these by stressing the benefits of such products.

- **DEMANDS**

People may have almost unlimited wants. But resources are limited in comparision to the wants they have. Therefore they have to choose the products that are likely to provide the most value and satisfaction for their money. When backed by purchasing power, wants become demand. Thus, demands are basically wants for specific products that are linked /associated with the ability and willingness to pay for these products. For example, many desire a car such as Mercedes Benz, Toyota, BMW, Honda etc. but only a few are really willing and able to buy one. Therefore being a marketing executive you must measure how many people would actually be willing and able to buy your company's products than how many of them want the products.

- **PRODUCTS**

To satisfy the wants and needs of people the company must offer their products in the market. Specifically, a product can be defined as an object, service, activity, person, place, organisation or idea. You can note here that the tangible items are known as product while the intangible items are known as service. The hidden use of a physical object may be to provide the service. For example a lipstick is bought to supply service (beautify); toothpaste for whiter teeth – prevent germs or give fresh breath etc. Therefore, it is the job of marketer to sell the service packages associated with the physical products.

- **EXCHANGE**

We have already got that marketing takes place only when people decide to satisfy needs and wants through exchange. So, in the process of marketing there is exchange value between the two parties i.e. buyer and seller. The value for buyer is to obtain the desired product to satisfy its needs and wants while the value for the seller is generally the profit or the money. For example, hungry people can satisfy hunger

consumers need an assortment of items; Marketing channels render the vital service of assembling the products of different manufacturers into suitable assortments. They also break the bulk and meet the small-size needs of individual consumers.

iii) Channels p*rovide s*alesmanship

Marketing channels also provide the vital input of salesmanship. They 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.

***iv) Channels help merchandise the* product**

Merchandising, which includes display, is another important function performed by marketing channels. Through merchandising, the channel 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 act as a silent salesman at the retail outlet.

v) *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.

vi) Channels look after physical distribution and financing functions

agent and as such, stockist/ distributors are one level below the marketer/sole selling agent.

(III)Retailer/Dealer

A retailer sells any product or services to ultimate consumers. In the distributional hierarchy, retailers are below the level of stockists or distributors or wholesalers. Sometimes, retailers are termed as dealers or authorised representatives. The retailer often operates in a smaller territory or at his specific location; earns higher commission and lesser sales volume compared to higher levels in the channel. He does not carry out much of stock holding and sub-distribution functions.

7.4.2 Importance of Marketing Channels

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

i) Channels provide distributional efficiency* to m*anufacturers

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 manufacturer to carry out the distribution function himself, totally avoiding marketing intermediaries. Marketing intermediaries minimize the number of contacts the firm has to make to sell its products.

ii) 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. The

Assortment —

A collection containing a variety of goods.

by hunting, fishing or gathering fruits or by being involves inthe exchange process. Marketing focuses on this last option. Kotler (1984) states that for exchange to take place, it must satisfy five conditions, namely:

(i) There are at least two parties.
(ii) Each party has something that might be of value to the other party.
(iii) Each party is capable of communication and delivery.
(iv) Each party is free to accept or reject the offer.
(v) Each party believes it is appropriate or desirable to deal with the other party.

1.6.1 Evolution of Basic Marketing Concepts

Companies have to face a number of tough decisions for marketing their products. They have to determine product features, and quality, establish accompanying services, set the price, determine the distribution channels, decide how much to spend on marketing, and decide how to divide their resources among advertising, sales force, and other promotion tools. Modern marketing has become very complex and dynamic.

Chronologically, the concepts are classified in five. They are mentioned below:

(i) Production concept,
(ii) Product concept,
(iii) Selling concept,
(iv) Marketing concept, and
(v) Societal Marketing concept.

(i) Production Concept: This concept assumes that customers will favour products that are available and highly affordable and that management should therefore focus on increasing production and distribution. Most of the producers believe that the customers prefer only low priced products and so they concentrate on large scale production to reduce

the cost. A firm may apply this concept in two types of situations:

(a) When the demand for the product or service is higher than the supply of the same.

(b) When the cost of the product is high and increase in production is going to reduce the cost due to economics of large scale production. This concept can work only in a sellers market. In buyer's market it fails to market under keen competition.

(ii) Product Concept: This concept assumes that buyers favour those products that offer the most quality, performance and features. The producers are of the opinion that it is the quality of product that attracts the customers; the quality of the product alone will yield satisfactory sales and profits. Though this concept appears to be initially very sound, it failed in actual operation. Leading companies have produced quality products but have not been able to push up the sales, unless they take positive steps to design, pack and price attractively, to place them in proper distribution channels, bring them to the notice of persons concerned and convince them that the product is of superior quality. No wise marketer can follow this philosophy of marketing in this competitive world. This concept may lead to **"marketing myopia"** or short-sighted marketing because of undue concentration on the product rather than the needs and desires of consumers for whom the products or services produced.

(iii) Selling Concept: The selling concept assumes that the consumer's response will not increase without promotional efforts. Even the best products cannot have assured sales without the help of sales promotion and aggressive salesmanship. It implies the consumer's satisfaction is considered secondary; selling the product is the primary

Some intermediaries-such as wholesalers and retailers-buy and take goods to merchandise; they are called merchants. Some others search for customers and may negotiate on the producer's behalf. Some others do not take title to the goods, they are called agents. Some manufacturers sell directly to the final customers. The major examples are door-to-door sales, 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.

(iii) Difference in ownership of titles.

In order to understand the above we need to be familiar with some terms used in marketing channel. Let us discuss some of them, as below :

7.4.1 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 does 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 network 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) Stockist/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 stockist or distributor operates under the marketer / sole selling agent. Wherever the manufacturer does use a marketer or sole selling

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.

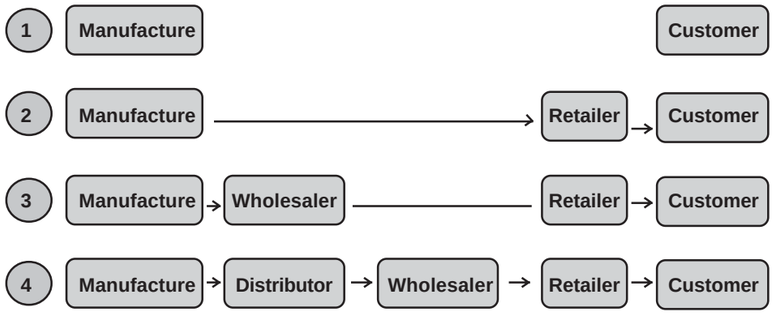
7.3 CONCEPT OF MARKETING CHANNEL

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, stockists, semi-wholesalers, franchised dealers, retailers, authorized representatives, brokers / commission agents etc. The depots/ showrooms and other direct outlets of producers also form part of the distribution channel. 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. Distribution management consists of two major tasks - physical distribution and management of marketing channels.

7.4 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



Examples of Customer Marketing Channels

consideration. The seller in the long run is likely to lose his customers, who would not be satisfied with the product. As a result, the dissatisfied consumers do not purchase further and do not recommend the product to any of their friends and relatives or they do complain to consume. Since there are many potential customers, the producer is not very particular about the repetitive sales in monopoly or less competitive markets but in highly competitive market, the producers are under compulsion to play attention or repetitive purchases. The selling concept starts with the factory and it focuses on the existing products and promotion and calls for heavy selling and promotion to obtain profitable sales volume. This concept may be explained with the help of the following diagram.

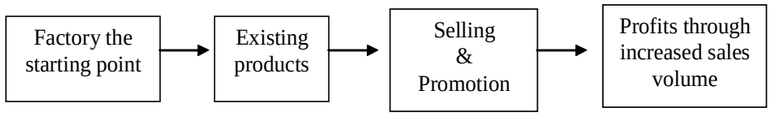
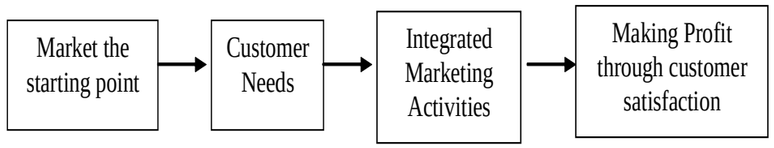


Figure 1.1: Selling Concept

(iv) Marketing Concept: This is relatively a new idea in the field of exchange of goods. Under this concept the organization tries its best to determine the needs, wants and values of the custmers and takes all possible steps to deliver the desired satisfaction more effectively and efficiently than its competitors do. Every attempt is made to satisfy the wants of customers and to achieve this objective; a special programme of Market Research is undertaken. The organization fully understands that it can win the loyalty of its customers and their appreciation only by providing them satisfactory services in respect of their needs and wants. Winning the confidence of customers is as good as fulfilling the goals of the organization. This concept assumes that organizations produce what customers want and thereby yield customer satisfaction and make profits. This concept may be explained with the help of the following diagram.



Marketing Concept

(v) Societal Marketing Concept : This concept is management oriented that holds the key task of the organisation is to determine the needs and wants of target market and to adapt the organisation to deliver the desired satisfaction more effectively and efficiently than its competitor in a way that preserves or enhances the customers' and society's well being.

Environmental trends like public welfare concerns for better quality of life etc. indicate that organisations would have to adopt socially responsible marketing policies and plans in order to assume social welfare in addition to consumer welfare. The socially responsible marketing concept is based on the assumption:

(a) The mission of an organisation is to create satisfied and healthy customers and contribute to the quality of life.

(b) The organisation will not offer a product to customer if it is not in the best interest of customers.

(c) Marketing plans and programmes shall duly consider consumers wants, interest, desires, social welfare and corporate needs e.g. profits.

(d) The organisation will offer long run customer and public welfare.

The last two concepts of current market philosophy i.e the marketing concept and the societal marketing concept have been extensively adopted and widely accepted in the interest of the organisation, the consumer and society.

The first three concepts remained successful till competitors did

UNIT 7: MANAGING MARKETING CHANNELS

UNIT STRUCTURE

7.1 Learning Objectives
7.2 Introduction
7.3 Concept Of Marketing Channel
7.4 Types Of Channels And Their Importance
7.4.1 Characteristics of Different types of Intermediaries
7.4.2 Importance of Marketing Channels
7.5 Channel Strategies
7.5.1 Alternatives in Nonstore Marketing
7.6 Designing and Managing Marketing Channel
7.6.1 Main steps involved in developing the channel design
7.6.2 Channel Member Selection
7.7 Wholesaling and Retailing
7.8 Emerging Trends in Channel Management
7.9 Let Us Sum Up
7.10 Further Reading
7.11 Answers To Check Your Progress
7.12 Model Questions

7.1 LEARNING OBJECTIVES

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

- describe the importance of marketing channel.
- explain different types of channels and their importance
- explain channel strategies and retailing

7.2 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. 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

Despite the increased role of non price factors in modern marketing, price remains a critical element of the marketing mix.



6.8 FURTHER READINGS

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

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

3) Valarie A. Zeithaml and Mary Jo Bitner,Service Marketing, Tata Mc Graw Hill, 3rd Edition.

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



6.9 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q.1.:	1.b	2.e	3.c	4.d	5.b
Ans. to Q.2.:	a. False	b. False	c. False	d. True	e. True
Ans. to Q.3.:	a. True	b. True	c. False	d. True	e. True



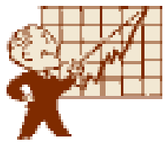
6.10 MODEL QUESTIONS

1. Discuss the importance of pricing.
2. Discuss the various factors affecting pricing decisions.
3. What is non price competition?
4. What are the pricing strategies adopted by the marketers?
5. What are the differences between skimming price and penetration pricing?

*** ***** ***

not emerge in a large number and supply was less than demand. As the numerous competitors came into market it became flooded with goods and services of same quality and price. That led producers to give importance on selling efforts like personal selling and advertisement. But the selling efforts of the producers did not last long as almost all producers applied the same sort of selling efforts. Ultimately, the producers started price-war to increase their market share but all of them were adversely affected in price –war. They started to take into consideration of needs, wants, tastes and preferences of consumers for marketing their products. This idea saved them from unnecessary selling efforts including false propaganda and protected them from going out of market with the adoption of this concept.

The first three concepts are known as traditional concepts and the last two concepts are known as modern marketing concept.



CHECK YOUR PROGRESS

Q1: Explain the meaning of marketing.

.....

.....

Q2: State two points indicating importance of marketing

.....

.....

Q3: Match the organisational objectives given in column I with the marketing concepts in Column – II

	Organizational Objectives	Marketing Concept
(a)	Effective distribution and affordable price	(i) Marketing concept
(b)	To make continuous product improvement	(ii) Selling concept
(c)	Large scale selling and promotion to obtain profitable sales volume	(iii) Product concept
(d)	Determining needs, wants and preference of target market and deliver the product	(iv) Production concept

4) State whether the following statements are true or false:

(i) Demand for a product exceeds the supply during the stage of production concept.

(ii) Marketing creates only time and place utility.

(iii) Marketing helps to utilize our natural resources.

(iv) Marketing helps to provide economic stability.

1.7 NATURE OF MARKETING

Nature of marketing can be studied in relation to its features as described below:

(i) **Consumers and competitors oriented**: It has consumers and competitors orientation in its business planning and activities.

(ii) **Corporate Objectives**: Corporate objectives are given top preferences and departmental goals act as the means to achieve corporate goals.

(iii) **Planning and implementation of marketing objectives**: It follows the system approach in planning, organizing, controlling and coordinating its entire business as a system to achieve the overall corporate objectives.

(iv) **Analysis and forecasting**: Collection, analysis and forecasting of consumers' needs, wants, desires, demands, ability to pay, willingness to pay etc. are made for market survey and research.

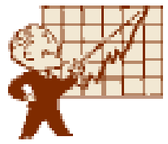
(v) **Planning and development of products and services**: It develops products and provides services to match with the anticipated consumer demand.

(vi) **Stimulation of consumer demand**: It stimulates consumers' demand by logical pricing and influencing promotion techniques.

(vii) **Services to consumers to yield customers' satisfaction**: It makes all sorts of attempts and render a variety of series to satisfy consumers.

1.8 SCOPE OF MARKETING

The modern marketing concept has broadened the scope of marketing



CHECK YOUR PROGRESS

Q3: State True (T) or False (F)

a) Except price all other elements of marketing mix produce costs.(T/F)

b) A well esigned and marketed product can commnad a price premium.(T/F)

c) Pricing decisions are tactical in nature, not strategic.(T/F)

d) Priorities of a firm over a period of time may affect pricing decisions.(T/F)

e) Pricing deciosions must be consistant with bramd positioning.(T/F)



6.7 LET US SUM UP

In this unit we have discussed the importance and different strategies of pricing.

Price is the one element of the marketing mix that produces revenue; the other elements produce costs. Prices are perhaps the easiest element of the marketing program to adjust. Other elements like product features, channels, take more time. Pricing decisions are strategic in nature. These decisions have long term effects for the firm. As discussed in the unit various factors affect the pricing decisions. These factors can be categorized as internal factors or external factors. Costing of the product, nature of competition, the priorities of the firm over a period of time may be cited as some of the important factors which affect pricing decisions. Price also communicates to the market the company's intended value positioning of its product or brand. A well-designed and marketed product can command a price premium. In this case the marketers would be in a position to set a high price. Pricing decisions are clearly complex and difficult. Holistic marketers must take into account many factors in making pricing decision—the company, customers, competition, and marketing environment. Pricing decisions must be consistent with the firm's marketing strategy and its target markets and brand positionings.

d. In large companies, pricing is typically set by top management.
e. Although consumers may have fairly good knowledge of the range of prices involved, very few can accurately recall specific prices of products.

6.6 PRICING STRATEGY

The strategy of pricing will differ from organisation to organisation and from product to product. As stated earlier, internal cost structure and environmental forces also will impact largely. For new products, the strategy for pricing could be either to meet the objective of maximizing the profit margin or to maximizing market share. To meet these objectives market skimming or penetration pricing strategies are often adopted.

Skimming pricing attempts to skim the cream of top of the market by setting a high price and selling to those customers who are less price sensitive. Skimming is a strategy used to pursue the objective of profit maximization. Skimming is most appropriate when demand is expected to be relatively inelastic i.e. customers are not highly price sensitive.

Penetration pricing pursues the objective of market share maximization by means of a low price. It is most appropriate when demand is expected to be highly elastic i.e. customers are price sensitive and the quantity demanded increases as price decreases significantly. Because of increases in volume there may be decreases in the cost also.

To set the price level that achieves pricing objectives, managers may make use of several pricing methods. These **methods** may include:

1. **Cost plus pricing:** Cover the cost and add a certain profit margin.
2. **Target return pricing:** Set the price to achieve a target return on investment.
3. **Value based pricing:** base the price on the effective value to the customer relative to alternative products.
4. **Psychological pricing:** pricing may be decided on the basis of product quality, popular price comparison with competing products and customer perception on fair price.

Managers can think about innovative pricing strategies and models that meet the requirement of the organisation and its customer as well.

which naturally includes almost all the activities before and after the production function. From the definition given by Philip Kotler and others, the scope of marketing may be described as below:

(i) **Analysis of the market:** It is done through marketing research. Data and information are collected through market survey.

(ii) **Planning for marketing functions:** On the basis of market analysis, the marketing goals and targets are determined, i.e. quantity to be sold and produced, volume of goods to be made available in the different segments.

(iii) **Designing marketing structure:** The marketing structure is designed considering different activities required for effective marketing of goods and services.

(iv) **Marketing Research:** Marketing utilizes marketing research to consider the changes in taste, fashion, habit, liking, disliking, and preferences of the customers, and new types of goods and services to be introduced in the market.

(v) **Pricing of the product:** The success of the marketing depends on the right pricing decision at the right moment.

(vi) **Evaluation of marketing activities:** various marketing activities are evaluated , for example determining the efficiency of sales personnel and effectiveness of the sales techniques.

The scope of marketing may also be analysed in terms of marketing performance through various functions.

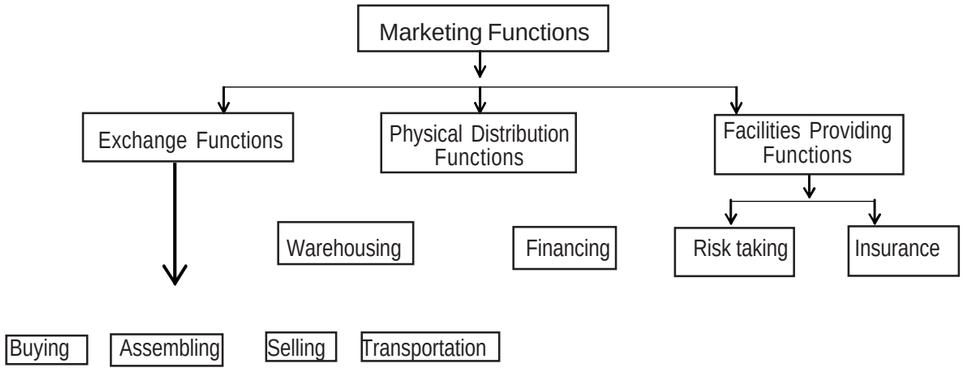


Figure 1.2: Marketing Functions

1.9 MARKETING MIX

Marketing mix is the mixture of the essential elements of marketing in order to enhance consumer satisfaction. Marketing mix is the mixture of 4Ps' – Product, Pricing, Promotion and Place (Physical distribution and channel of distribution).

Target Consumers

Marketing Strategy on target market to yield consumers' satisfaction

Product Mix
1. Brand
2. Style
3. Colour
4. Design
5. Package
6. Warranty
7. Service

Price Mix
1. Pricing strategy
2. Pricing policy
3. Basic Price
4. Terms of credit
5. Discount
6. Allowance

Promotion Mix
1. Personal selling
2. Advertising
3. Publicity
4. Sales promotion
   (a) Dealer Aids
   (b) Consumer Aids

Place Mix Distribution Channels
1. Wholesaler
2. Retailer
3. Mercantile Agents
4. Transport
5. Warehousing

Figure 1.3: Marketing Mix

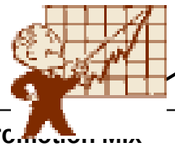
To attain success in marketing effort, the various components should be well coordinated. Marketing mix offers an optimum combination of all marketing elements so that we can achieve company goals such as profit, return on investment, sales volume, and market shares and so on.

Elements of Marketing Mix:

The elements of marketing mix are described below:

An enterprise exists in an environment and is influenced by environmental factors. The external factors are:

1. **Market characteristics** – Some markets are having very stiff competition and some are having less. The number of players in a market could be more or less. Market leadership factors also may be different. Different characteristics of the market have a bearing on price.
2. **Buyer behaviour in respect of the given product** - Value conscious buyers are likely to be interested in low prices. Image conscious buyers may be more attracted by product image rather than low price of the product.
3. **Bargaining power of major customers** - In industrial buying situations major buyers have a bargaining power. They are in a better position to negotiate prices.
4. **Bargaining power of major suppliers** - Similar is the case with major suppliers. They are in a better position to supply bulk quantities. They are also in a better position to negotiate terms.
5. **Competitors' pricing policy** – Firm's decision to set a price is heavily influenced by the price set by the competitors. In case of highly unique product having a niche market, a firm can have its own price. In most of the cases, competitive reactions to the price set by the firm have to be seriously studied for future programmes.
6. **Government controls/regulations on pricing** – As stated earlier the Governmental measures like import duties, excise, subsidy, sales tax etc. influence pricing decisions.
7. **Societal(or social) considerations** - Firms have a responsibility to society and to its customers. Firms are not expected to exploit consumers by unnecessarily charging high prices.



CHECK YOUR PROGRESS

Q.2 State true or false for the following statement

a. Price is one of the two elements of the marketing mix that produce revenue.

b. All products have experienced heavy discounting in recent years.

c. The Internet is largely a one-sided tool that benefits buyers, but not sellers.

2. **The image sought by the firm through pricing –** If a firm offers high quality goods at high prices, the firm will develop a premium image.
3. **The characteristics of the product –** Sophisticated, complex and new to the world products normally carry high prices. Products having more features carry higher prices.
4. **Price elasticity of demand of the product** If price increases, demand decreases and if price decreases demand increases. Marketers may decide on pricing based on 'what the traffic can bear'. The marketer takes the maximum price which the customers are willing to pay for the product under the given circumstances.
5. **The stage of the product on the product life cycle** – When a product is introduced for the first time it carries a higher price. Gradually with increasing consumer acceptance and competition price decreases.
6. **Use pattern and turn around rate of the product** - Price of newspaper and magazines may be different for the immediacy factor, permanence and the pass along readership. Newspapers are having a short life, while magazines enjoy a pass along readership.
7. **Costs of manufacturing and marketing -** Costs determine price to a great extent. Marketers will have to cover the cost and earn a profit.
8. **Extent of distinctiveness of the product and extent of product differentiation practised by the firm** - Products having uniform size, shape and compositions can be manufactured at a lesser cost compared to products having differentiation.
9. **Other elements of the marketing mix of the firm and their interaction with pricing** - Amount spent on product research, advertising, dealer development etc. are some factors which influence price of a product.
10. **Composition of the product line of the firm** – A firm may sell a number of products in the same product line. In that case , the products are likely to be sold under different prices depending on their quality, features etc.

II) External Factors

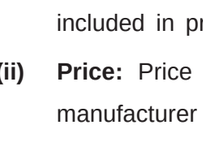
In addition to the internal factors mentioned above, any business firm has to encounter a set of external factors while formulating its pricing decisions.

(i) Product: Product means anything which can satisfy consumers needs and wants through exchange process. The marketer may offer a single product or several products. The marketer should also revise the product design; make improvements in the products frequently so as to suit the changing tastes, habits and preferences of the consumers. Packaging and branding decisions are also included in product decision.

(ii) Price: Price is the value which is paid by the buyer to the manufacturer in exchange of the products and services. The marketer has to take into consideration the cost factors, profit margin, the possibility of sales at different price level and the competitors pricing policy as well as number of competitors.

(iii) Promotion: The marketers should provide information to the customers about its products and services and motivate customers to buy. Advertising, personal selling, publicity and other sales promotional programes are the various promotional activities. Promotion is done for three purposes – (a) informing, (b) persuading and (c) influencing consumers.

(iv) Place or Physical Distribution: Distribution is the delivery of the product and transfer of ownership to the buyers and consumers. It includes channels and outlets through which products move to the buyer and arranging their physical movement to different market segments. It depends upon the middlemen, products and services, channels of distribution etc. It maintains the flow of products and services from the producers to the buyers.



CHECK YOUR PROGRESS

Q5. What is Marketing Mix?

.....

.....

.....

.....

Persuade —

Win approval or support for

Q6. Explain Nature of Marketing

.....

.....

.....

.....

Q7. What is the Scope of Marketing ?

.....

.....

.....

.....

Q8. Match the Column I with Column II :

Column I	Column II
(a) Product	(i) Delivery of goods and transfer of ownership
(b) Price	(ii) Dealer Aids
(c) Promotion	(iii) Warehousing
(d) Place	(iv) Terms and Credit

Q9.State whether the following statements are true or false.

(i) Marketing has got an interdisciplinary relation.

(ii) Marketing is consumer and competitor oriented.

(iii) Buying, assembling and selling are marketing functions.

(iv) The marketing mix will naturally be changing according to changing marketing conditions and also with changing environmental factor.

1.10 MARKETING ENVIRONMENT

Marketing environment refers to both the internal and external forces that affect the efforts of marketing management put to build and maintain successful relationships with the target customers. These forces have an affect on the process of marketing decision-making as well as an impact on marketing performances. Thus, this marketing environment

e. all of the above

4. Executives state that pricing is difficult. Because customers consider prices _____.

a. too low b. too high c. intimately d. independently

e. concurrently

5. Many consumers use price as an indicator of _____.

a. status b. quality c. ability d. capability

e. size

6.5 FACTORS AFFECTING PRICE OF A PRODUCT/ SERVICE

Factors affecting pricing may be categorized into two categories- internal factors and external factors. In each of these categories some may be economic factors and some may be psychological factors. Some factors may be quantitative and some may be qualitative. We are discussing these factors below.

I) Internal Factors

As regards pricing, the firm has certain objectives -long term as well as immediate. For example, the firm has certain costs of manufacturing and marketing; and it seeks to recover these costs through the price and thereby earning a profit. In respect of all the products, the firm may have a basic philosophy on pricing. The pricing decisions of the firm have to be consistent with this philosophy. Pricing also has to be consistent with the overall objectives of the firm. These objectives could be achieving market share, short term or long term profit. The firm may be interested in seeking a particular public image through its pricing policies. All these constitute the internal factors that influence pricing. More specifically, the internal factors are:

1. **Corporate and marketing objectives of the firm** - All pricing objectives ***emanate*** from the corporate and marketing objectives of the firm. A business firm will have a number of objectives in the area of pricing. Some of these objectives are long-term, while others are short-term. Profit is one of the major objectives in pricing. Firms may not be interested in profit maximization as such, they may be more interested in long term survival and growth.



***Emanate* —**

Proceed from a source.

must anticipate competitor price changes and prepare contingent response. A number of responses are possible in terms of maintaining or changing price or quality.

vii) Price plays an important role in marketing communication: High price may indicate higher quality. Price communicates value to the consumer. Customers are basically value-maximizer. They want to have the maximum value from a given purchase. They form an expectation of value and act on it. A buyer's satisfaction is a function of the product's perceived performance and the buyer's expectations. So, if the product meets the expectations of consumers and their value definitions at the given price point, price is seen as acceptable. Otherwise consumers tend to be dissatisfied. They may say that the product is overpriced and they may reject the offer.

The above discussion indicates that pricing is a critical element in any company's marketing plan, because it directly affects revenue and profit goals. Effective pricing strategies must consider costs as well as customer perceptions and competitor reactions, especially in highly competitive markets. Today, many firms are trying to follow the low-price trend. At the same time, many marketers have been successful in selling more expensive products and services by combining unique product formulations with engaging marketing campaigns.



CHECK YOUR PROGRESS

Q.1 Fill in the blanks with appropriate words.

1. _____ communicates to the market the company's intended value positioning of its product or brand.

   a. Packaging b. Price c. Place d. Promotion
   e. Product features

2. Traditionally, _____ has operated as the major determinant of buyer choice.

   a. Promotion b. packaging c. placement d. distribution
   e. price

3. Today, _____ is partially reversing the fixed pricing trend.

   a. volume discounting b. big-box retailing
   c. the Internet d. high-margin niching

consists of both the macro environment [broad environment] and micro-environment [task environment].

1.10.1 Micro-Environment [Task Environment]

Micro environment encompasses the factors or elements that lies in the close proximity, that means, in the immediate environment of a firm or the company. And thus these factors hinder the abilities of the company or the firm to serve its customers. Such that microenvironment includes the company itself, its suppliers, marketing intermediaries, customer markets, competitors, and publics.

- **THE COMPANY:-** One of the important aspect of microenvironment is the company itself that indicates the internal environment of a company. A company is consisted of several departments, such as materials, finance, research and development, purchasing, operations and accounting etc.
- **CUSTOMER:-** Customers are the purchasers of a product and thus it is also entitled as another important aspect of marketing activities. For example, research and development department usually develops/ invents many new features those are incorporated in the existing product to give it a different get-up according to the choice of consumers and accounting department approves the financial side of marketing plans and budgets.
- **SUPPLIER:-** The supplier of a company is another important aspect of microenvironment. The supplier can help a company in maintaining a strong customer relationship by ensuring the timely delivery of product to the customers. Therefore it is the responsibility of marketing managers to watch the supply availability as well as the trends associated with suppliers with care because even the slightest delay in receiving supplies can result in customer dissatisfaction.

- **MARKETING INTERMEDIARIES:-** Resellers, physical distribution firms, marketing services agencies and financial intermediaries together form the marketing intermediaries. These are the entities that help a company in promoting, selling and distributing its products to the final buyers very effectively.
- **THE CUSTOMER MARKETS :-** There are different types of customer markets, for example, consumer markets, business markets, government markets, international markets, and reseller markets in the business world. The consumer market includes the buyers who purchase the goods and services for their own personal use or to use in their household. On the other hand, business markets mean the market place where selling and buying of goods and services occur to use/ incorporate these during the process of producing another products that will be again resold. The business market is different from the reseller market where purchasing of goods occur in order to make a profit by reselling it again. The government agencies comprise to form the government market where they are enganged in buying of goods either to produce the public services or to transfer these to the others who need them. International markets endeavour the marketing process in which the dealings occur between the buyers and sellers who represent the different countries of origin.
- **COMPETITOR:-** Competitors include the companies available with similar offerings of goods and services in the market. Thus to survive in the market, a company must be competitive enough to challenge the threats in front of it. And for this, the company must have to consider its strengthes and weaknesses by comparing these with itheir competitors in regard to its own size and position in the industry. Thus subsequently, the company should develop a strategic advantage over its competitors.

essential elements of a non price marketing strategy.

iii) Facilitates fighting competition: The marketers have to perform in a highly competitive environment. Price is a very important instrument to fight competition. It is the competition that contributes maximum to the importance of pricing. Pricing is a highly dynamic function. Because of the immense competition and in meeting competition, pricing decisions acquire their real importance.The firm facing a competitor's price change must try to understand the motive of competitors and the likely duration of the change. Strategy often depends on whether a firm is producing homogeneous or non-homogeneous products. The leaders in the market may be attacked by lower-priced competitors. Then the leaders may ignore them or may seek to better differentiate itself, introduce its own low-cost brand to compete with competitors' low cost brand, or transform itself more completely.

iv) Requires careful handling, as pricing is risky: Pricing acquires its importance on account of yet another consideration - it is a risky area of decision in marketing management. It is difficult to predict the results of changes in pricing. The marketer may reduce price in anticipation of higher sales volume, but the market responses could be the opposite. Low price alone may not attract customers. Similarly, higher price also may not ***debar*** customers from purchasing. Mistakes in pricing decisions seriously affect the firm, its profits, growth and future.

***Debar* —**

Prevent the ocurrance of something.

v) Importance of pricing stucture: Companies do not usually set a single price, but rather a pricing structure. That includes MRP(Maximum Retail Price), dealer margin in light of various cost like transportation, warehousing, cost of production etc. Pricing is not a simple decision. It has to reflect variations in geographical demand and costs.

vi) Changing price -an imporatnt tension: After developing pricing strategies, firms often face situations in which they need to change prices. A price decrease might be brought about by additions in plant capacity, declining market share or a desire to dominate the market through lower costs. Challenges are different in case of economic recession. The firms have to think of increase in prices in certain situations. A price increase might be brought about by increase in cost or excess in demand.

In the market situation, the competitors influence pricing decisions. Firms

thorough understanding of competition, consumer pricing psychology and a systematic approach to setting, adapting, and changing prices. Prices are not set for once only. Pricing decisions need to be continually reviewed.

6.4 IMPORTANCE OF PRICING IN MARKETING

i) Price route and Non price route: Pricing is a very important area of marketing. Companies can resort to two broad strategy routes - the price route and the non-price route. The price route signifies excessive reliance on price of related factors compared to non price factors. The non-price route concentrates more on elements like product, distribution, advertising, personal selling and sales promotion in their marketing strategy. They try to meet the competitors on the non-price front rather than on price. Some other firms attach great importance to pricing and believe that they can always break customers' brand loyalty by a lower price. They feel that the other elements of the marketing mix are not that important when the customers are highly selective of price. The interesting point is that pricing remains as an important decision area, whether the firm takes to the price route or the non-price route in its marketing strategy. In today's marketing environment, we find large scale proliferation of branded and differentiated products. For day to day requirement of consumer goods, consumers would prefer low priced goods at an acceptable quality. But for a gift item, consumers would prefer a premium brand where high price becomes significant.

ii) Facilitates strategy development: As a matter of strategy, sometimes some products are kept out of price competition. Even when a product or brand is kept outside of price competition through product differentiation and other strategies, the pricing decisions still remain crucial. Even in the context of such strategies the decision relating to price depends on the sales volume and profits of the enterprise. Moreover, it may not be correct to view the price factor and the non-price factors as mutually exclusive while developing the marketing strategy for any product. A company marketing different products may go for different pricing for different products. Prices are very much related to each other. By moving the price upward or downward, the firm can adjust the level of funds available for functions like advertising, sales promotion and distribution, which are the

1.10.2 Macro-Environment

Macroenvironment includes the major uncontrollable, external forces which influence a firm's decision making process and have an impact upon the performance of a firm. Thus, macroenvironment refers to all the forces those from the part of a large society. Moreover, these forces as individually or in mass have an affect on the microenvironment. So the concepts such as demography, economy, natural forces, technology, politics, and culture are covered under macroenvironment .

- **DEMOGRAPHIC ENVIRONMENT:-** Study of human populations in terms of its size, density, location, age, gender, race, and occupation is known as Demography. This is a very important factor of macroenvironment. Being covered the family dynamics, geographic shifts, work force changes and the levels of diversity in any given area, demographic study has become a necessary step for the marketers to conduct as it helps in dividing the population into suitable market segments and target markets .
- **ECONOMIC ENVIRONMENT:-** Another important aspect of macroenvironment is the economic environment that deals with the purchasing power of potential customers and the ways in which the people spend their money. There are two different types of economies, that is, subsistence and industrialized economies in this context. The main basis of subsistence economies is the agriculture and thus these are related with their own industrial output. Industrial economies however have diversified markets that carry many different types of goods. Inspite of this variation, both the two types of economies are important to the marketer because each has a highly different spending pattern as well as different distribution of wealth.
- **NATURAL ENVIRONMENT:-** The natural environment which is another important factor of macro-environment

includes the natural resources that a company uses as inputs and thus have the affects in its marketing activities. Increased pollution, shortages of raw materials etc are the areas of concern under this head.

- **TECHNOLOGICAL ENVIRONMENT:-** Technological environment is perhaps one of the most important factors in the macro-environment. At present, technology is changing very rapidly and thus gifting many new inventions to the human population of this world. For example developments range from antibiotics and surgery to nuclear missiles and chemical weapons to automobiles and credit cards etc. These advanced technologies have ultimately changed the lifestyle of human beings. Their wants and demands have changed and to satisfy these, the marketers are also concentrating more on the development of new products for the human beings by using the updated technology instead of remaining outdated. If a company is able to do so, it can stay ahead of others. The company should be aware of the recent trends so that it can be the part of next big thing, rather than becoming outdated and suffering a financial loss consequently .
- **POLITICAL ENVIRONMENT:-** All laws, government agencies and the groups that influence or limit other organizations and individuals within a society are covered under this head of political environment . It is important for the marketers to be aware of these restrictions as they may hamper in production and marketing of goods and services. For example, it is restricted to sell cigarette packets to the younger children. As laws and regulations change very often, that is why it has become a very important aspect for the marketer to monitor the matter very carefully.
- **CULTURAL ENVIRONMENT:-** Cultural environment which consists of institutions and basic values and beliefs of a

generic property of the product to satisfy a need or want of the consumer. Value is the quantitative worth the consumer attaches to the product, for which he or she is interested to pay some money. Price remains vague until all the details about it are spelt out. The price could be for the product and the various accessories put together as a package. One option could be to price the accessories extra. The marketer may decide about a price which may include or exclude servicing. Pricing details also calls for examining whether the price mentioned is applicable for the trade or for the consumer; whether it is applicable for a small quantity of purchase or for a minimum prescribed bulk, and so on. You may observe that the marketer has to be quite clear on all these ***facets*** of pricing. Pricing decisions affect the economics of operations of the intermediaries like wholesalers and retailers.



Facets —

A distinct feature or eliment in a problem.

Price is not just a number or a tag or an item. Price comes in many forms and performs many functions.

A) Throughout most of history prices were set by negotiation between buyers and sellers. The buyers want to pay less while the sellers want more.

B) Setting one price for all buyers is a relatively modern idea. Prices tend to be different for different buyers at different locations.

C) Traditionally, price has operated as the major determinant of buyer choice. While taking the purchase decisions, the buyers normally place a great deal of importance on prices to be paid.

D) Price remains one of the most important elements determining market share and profitability. The sales volume does not give the whole picture always. The sales value i.e. the amount gained after selling a number of units, only gives the right picture.

Companies do their pricing in a variety of ways:

A) In small enterprises and companies, prices are often set by the entrepreneur.

B) In medium companies, pricing is handled by division and product-line managers

C) In large companies, top management sets general pricing objectives and policies.

D) Effectively designing and implementing pricing strategies require a

UNIT 6: PRICING

UNIT STRUCTURE

6.1 Learning Objectives
6.2 Introduction
6.3 Concept of Pricing
6.4 Importance of Pricing in Marketing
6.5 Factors affecting Price of a Product / Service
6.6 Pricing Strategy
6.7 Let Us sum Up
6.8 Further Reading
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 :

- state the importance of pricing in marketing
- discuss the external factors affecting price of a product / service
- discuss the internal factors affecting price of a product / service
- discuss the methods of pricing

6.2 INTRODUCTION

In this unit we are going to discuss about pricing of a product. Price is one of the most important factors in marketing. Price and sales volume together decide the revenue of any business. The sales volume depends to a great extent on price. If the price is very high compared to competing products, customers will not buy enough which will affect the sales revenue. Pricing really becomes the key to the revenue of the business. Pricing is crucial to profits as well. Pricing becomes a vital decision area on account of certain other factors besides its crucial role in bringing revenues and profits to the business. It is essential that we understand the significance of price before we proceed with a discussion of the various issues relating to pricing.

6.3 CONCEPT OF PRICING

Price may be considered as the exchange value of a product or a service. In fact, price revolves around two elements - utility and value. Utility is the

group of people, forms the final aspect of macroenvironment. The values are of two types, that is, core beliefs and secondary beliefs. Core beliefs which pass on from generation to generation are very difficult to change in contrast to the secondary beliefs which tend to be easier to influence. Being a marketer, it is important for you to find out or know the differences between these two and to focus marketing campaign to reflect the values of a target audience.

- **PUBLICS:-** Publics is the final aspect of the macro-environment and denotes the group that has an interest in or impact on the organization's ability to meet its goals. For example, financial publics can hinder a company's ability to obtain funds affecting the level of credit a company has. Media publics include newspapers and magazines that can publish articles of interest regarding the company and editorials that may influence customers' opinions. Government publics can affect the company by passing legislation and laws that put restrictions on the company's actions. The general public can greatly affect the company as any change in their attitude, whether positive or negative, can cause sales to go up or down because the general public is often the company's customer base. And finally, the internal publics include all those who are employed within the company and deal with the organization and manufacturing of the company's product.

It is important for a company to play the proactive role when dealing with the marketing environment. By doing so, the company may be able to create the kind of environment that will help it to prosper in its business with great success and to become more efficient by marketing in the areas which have higher sales potential.



1.11 LET US SUM UP

This unit explains the importance of marketing. Marketing has occupied an important place in all stages of economic life from simple barter economy to the present societal marketing concept. Only after Industrial Revolution, there came revolutionary changes in the techniques, methods and volume of production, which caused changes in the marketing concepts and led to new methods of marketing.

The term marketing has been defined differently by different authors because they defined the term in different stages of its growth and in particular situation. Marketing has five different stages of development, each stage may be termed as concept ; namely – (i) Production concept, (ii) Product concept, (iii) Selling concept, (iv) Marketing concept, (v) Societal Marketing concept.

The success of marketing activities again depends on right combination of marketing elements – product, price, promotion and place. We can achieve company goals such as profit, return on investment, sales volume, and market shares only when the various elements are adequately coordinated. The combination of marketing mix should be flexible to change with marketing conditions and also with changing environmental factors. Again marketing environment can be broadly classified into two categories, i.e. micro and macro environment.Marketing is influenced by the forces of both the enviornment.



1.12 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



5.12 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q.1.:	1c,	2d,	3c,	4b,	5a
Ans to Q.2.:	1c,	2c	3. True	4. False	5. True



5.13 MODEL QUESTIONS

1. Describe the role of brands from a customer perspective.
2. Explain the concept of brand equity.
3. Define packaging. What are the functions of packaging?
4. Write explanatory notes

   a. Labeling b. Trade mark c. Brand Architecture
5. Explain the functions of labeling.
6. Write the importance of branding from marketer's point of view.

*** ***** ***

4	Physical goods, services, and stores can be branded, but ideas and people cannot.
5	One of the selection criteria for creating a successful brand element is that it should be *protectible.*



5.10 LET US SUM UP

In this unit we have discussed different aspects of branding, packaging and labeling. The concept of branding is very vital for marketing managers. Branding is the most important key element for success at the market place. Brands offers a number of benefits to customers and firms. Brands are valuable intangible assets that need to be managed carefully. The physical products must be packaged and labeled. Packaging is very important in marketing. Labeling provides us detailed information about the product, its manufacturing and expiry date, etc. Packaging is one of the most useful tool to attract customer. A trade mark gives a legal protection to the manufacturer



5.11 FURTHER READINGS

1. Kotler, Keller, Koshy and Jha, (2008), Marketing Management, 13th Edition, Pearson Education.
2. T N Chabra and S K Grover, (2006), Marketing Management, Dhanpat Rai & Co.,Delhi.
3. Rajan Saxena, (2007), Marketing Management 3rd Edition, Tata McGraw Hill Publication.
4. Dr. SS Kaptan and Dr. S Pandey, (2004), Brand Imitation, Himalaya Publishing House.
5. Kotler, Kuller, Koshy and Jha (2008), Marketing Management 13th Edition, Pearson Education.



1.13 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q.1. Marketing means identifying, anticipating and satisfying consumers' needs, wants and desires through exchange process.

Ans. to Q.2. The importance of marketing are as below:

(a) Marketing improves standard of living: Marketing promotes large scale production and sales which bring down the cost of production and helps people in improving standard of living.

(b) Marketing connects the producers and consumers: In the absence of marketing process, it would have been difficult to know the needs and preferences of mass consumers.

Ans. to Q.3. a (IV), b (III), c (II), d(I)

Ans. to Q.4. (i) True, (ii) False, (iii) True, (iv) True

Ans. to Q.5. Marketing mix is the combination of 4 Ps – Product, Pricing, Promotion and Place. To attain success in marketing effort, the various components should be well coordinated.

Ans. to Q.6. Some experts consider marketing as an art, some experts call it a science. Marketing is consumers and competitors oriented .The marketing objectives drawn in light of corporate objectives have to be implimented by following a system approved so that the customer can be satisfied and demand can be generated.

Ans. to Q.7. The modern marketing concept has broadened the scope of marketing which includes almost all the activities before and after the production function. It covers analysis of market, planning marketing functions, designing marketing structure, marketing research, pricing the product and evolution of marketing activities.

Ans. to Q.8. a (III), b(IV), c(II), d(I)

Ans. to Q.9. I (True), II(True), III(True), IV(True)



1.14 MODEL QUESTIONS

1. Define Marketing.
2. What are the different concepts of marketing?
3. Explain the importance of marketing.
4. Write five difference between traditional and modern marketing.
5. Explain the evolution of marketing concept.
6. What is marketing mix?
7. Explain the term societal marketing concept.

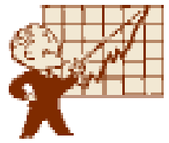
*** ***** ***

E) The Packaging Act sets mandatory labeling requirements, and allows regulatory agencies to ensure implementation of packaging regulations in specific industries. These are very important in case of food products and medicines. Here the date of manufacturing, date of expiry etc should be clearly mentioned.



ACTIVITY 1

List out the branded products which you are using at home and observe their packages



CHECK YOUR PROGRESS

Q2: Fill in the blanks with approriate words.

1. Various factors have contributed to the growing use of packaging as a marketing tool and include all of the following EXCEPT _____.
   a. self-service
   b. consumer affluence
   c. consumer indifference
   d. company and brand images
   e. innovation opportunities
2. Packaging may be defined as all the activities of designing and producing the container for a product. This includes up to three levels of material: primary package, secondary package, and _____.
   a. retailer package
   b. design package
   c. shipping or transportation package
   d. consumer package
   e. none of the above

Q. State true or false

3 Consumers may evaluate identical products differently depending on how they are branded.



B) Labels perform several functions

1) The label identifies the product or brand. In the absence of the label, this vital information on product identity and manufacturer's identity will not be available. Labeling means putting identification marks on the package.

2) The label might also grade the product wherever required. Grading means dividing into well-defined categories having uniform characteristics based on standardization. Sometimes marketers may be offering different varieties of the same product. In that case, the marketers may decide about grading products based on quality.

3) The label might describe the product information like, date of manufacture, components, expiry date etc. The label provides all these information. In addition the label also gives information on quality standardization. (ISI, ISO, AGMARK etc. wherever applicable)

4) Finally, the label might promote the product through attractive graphics and usage of colours.

C) Labels eventually become outmoded and need freshening up. You may observe that companies regularly change their labels to adjust to the changing requirements of the situation and also to give new appeals.Lifeboy is a very old brand, still the company keeps on changing the product to make it cotemporary by giving newlook.

D) Companies with labels that have become icons need to be very serious when they initiate changes in their labels. A bath soap emphasizing on freshness and flavour may not use very sharp colours. They may instead decide on white or pink etc.

UNIT 2 : CONSUMER BEHAVIOUR

UNIT STRUCTURE

2.1 Learning Objectives
2.2 Introduction
2.3 Nature and Scope of Consumer Behaviour
2.4 Importance of Consumer Behaviour
2.5 Forces Influencing Consumer Behaviour
2.6 Consumer Research
2.7 Consumer Need and Motivation
2.8 Consumer Personality
2.9 Consumer Perception
2.10 Consumer Learning
2.11 Consumer Decision Making Process
2.12 Let Us Sum Up
2.13 Further Reading
2.14 Answers To Check Your Progress
2.15 Model Questions

3.1 LEARNING OBJECTIVES

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

- explain consumer behaviour and its importance in business
- discuss the forces that influence consumer behaviour
- describe the consumer decision- making process
- analyse how consumer personality, perception influence consumer behaviour.

2.2 INTRODUCTION

In the previous unit we have come across the definitions and importance of marketing in business. We have also discussed the evolution of different marketing concepts from the production concept to the holeistic concept of marketing. From the study of these marketing concepts, it is evident that in business activities the importance of consumers has increased gradually. Now, consumers are treated as the king around whom all business activities revolve. As a result of this, companies are emphasizing on

the behaviour of consumers. They are putting more importance in finding out the factors that influence the consumers when they take a decision to purchase a product or service. Therefore, understanding consumer behaviour has become a necessity for the companies.

The marketers should know the tastes, preferences, buying behaviour etc. of the consumers, and then only marketers can deliver satisfaction to the consumers. Therefore, the study of consumer behaviour helps marketers to understand and predict consumer behaviour in the market place. It is concerned not only with what consumers buy but also with why, when, where, how and how often they buy it. Consumer research is the methodology which is used to study consumer behaviour and takes place at every phase of the consumption process. In this unit we are going to discuss the buying behaviour of household consumers or personal consumers, institutional consumers and industrial consumers. Generally, personal consumers buy goods and services for their own consumptions and institutional and industrial consumers buy goods and services in order to run their business.

Understanding consumer behaviour has become a necessity for the companies. It has become an integral part of strategic market planning. In this unit you will come to know the various factors that influence the consumer behaviour, consumer decision making process etc.

2.3 NATURE AND SCOPE OF CONSUMER BEHAVIOUR

Consumer behaviour deals with the psychological process of decision making by consumers in a social context which also exerts group pressures on them. According to Walter and Paul, “Consumer behaviour is the process whereby individuals decide whether, what, when, where, how and from whom to purchase goods and services.” In this process, the consumer deliberates within himself before he makes any purchase decisions. The buying behaviour involves several psychological factors like: individual thinking process (motivation, personality, perception and attitude), decision making process in marketing, interaction of the consumer with several groups like friends, family and colleagues (group

Although developing effective packaging may cost considerable amount of money and take several months to complete, companies must pay attention to the growing environmental and safety concerns about packaging. In India, there are increasing concerns on the environmental degradation caused by excessive use of plastic in packaging. Some state governments have taken the decision to ban the use of certain type of plastic shopping bags. Some companies are showing increasing sensitivity to these issues and are using more environment friendly alternatives and packaging materials like jute. Along with the companies, the intermediaries and the consumers also have responsibilities towards environment friendly packaging.

5.9 ROLE AND FUNCTIONS OF LABELLING

A label provides written information about the product. Labelling helps the buyer to understand the nature of the product, its distinctive features, its composition, its performance, etc. Labelling 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 labelling requirements are laid down and marketers are bound to follow these requirements. Some important aspects of labeling are discussed below.

A) Sellers must label the products. Without it, the consumers experience inconveniences in making purchase.Usage also becomes difficult.

The diagram given below shows an example of labelling.

significant extent by culture. In India, the color green tends to be associated with “freshness”, and saffron with divinity etc. From a functional point of view, the structural design of packaging is critical. For example, poor packaging design causes high wastage and loss while transporting and storing fruits and vegetables in many countries. Packaging has great potential to save costs. Innovative packaging solutions, through better structural designs and usage of appropriate materials, are needed to reduce damages and wastages, and to ensure the longevity of fruits and vegetables. The packaging elements must harmonize with each other and with pricing, advertising, and other parts of the marketing program. Packaging changes can have immediate impact on sales. A good example is the book publishing industry, where customers often choose a book by its cover. Similarly, Haldiram’s, the brand of *namkeens* or Indian ready- to-eat savories, brought in international standards in packaging by investing in an advanced processing and packaging unit. This has helped the brand to consistently maintain its leading position in Indian ***savories*** and ready-to-eat snack market The changes in packaging helped the company to make in roads in more than 50 countries with about 60 different products. Dhara, the vegetable cooking oil from National Diary Development Board’s subsidiary, is packed in “***aseptic***” packages and this gives the brand a distinctive image of being tamper proof and hence free from any adulteration. The distinctiveness and visibility of the packaging of these brands facilitate as advertisement for the brand.



Savories:

An aromatic or spicy dish.

Aseptic:

Free from contamination caused by harmful bacteria viruses, or other microorganisms.

After the company designs its packaging, it must test it. Following are the different tests:

i) *Engineering tests* ensure that the package stands up under normal conditions;

ii) *Visual tests,* that the script is legible and the colors are harmonious;

iii) *dealer tests,* that dealers find the packages attractive and easy to handle; and

iv) *consumer tests,* that buyers will respond favorably. Eye tracking by hidden cameras can assess how much consumers notice and examine packages.

oriented concepts) and selection of the brand and outlet depending on price and features and emotional appeal (marketing mix elements in a given environment). Consumer behaviour may be influenced by both internal and external forces. Internal forces are: demographics, psychographics (lifestyle), personality, motivation, knowledge, attitudes, beliefs, and feelings. Again external forces are: culture, ethnicity, family, social class, reference groups, and market mix factors.

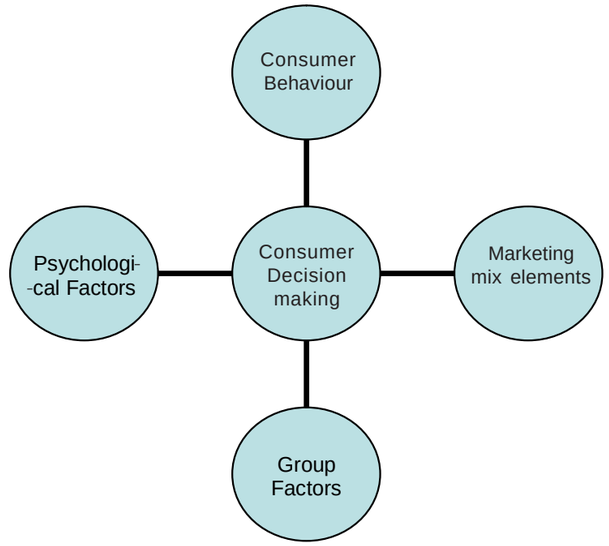


Figure 2.1: Factors influencing Consumer Decision Making

Variables of consumer behaviour:

Consumer’s decisions are generally influenced by different variables, such as-

- **Culture:** The most important determinant of consumer behaviour is culture. When a child grows, he is normally influenced by his surrounding culture. Marketers try to spot cultural variances, so that they can target their customers according to their cultural preferences.
- **Subculture:** Within a cultural group, there is a smaller group, which has been termed as subculture. For example, north Indian, south Indian, communal groups, linguistic groups, etc are some of the examples of Indian subculture. For example, assamese

sub-culture emphasizes the purchasing of new dresses on "Rongali Bihu", so, there will be great demand of clothes on the eve of Bihu. These are variables within the cultural aspect of consumer behaviour.

- **Social Class:** It refers to several homogeneous groups that exist in the society. Different caste group, different income group, etc constitute different social classes.Middle class is an example of social class.
- **Personal Factors:** Personal factors also influence buying decisions of the consumers. Personal characteristics such as age, income, occupation, life style and personality also plays an important role. Preference for any product varies depending on the age and income level of an individual.

The term consumer is generally used to describe three different kinds of consuming entities: the personal or household consumer, institutional consumer and industrial consumer.

The **personal consumer** buys goods and services for their own use. For example, we purchase shaving cream or toothpaste etc for our own consumption.

The **Institutional consumers** are mostly the not for profit organisations like universities, museum, govt. hospitals etc. They buy goods and services to run their business.

The **Industrial consumers** include manufacturing and service organisation to produce goods and services used by personal consumers. The industrial consumers buy goods and services in order to run their organization. Manufacturing companies must buy the raw materials and other components needed to manufacture and sell their own products. Likewise, service companies must buy the office products needed to operate their agencies.

The marketer should decide at whom to direct their promotional efforts, the buyer or the user. For some products they must identify the most influential person in the buying decision making process.

- ***Self-service.*** In today's retailing formats an increasing number of products are sold on a self-service basis. In an average supermarket, which stocks 15,000 items, the typical shopper passes by some 300 items per minute. Given that 50% to 70% of all purchases are made in the store, the effective package must perform many of the sales tasks: attract attention, describe the product's features, create consumer confidence, and make a favorable overall impression.
- ***Consumer affluence.*** Rising consumer affluence means consumers are willing to pay a little more for the convenience, appearance, dependability, and prestige of better packages. Consumers prefer buying branded and packaged products .
- ***Company and brand image.*** Packages contribute to instant recognition of the company or brand. In the store, packages for a brand can create a visible effect
- ***Innovation opportunity.*** Innovative packaging can bring large benefits to consumers and profits to producers. Companies are incorporating unique materials and features such as resalable spouts and openings. You may observe how milk is packaged to maintain its freshness. Calcium Sandoz bottles, targeted at children and women, have been designed to make them attractive to the target customers.

From the perspective of both the firm and consumers, packaging must achieve a number of objectives:

1. Protecting the product during transportation
2. Identify the brand.
3. Convey descriptive and persuasive information.
4. Assist at-home storage.
5. Aid product consumption.

To achieve the marketing objectives for the brand and satisfy the desires of consumers, marketers must consider the aesthetic and functional components of packaging correctly. Aesthetic considerations relate to a package's size and shape, material, usage of colour, text, and graphics. The meaning and interpretation of colour, however, is influenced to a

wishes. When the consumer wants to meet his esteem needs but doesn't want to pay the price, willful counterfeiting takes place, consumers by fake products. In India, we don't have laws that can get one arrested for purchasing fake premium products (Unlike France and Italy).However counterfeiting is a cause of concern for daily use products such as food, beverage, medicine, auto parts, beauty products, , software etc. Market leader with registered trade marks face the negative consequences of counterfeiting.

5.8 ROLE AND FUNCTIONS OF PACKAGING

The physical products must be packaged and labeled. Packaging is very important for most of the products i.e. Amul Taaza, Harpic toilet cleaner etc. Packaging has made the usage of these products quite convenient. Considering its importance many marketers have called packaging as the fifth P, along with price, product, place, and promotion. Most marketers, however, treat packaging and labeling as an element of product strategy. Warranties and guarantees can also be an important part of the product strategy, which often appear on the package. Some marketers consider packaging as silent salesperson and accordingly attribute very high importance to packaging. 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 offer 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. 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.

Well-designed packages can build brand equity and drive sales. The package is the buyer's first encounter with the product and is capable of turning the buyer on or off. Packaging influences consumers' product experiences. Various factors have contributed to the growing use of packaging as a marketing tool are discussed as follows-

2.4 IMPORTANCE OF CONSUMER BEHAVIOUR

(i) It helps marketers to understand consumer buying behaviour and make better marketing decisions.

(ii) The size of the consumer market is constantly expanding and their preferences are also changing and becoming highly diversified. So without studying it, marketers cannot predict the future of their business.

(iii) The study of consumer behaviour enables us to become a better consumer. It will help consumer to take more precise consumption related decisions.

Some marketing managers regard consumer behaviour discipline as an applied marketing science.They believe if they could predict consumer behaviour, they could have influenced it. This approach has come to be known as positivism and the consumer researcher who are primarily concerned with predicting consumer behaviour are known as positivists.

As the marketing research began to study the buying behaviour of consumers, they soon realized that many consumers rebelled at using the identical products everyone else used. For example in case of purchase of house, interiors, car, and dress material etc. people normally prefer unique products. That the consumer prefer differential products reflects their own special needs, personalities and lifestyles.

To meet the need of consumers, marketers adopt market segmentation strategy. They use promotional techniques to vary the image of their products so that they would be perceived as better fulfilling the specific needs of certain target segments.

Other reasons for the development of consumer behaviour as a body of knowledge includes the rate of new product development, growth of consumer movement, public policy concerns, environmental concerns and the growth of both nonprofit marketing and international marketing.

2.5 FORCES INFLUENCING CONSUMER BEHAVIOUR

There are different forces which influence consumers in taking consumption related decisions. These forces are

- Demographic Force
- Cultural Force
- Psychological Force
- Social Forces

Demographic Force: Under demographic force, consumer behaviour varies between different groups of customers on the basis of demographic variables, such as age, sex, family size, marital status, educational level etc. For example, buying behaviour of a young person and buying behaviour of an old person varies.

Cultural Force: People from different cultural background also pose different buying behaviour. For example the buying behaviour of foods for a north Indian and a south Indian varies.

Figure 2.2: Factors influencing Consumer Behaviour

Psychological Force: Under psychological force, population differs in terms of personality, life style, self image etc. Customer's buying behaviour also changes with the change in these variables.

Social Forces: Social forces like, income, caste, communities, religion etc also influences in buying behaviour.



LET US KNOW

A **buying center**, in marketing, procurement, and organizational studies, is a group of employees, family

with which the monopoly right is associated is a result of innovation, discovery, or intellectual effort.

The Trade Mark Bill, 1993 and The Trade Mark Bill, 1995 enlarge the definition of trademark so as to include a mark capable of being represented graphically and to include shape of goods, their packaging and combination of colours. It covers both goods and services. 'Name' includes any abbreviation of a name. Further, the use of a mark is constituted as a reference to the use of a printed or other visual representation of the mark. The use must be for the purpose of indicating a connection, in the course of trade, between the goods and the person who has the right to use the mark either as proprietor or as the registered user.

According to the American Marketing Association, a trademark is a brand or part of a brand that is given legal protection. It protects the seller's exclusive rights to use the brand name or brand mark. 'Brand name' is that part of a brand which can be vocalized-the utterable part like Videocon, HMT, USHA, ORTEM, etc. 'Brand Mark' is that part of a brand which can be recognized, but is not utterable, such as a symbol, design, or distinctive coloring 'or lettering as logo of Philips, Maruti, and letter style of Luxor, Godrej, etc: Finally, 'Brand' includes a name, term, sign, symbol, or design, or a combination of these, intended to identify the goods of one seller or group of sellers and to differentiate them from those of competitors. Successful brands are imitated by other marketers. The visible loss of a successful brand due to imitation is definitely very high. The invisible loss is more disastrous as it damages the corporate image. No company can afford the loss due to brand imitation. Imitation is a crime. In order to protect the loss of the society and to the corporate world, it is essential that there should be a definite control on imitation and such malpractices. Along with Trademark Act, there are some laws like Copyright Act, The Design Act, and The Prevention of Food Adulteration Act etc.

Still, counterfeiting is quite comm., it is rampant globally, when it comes to luxury products. Buying fake luxury products happens at consumer's

4. Brand _____ is the added value endowed to products and services.
   a. loyalty
   b. equity
   c. preference
   d. satisfaction
   e. benefits
5. The challenge for marketers in building a strong brand is _____.
   a. ensuring that customers have the right type of experiences with products and their marketing programs to create the desired brand knowledge
   b. pricing the product at a point that maximizes sales volumes
   c. minimizing the number of people to whom the product is targeted in order to provide consumers with a personalized experience
   d. retain as many customers as possible in order to minimize the costs and pressure associated with continually generating new leads
   e. maximizing customer value

5.7 TRADE MARKS AND ITS IMPORTANCE



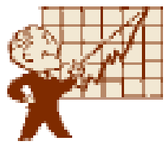
Examples of Trade marks

Trade mark is a legal term. It refers to a brand which is registered with the Government under the Trade and Merchandise Marks Act, 1958. Thus, all brand names or marks cannot be termed as trade marks. Only those brand names or marks which are registered with the Government are known as trade marks. A trademark is recognized as a form of property. A trademark is a visual symbol in the form of a word, a device, or a label applied to the articles of commerce, with a view to indicate (to the purchasing public) that the goods bearing visual symbol are the goods manufactured by a particular enterprise as distinguished from similar goods manufactured by other enterprises. Though, brand/trademark is grouped with patent, design, and copyright as industrial property, it differs from them because the subject-matter

members, or members of any type of organization responsible for purchasing an item for the organization. In a business setting, major purchases typically require input from various parts of the organization, including finance, accounting, purchasing, information technology, and senior management. Highly technical purchases, such as information systems or production equipment, also require the expertise of technical specialists. In some cases the buying center is an informal ad hoc group, but in other cases, it is a formally sanctioned group with specific mandates, criteria, and procedures. The employees that constitute the buying center will vary depending on the item being purchased.

In a generic sense, there are typically six roles within any buying center. They are:

1. **Initiator** who suggests purchasing a product or service.
2. **Influencers** who try to affect the outcome decision with their opinions.
3. **Deciders** who have the final decision.
4. **Buyers** who are responsible for the contract.
5. **End users** of the item being purchased.
6. **Gatekeepers** who control the flow of information.



CHECK YOUR PROGRESS

Q1. Fill in the blanks with appropriate words:

(i) Culture and subculture are ———————— of consumer behaviour.

(ii) ———————— consumer buys goods and services for their own use.

(iii) ———————— consumer buys goods and services in order to run their organisation.

(iv) _____consumers buy goods and services to run the non-profit organisations.

(v) Middle class is an example of _____ class.

2.6 CONSUMER RESEARCH

To understand the need and motivation of consumers, marketers should know the buying behaviour of consumers. Consumer research enables marketers to study and understand consumers' needs and wants, and how they make consumption decisions. The consumer research may be either qualitative or quantitative form.

The **quantitative research** method consists of experiments, survey technique, observation etc. where data can be analyzed through statistical techniques.

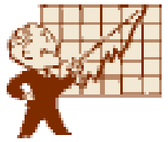
The **qualitative research** method includes depth interviews, focus groups and projective techniques. Qualitative research is concerned with probing deep within the consumer's mind to understand the motivation, feelings and emotions that drive consumer behaviour. Qualitative research findings cannot be projected to larger populations but are used to provide new ideas for the development of positioning strategies.

2.7 CONSUMER NEED AND MOTIVATION

Motivation is the driving force within individuals that forces them to action. This driving force is produced by a state of tension which exists as the result of an unfulfilled need. The specific courses of action that consumers pursue and their special goals are selected on the basis of their thinking process and previous learning. So, marketers who understand motivational theory attempt to influence the consumer's ***cognitive*** process. Every consumer has their own needs and wants. Marketers are more concerned with consumer's product specific goals i.e the specifically branded or labeled products they select to fulfill their needs. Needs and goals are constantly changing and growing in response to an individual's physical condition, environment, interactions with others and experiences. As individuals attain their goal, they develop new ones. If they do not attain their goals they continue to strive for old goals or they develop substitute goals. Only unsatisfied needs can motivate people to act in a certain way.

cognitive:Of or being or relating to or involving cognition

the brand by linking the brand to some other entity (e.g., the company, country of origin, channel of distribution, or another brand). Brand equity needs to be measured in order to be managed well. Brand audits measure "where the brand has been," and tracking studies measure "where the brand is now" and whether marketing programs are having the intended effects. Branding is a difficult and challenging area. It requires investment and constant monitoring.



CHECK YOUR PROGRESS

Q1: Fill in the blanks-

1.At the heart of a successful brand is a great ----------backed by creatively designed and executed marketing.

a. price
b. promotion
c. product or service
d. a great slogan
e. a brand concept

2. The American Marketing Association defines a _____ 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."
   a. holistic product concept
   b. product concept
   c. service concept
   d. brand
   e. brand image
3. _____ is endowing products and services with the power of a brand.
   a. Brand image
   b. The branding concept
   c. Branding
   d. Brand positioning
   e. Brand partitioning

loyalty and perceived quality of the product features. Brand association depends upon proper product positioning strategy.

Colgate Brand is associated with SURAKSHA CHAKRA, which gives a feeling of protection from all dental problems to the customers.

iii. 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. Marketer's task of right identity of the product in the target market is possible only through perceived quality.

The quality of the product is different from perceived quality. For example brands like *Samsung, LG, Sansui* have been able to develop a favourable disposition and perception of Indian consumers towards the brand.

iv. 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.

In any business, gaining new customers is quite difficult and expensive, and requires lot of marketing effort with uncertainty. Retaining existing customers is relatively easy and inexpensive. Loyal customers are price insensitive by nature, which reduce the vulnerability of any competitive action. It also reduces the intensity and nature of competitive rivalry in the industry. Branding is challenging. Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, enhance, and protect brands. Building brand equity depends on three main factors: (1) the initial choices for the brand elements or identities making up the brand; (2) the way the brand is integrated into the supporting marketing program; and (3) the associations indirectly transferred to

2.8 CONSUMER PERSONALITY

To analyse the consumer purchase behaviour it is important to know the consumer personality. Personality can be defined as, those inner psychological characteristics that both determine and reflect how a person responds to his/her environment.

Three distinct properties of personality can be found which are as follows:

1. Personality reflects individual differences, which states that no two individuals are exactly alike.
2. Personality is consistent and enduring, which states that personality is stable.
3. Personality can change. Although personality tends to be consistent and enduring, it may still change under certain circumstances. For example, an individual's personality may change by major life events.

   Marketers are interested in understanding how personality influences consumption behaviour, because these enable them to understand consumers more appropriately. This will help them to segment and target those consumers who are likely to respond positively to their product or service communications.

2.9 CONSUMER PERCEPTION

Perception is the process by which individuals select, organize, and interpret ***stimuli*** into a meaningful picture. Perception has strategic implications for marketers because consumers make decision based on what they perceive.

Stimuli:
Any act or information that evoke response

Products and services that are perceived distinctly and favourably by a consumer have better chance of purchase then unclear images. In case of service marketing sector, marketers face several problems in positioning and promoting their offerings because of its intangible character.

Consumers often judge the quality of a product or service on the basis

of variety of informational cues like, colour, size, flavour, price, brand image etc.

2.10 CONSUMER LEARNING

Consumer learning is the process by which individuals acquire the purchase and consumption knowledge and experience they apply to future related behaviour. Although some learning is intentional, much learning is incidental. Basic elements that contribute to an understanding of learning are motivation, cues, response and reinforcement.

2.11 CONSUMER DECISION MAKING PROCESS

The consumer's decision to purchase or not to purchase plays an important role for marketers. It can identify whether a marketing strategy can be effective or not. Thus marketers are particularly interested in the consumer's decision making process. For a consumer to make a decision, more than one alternative should be available, and then only they can select the best alternative. An overview of consumer decision making model ties together the psychological, social, and cultural concepts. This decision model has three set of variables, which are given as follows:

1. **Input variable:** These variables include external influences like, firm's marketing effort and socio-cultural environment. The firm's marketing activities are directed to reach, inform and persuade consumers to buy their product. To promote these products marketers offer different promotional strategy like, sales promotion, personal selling, advertising etc.
2. **Process:** The process factor is concerned with how consumers make decision. To understand this process, we should consider the psychological concept of human being. The consumer decision making process consists of three stages:

   i) Need Recognition: When consumer faces any requirement then this stage arise. For example, cakes and candles for birth day party are the need which arises during a particular time.

exist in people's minds, and sometimes speak more than the words do. An individual consumer has a personality. Likewise a brand also has a personality. When both the personalities match a compatibility platform develops. In this situation, consumers develop emotional relationship with the brand.

5.6 BRAND EQUITY

As discussed earlier, brand is a name, term, sign, symbol, or design, or some combination of these elements, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors. Generally brand names are unique, easy to spell and related to the product. The different components of a brand—brand names, logos, symbols, package designs, and so on—are brand elements. Brand equity is defined in terms of marketing effects uniquely attributable to a brand. Brand equity relates to the fact that brand has a power to make a difference. 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. Now we will discuss these factors-

i. Brand awareness

Manufacturers make products, but customers buy brands. People 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 in the market recognize the brand with product category, and conscious of the promise given by the brand.

ii. Brand associations

Brand is not just a name; it is also a carrier of marketer's commitment. 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

products, as people do not usually understand all the technical aspects e.g. computers. As product parity increases, brands simplify the decision as to which product to buy. Popular brands get more attention than relatively unpopular ones, because of familiarity and trust.

iii. 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. Experiencing various brands help consumers to compare quality standards and to know what value they are getting for their money. Based on these experiences the consumers decide on the brands.

iv. 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. Trust is one of the most important factors why people buy certain technology products . Brands build trust, and hence great brands are well trusted e.g. Dettol.

v. Brands provide a means of self expression

Aspiration —

A will to succeed.

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

Brands enable people to express themselves what they think, what they value, and what they love, their lifestyles, and their dreams. Brands

ii) Pre-purchase Search: It begins when a consumer perceives a need that might be satisfied by the purchase and consumption of a product. Consumer search for this information from different sources like, their past experiences, peer groups, reference,

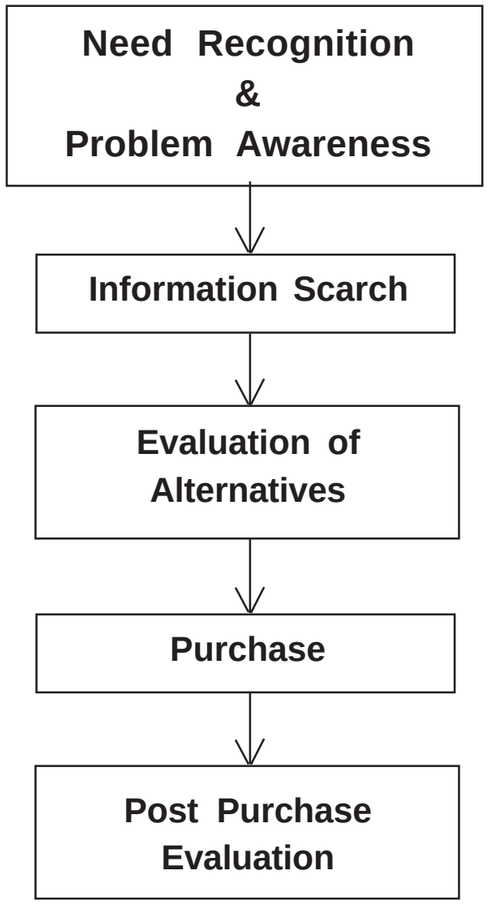


Figure 2.3: Consumer Decision Making Process

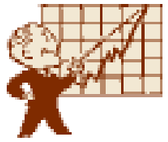
internet, and other commercial and non commercial sources.

iii) Evaluation of Alternatives: Consumer selects the most suitable alternative from the set of available alternatives.

iii) Output Variable: Output variables are purchase and post purchase behaviour of the consumer. In trial purchasing, customer

tests the product for the first time. If they are satisfied with the trial purchase, then they will go for repeat purchasing.

A simple model of consumer decision making process is shown above.



CHECK YOUR PROGRESS

Q2 What is consumer's perception?

.....

.....

.....

.....

Q3. What are the input variables of consumer decision making process?

.....

.....

.....

.....



2.12 LET US SUM UP

In this unit we have discussed about consumer behaviour. Study of consumer behaviour is the study of how individual makes their purchase decision with respect to their available resources.

Consumer behaviour deals with the psychological process of decision making by consumers in a social context which also exerts group pressures on them. Consumer behaviour may be influenced by both internal and external influences.

The term consumer is generally used to describe three different kinds of consuming entities: the personal or household consumer, institutional consumer and industrial consumer.

Marketing managers regard consumer behaviour discipline as an applied marketing science. Consumer prefer differential products that they feel reflect their own special needs, personalities and lifestyles. To meet the

defies industrial promotion. It may be risky to promote a high potential industrial brand under the overall common name.

5.5 IMPORTANCE OF BRAND

There are basically two issues on product versus brand:

- Products without brand name cannot meet the customer requirements. Customers attach a priority on brand. Plain salt cannot be marketed the way Tata Iodized salt is marketed.
- At the same time, there is a feeling that in the name of the brands, companies want to charge more, or try to exploit the customers by charging a premium for the brand.

As we shall discuss, brands hold a lot of potential to help customers in making a rational choice and on having satisfaction from the brands. In a competitive environment just for the purpose of branding, companies can not exploit customers.

Let us see the positive aspects of brand.



***Fragment* —**

A piece broken off or cut off of something else.

i. Brands provide choice

Consumers prefer to have choice, and brands give them the liberty to choose. For example, consumers do not want bath-soaps as such, they want bath-soap by brand. As market segments are more and more, companies are finding it necessary to give different choices to different consumer segments. Brands can provide choice, allowing consumers to distinguish between the various company offerings. When we enter a shop, the amount of variation in each product range is as surprising as the number of companies offering the products. In such a situation, people move towards brands as they provide them with clear choice.

ii. Brands simplify decisions

The decision to buy is made easier by brands. A person may not know a lot about every product he/ she is interested in, but a brand makes it easier for him to choose. Consumers can decide more quickly if they recognize brands. Brand recognition is especially important to technology


Lux Soap & Body Care

c. ***Flexible Endorsed Structure:*** Corporate name appears but individual brand name dominates. *Ex: Cadbury's Dairy Milk*

d. ***Discrete Structure:*** Individual brand name alone dominates with identity and status. Ex: *Liril, Close up*

e. **Product Branding:** Product is given exclusive name to acquire a distinct position in the customers' mind. Ex: *ITC (Wills, Gold Flake* etc.)

f. **Line Branding:** All related products of product line are given common brand name to improve brands' market power. Ex: *Lux, Pond's*

g. **Range Branding:** Many products not necessarily complimentary products, but with core competence of the company are given common name. Ex: *Samsung, Hero Honda*

h. **Umbrella Branding:** All products of the company are given same name. If the brand name is popular among customers and their quality is also standardized then company adopts umbrella branding for different products. Ex: *Videocon, Bajaj, Amul*

The above is an indicative list. In the matter of branding, a manufacturer has a number of options. He may opt for any one of the following:

- To adopt a family brand name for all his products.
- To adopt individual brand names for each individual product.
- To adopt multiple brand names for the same product with a view to catering to varying segments of the market.
- To offer his product for branding by a middleman or a distribution house

In this regard the decision is not easy, because all the alternatives have merits and demerits. It signifies different approaches to branding when a company has a number of products under its portfolio. A company may promote its name in all the products or it can create individual brands. The company may decide on a combination or on a variation of the methods as stated above.Each of the alternatives has different implications for promotional cost and risk. Promoting individual names are costly. Having an umbrella brand helps in saving cost. However, it

need of consumers marketers adopt market segmentation strategy.Study in consumer behaviour is very importantfor marketers as it enables the omarketers to select the right strategy to serve the market. Other reasons for the development of consumer behaviour includes the rate of new product development, growth of consumer movement, public policy concerns, environmental concerns and the growth of both nonprofit marketing and international marketing.

To understand the need and motivation of consumers, marketers should know the buying behaviour of consumers through consumer research. To analyse the consumer purchase behaviour it is also important to study the consumer personality. Personality reflects individual differences. Marketers are interested in understanding how personality influences consumption behaviour, because these enable them to understand consumers more appropriately. Perception has strategic implications for marketers because consumers make decision based on what they perceive.

Consumer learning is the process by which individuals acquire the knowledge on purchase and consumption experience which the consumers apply in their future purchase decisions.



2.13 FURTHER READING

1. Philip Kotler (1999), "*Marketing Management"*, Prentice Hall, Tenth Edition

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



2.14ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q.1.: (i) variable (ii) personal (iii) industrial (iv) institutional (v) social

Ans. to Q.2. Perception is the process by which individual select, organize, and interpret stimuli into a meaningful picture. Products and services that are perceived distinctly and favourably by a consumer have better chance of purchase a unclear images. Consumers often judge the quality of a product or service on the basis of variety of informational cues like, colour, size, flavour, price, brand image appearance.

Ans. to Q.3.: These variables include external influences like, firm's marketing effort and socio-cultural environment.



2.15 MODEL QUESTIONS

1. Define consumer behaviour. Why is it important for marketers?
2. What do you understand by consumer research?
3. "Study of consumer personality is important to know the consumer behaviour" - Give your comment on this statement.
4. Explain the consumer decision making process.

*** ***** ***

a competitor, a brand is unique. A product can be quickly outdated; a successful brand, properly managed, can be timeless."

5.4 BASIC CONCEPTS

Brand

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." Ex: *Dettol, Fiat,* and *Pond's* etc.

A) A brand is thus a product or service that adds dimensions that differentiate it in some way from other products or services designed to satisfy the same need.

B) These differences may be functional, rational, or tangible-related to the product performance of the brand.

C) They may also be more symbolic, emotional, or intangible-related to what the brand represents.

Brands versus products

A brand is associated with product or service with additional dimensions to differentiate it in some way from other products or services designed to satisfy the same need. These differences may be rational and tangible-related to product appearance or performance. These differences are likely to be more symbolic, emotional and intangible. The image of Parker pen is different from an ordinary pen available in the market. This difference may not be related to product performance but the brand **Parker** means something more.

Brand Architecture

It is a branding approach that explains the relationship of corporate brand and individual products. The types of architecture are:

a. ***Monolithic Structure:*** The corporate brand name appears on all products. Ex: *Nirma, Samsung*

b. ***Fixed Endorsed Structure:*** Powerful brand name with individual product name. Ex: *Maruti 800, Tata Indica*

The hi-tech nature of business today is causing a strategic problem for companies and their products. In today's emerging competition, size no longer matters and location is also not an essential condition for retailing. With the emergence of internet and alternative distribution models branding decisions have become complex. Standing out from the crowd is an even bigger challenge than before as more and more players' crowd onto a more level playing field.

As the new commercial revolution takes place, enterprises are trying to hold market positions through different strategies. The key to standing out from the crowd is development of a powerful brand. But the nature of branding also has been undergoing great change. What is emerging from this ***metamorphosis*** is a new kind of brand experience for the consumer, offering hi-tech and hi-touch brand interaction. For example, the banking habits of customers have changed. Likewise marketing practices regarding banking services also have changed. ATMs, internet banking etc. has emerged.

Metamorphosis — A striking change in appearance or character or circumstances

"Brand is not merely a product; it is a dynamic phenomenon, a revolution and a philosophy."

Karasanbhai Patel, Chairman, Nirma Ltd.

5.3 DEFINING BRAND

Brand is a very comprehensive term. Brand is not just trademark, product, logo, symbol or name, but it is a concept of marketable product to which relevant and unique set of associations and benefits are attached. These benefits can be both functional and emotional. The amount companies spend on corporate identity projects are sometimes wasted because there is no brand strategy behind them. Thus, consumers experience the same dull and irritating service, mediocre or sub-quality products and a less-than-satisfactory customer experience. Having a good name does not guarantee success, as companies like HUL and P&G discovered by their experiences.

Stephen King said: *"A product is something that's made in a factory, a brand is something bought by consumers. A product can be copied by*

UNIT 3: MARKET SEGMENTATION

UNIT STRUCTURE

3.1 Learning Objectives
3.2 Introduction
3.3 Concept of Market Segmentation
3.3.1 Definition of Market Segmentation
3.3.2 Importance of Market Segmentation
3.3.3 Requirements or Criteria for Market Segmentation
3.4 Bases for Market Segmentation
3.4.1 Segmentation of Consumer Markets
3.4.2 Segmentation of Organisational Markets
3.5 Market Targeting
3.5.1 Evaluating Market Segments and Target Market Selection
3.6 Market Positioning
3.6.1 Definitions
3.6.2 Positioning Strategies
3.7 Let Us sum Up
3.8 Further Reading
3.9 Answers To Check Your Progress
3.10 Model Questions

3.1 LEARNING OBJECTIVES

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

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

3.2 INTRODUCTION

To be successful in marketing, it is essential to understand the features of the products and services. A marketer, should select those groups of buyers or market segment/segments which have bright prospects .

This is essential as a single marketer can not satisfy all the different market segments in a competitive market. That is why, the marketers concentrate on marketing where they have some advantages against their competitors. In this unit you will study market segmentation, market targeting and market positioning.

3.3 CONCEPT OF MARKET SEGMENTATION

In earlier years many businessmen saw the key to profits in producing a single brand in large quantity, and its mass distribution. This kept the cost of production and price at lowest possible level. The businessmen did not recognise variations and would try to get everyone in the market to want what they produce.

As competition increased, prices declined and the profit also started declining. This forced the producers to recognise the potential value of product differentiation; that is, the introduction of differential features, quality style, or image in their brands as a basis for commanding demand in the market. Market segmentation helps marketers in the preparation of marketing strategy by differentiating consumers on the basis of their specific needs, income, age, qualification, sex etc.

Market consists of customers and customers differ in one or more respects. They may differ in size, resources, geographical location, requirements, buying attitudes or buying practices. On the basis of these variables, a market can be divided in different segments.



Conceivably :

Within the realm of possibility

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

UNIT - 5 : BRANDING

UNIT STRUCTURE

5.1 Learning Objectives
5.2 Introduction
5.3 Defining Brand
5.4 Basic Concepts
5.5 Importance of Brand
5.6 Brand Equity
5.7 Trade Marks and Its Importance
5.8 Role and Functions of Packaging
5.9 Role and Functions of Labelling
5.10 Let Us Sum Up
5.11 Further Reading
5.12 Answers To Check Your Progress
5.13 Model Questions

5.1 LEARNING OBJECTIVES

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

- explain the nature and importance of branding
- describe the nature and importance of trade marks
- explain the role and functions of packaging in marketing
- explain the role and functions of labeling in marketing.

5.2 INTRODUCTION

In the earlier unit we have discussed about product. Here we are going to discuss one of the important features of product i.e. branding. The proliferation of consumer goods in the last few decades has led to the development of branding as an important tool for competitive differentiation. Brands help in selling and ensuring sustainability of enterprises. Brands are strategic assets. Brand building, as practiced today has long been acknowledged as the key to wealth creation. The trade marks, packaging and labeling related decisions go a long way in developing the power of the brand. In this unit, we shall discuss the fundamental concepts of brand, brand name, trademark, packaging and labeling related decisions.



4.16 MODEL QUESTIONS

1. What is a product?
2. What are the differences between consumer goals and industrial goods?
3. What is product planning?
4. What are the different stages in new product development process?
5. What is the importance of diversification?
6. What is product standardisation ?
7. What are the different strategies of product simplification?
8. What is Product Life Cycle? What are the different stage of product life cycle.

*** ***** ***

3.3.1 Definition of Market Segmentation

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

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

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

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

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

From the above definitions, you can understand that market segments are grouping of buyers who have common characteristics as buyers of a product or service, so that their needs and desires can be met better way. It guides to develop separate marketing mix and strategy for each market segment.

3.3.2 Importance of Market Segmentation

Market segmentation helps to identify the various segments in a market for marketers to decide in which segment or segments they can serve effectively. This leads to efficient use of marketing resources, better understanding of customer needs, better understanding of the competitive situation and accurate measurement of goals and performance. Marketing segmentation helps matching of marketing opportunities to the resources of the marketers and enable them to the competition. It enhances marketing efficiency by offering specific price, promotion and distribution in tune with the changes in segment. It ensures higher customer satisfaction and brings quantitative improvement in the

effectiveness of the marketing programmes. Some of the importance or benefits of market segmentation may be discussed as below :

(a) It helps is satisfying cansumers in a better way

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

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

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

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

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

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

(h) It provides marketers to understand the demographic information and to apply it in design of marketing strategies and programmes.

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

3.3.3 Requirements or Criteria for Market Segmentation

For the market segmentation to be effective, useful and meaningful, the following requirements or criteria must be satisfied.

(a) Identity : There must be some means of identifying people of the segments on some standard basis for classifying people in different segments. People of such segments can be readily identified by common characteristics which show similar buying behavior.

4.15 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q.1.: The essential features of a product are as below:

(a) Tangibility (b) Intangibility

(c) Associated attributes (d) exchange value

(e) consumer satisfaction.

Ans. to Q.2.: Classification of product on the basis of durability –

(a) Perishable (b) Non-durable products and

(c) Durable products.

Ans. to Q.3.: (a) True (b) True and (c) True.

Ans. to Q.4.: The components of modern product planning are as below.

(a) Product development (b) Product Diversification

(c) Product standardisation and (d) Product-simplification.

Ans. to Q.5.: The various stages in new product development progress are as below.

(a) Idea generation (b) Idea screening

(c) Business analysis (d) Proto-type product development

(e) Test marketing (f) Commercialisation.

Ans. to Q.6.: (a) False (b) True (c) True and (d) True

Ans. to Q.7.: The two objectives of diversification are –

(a) to meet changing tastes and desires of consumers.

(b) to use upto optimum level the existing selling and distribution facilities.

Ans. to Q.8.: The two product simplification stralegy are –

(a) Product line prunning strategy and

(b) Contract marketing strategy.

Ans. to Q.9.: (a) True (b) False (c) True and (d) True.



4.13 LET US SUM UP

In this unit, we have discussed the importance of product.

- A product is a bundle of benifits which a buyer expects. 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. These classifications are essential to prepare and implement appropriate marketing strategy.
- Product planning means an attempt to establish the product in line with market needs. 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. The development of product is the way for expansion of business activities and combating the competitors efficiently.
- Diversification, standardization and simplification are the marketing strategies to keep the firm ever growing effectively and efficiently. With these strategies the firm can meet the competitors strongly.
- We have also discussed about product life cycle, which helps marketers in deciding correct strategy for the product in different stages of its lfe cycle.



4.14 FURTHER READING

1) Philip Kotler, Kevin Lane Keller, Abraham Koshy, and Mithileshwar Jha (2007), *"Marketing Management: A South Asian Perspective"*, Pearson Education, Delhi.

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

(b) Substantiality : It refers to the size of various market segments. To be an effective and successful segmentation, the various segments should be substantial i.e. it should be sufficiently large for the marketers to earn profit.

(c) Accessibility : The marketer must be able to focus its marketing efforts such as promotion and distribution to the selected or target segments. Accessibility of segments means the marketers must be able to provide information and knowledge to potential customers regarding their products and services and at the same time they should be able to distribute the products or services to them at reasonable price.

(d) Measurability : Measuring the size of the market and the changes in the consumer behaviour of the various segments should be possible. The segments should be capable of providing accurate measurements of changes taking place among the consumers. For example, the segment of a market for a car is determined by a number of considerations such as economy, status, quality, safety, comfort etc.

(e) Nature of demand : It refers to variations in demand among various market segments. Segmentation is needed only if there are marked differences in nature of demand.

(f) Formulation of Effective Programmes : The market segmentation should be made in such a way that an effective programme can be formulated for attracting and serving various segments.

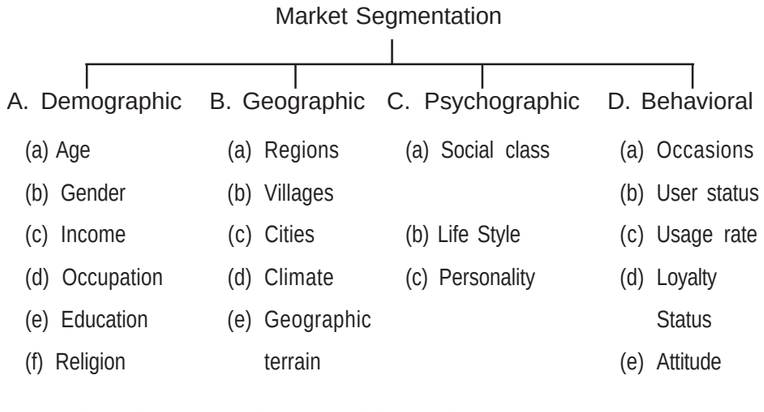
3.4 BASES FOR MARKET SEGMENTATION

Market segmentation means dividing the market into several homogeneous submarkets or segments. Market can be broadly classified into two types– consumer markets and organisational markets. Consumer market covers the ultimate users who normally buy in smaller

quantities. Organisational market covers–Industrial Market, Reseller Market and Government Market. These markets are segmented further.

3.4.1 Segmentation of Consumer Markets

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



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

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

(b) Gender : Many products are purchased by one sex or the other. Females generally purchase cosmetics, jewellery, bangles, lipsticks etc. On the other hand, shaving blades,

(2) Rate of Market Acceptance: Market acceptance means the tendency of the consumers to accept new products. Rate of market acceptance also affects the product life cycle. In case the rate of market acceptance is fast, the product life will be short. On the contrary, if the rate of market acceptance is slow, the product life cycle will be long. Rate of market acceptance depends on the economic position of the consumers, their standard of living, level of education, religious and cultural traditions etc.

(3) Case of Competitive Entry: Case of competitive entry also affects the product life cycle. 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 longer which has been provided protection by patent.

(6) Personnel Strategy: Personnel strategy is also an important factor which affects product life cycle. 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.

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

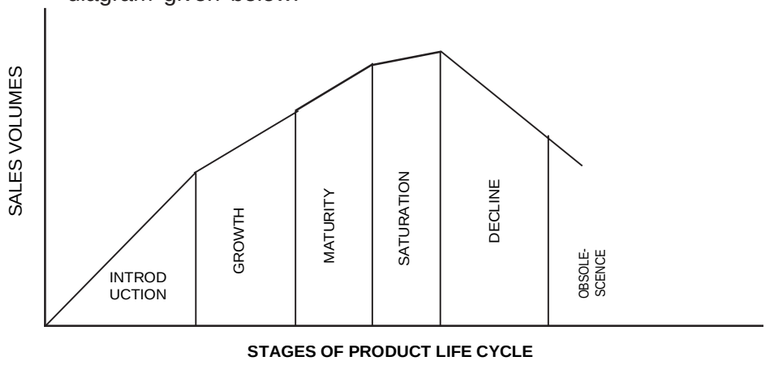


Figure 4.2: Stages of Product Life Cycle

4.9.2 Factors Affecting 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 at the same rate. For example, the product life cycle in developed countries like Germany, America, France and England is small because the rate of technological changes in these countries is very fast. On the contrary, the length of the product life cycle in underdeveloped countries is high because the rate of technological changes in these countries is quite slow. During the last few years in India the rate of technological changes has increased with the result that the life cycle of old products has reduced and new products have arrived in the field of cars, scooters, coloured TV sets, electronic typewriters, communications tools etc.In general , product life cycles are getting shorter and shorter in the techno advanced world.

cream, razor etc. are purchased by males. Market segmentation on the basis of sex exists only for certain products. However, in respect of many other consumer products, the preferences of male and female customers may vary.

(c) Income : People must have money to spend then only they can make a market. Income provides purchasing ability to customers. Therefore a detailed study of income (more importantly, the disposable income i.e income left after spending on the essential items)is very useful to the marketer.

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

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

(f) Religion : In India, a large number of religious beliefs are held by various communities. It is quite useful to analyse the population based on religion for certain products such as Christian ladies may use long skirts, Muslim ladies might prefer payjamas and kurtas and Hindu ladies may prefer sari and blouse on certain occasion. Therefore for successful marketing of their products, marketer should

understand the buying behaviours and motivation of various communities. However, after globalisation the impact of religion on many products and services has dwindled.

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

C. Psychographic Variables : It includes social class of people, life style of people, personality factors such as gregarious, authoritarian, compulsive etc. Individuals differ in their personality, thought etc. Hence based on psychographic variable, buyers can be divided into various groups and accordingly goods are to be produced and distributed. For instance, based on life style of consumers, cigarette company develop brands for casual smoker, health conscious smoker etc.

Let us explain some of the psychographic factors of segmentation.

(a) Social Class : A marketer requires close attention on the different social classes. The social class may be conceptualised on the basis of the occupation of customers such as service holders, business people,

an accelerated rate. In spite of competitions, we may have rising sales and profits. In this stage effective distribution, advertising and sales promotion is considered as key factors.

(3) 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.

(4) 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.

(5) 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.

(6) Obsolescence. It is the last stage of the product life cycle. 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 gramophones etc.

stages through which a product passes from its introduction in 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. These are the stages of time through which a product passes. The length of the life cycle, the duration of each phase and the shape of the curve vary widely for different products. But in every instance, obsolescence eventually occurs when the need is served by a better, cheaper and more convenient product or because of superior marketing strategies or compitetors. The product life cycle concept indicates that a particular product is born or introduced, grows, attains maturity and the point of saturation in that market and then sooner or later it is bound to enter its declining stage and finally reaches the stage of obsolescence – the stage when the product loses its distinctiveness and dies out in terms of both sales and profit margin.

4.9.1 Stages of Product Life Cycle Concept

Every product moves through a life cycle having the following six stages:

(1) ***Introduction***. It is the first and the most important stage in the life of a product. The product is first introduced in the market. In this stage the product is absolutely new and distinctive. 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.

(2) ***Growth***. After the product is introduced in the market, the product enters its second stage – growth stage. In this stage, the product achieves considerable and widespread approval in market. The demand and sales increase very rapidly due to promotional efforts. Profits also increase at

farmers, education qualification, income class etc. In each social class, we find similar living style, habits and requirements and a marketer has to divert his attention on all.

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

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

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

(i) ***Occasion :*** Regular occasion, for example having fruit juice after break fast.Special occasion, for example, new dresses during puja and Bihu.

(ii) User status : Non-user, ex-user, potential user, regular user etc are different categories of buyers as users.

(iii) Usage rate : Light user, medium user, heavy user are categories based on uasage rate.

(iv) Loyalty status : Soft loyals, hard loyals, shifting loyals, switchers etc are categories of buyers based on loyality shows towards purchase and usage of a product.

(v) Attitude : Positive, indifferent, negative, hostile etc. are some of the attributes towards products & services

3.4.2 Segmentation of Organisational Markets

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

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

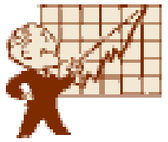
Based on the type of activity, it can be classified into so many segments. According to the standard industrial classification system which is practically used by the Government agencies, the business activities can be classified into ten divisions. They are :

(i) Agriculture, Forestry and Fisheries,
(ii) Construction
(iii) Finance, Insurance and Real estate.
(iv) Mining
(v) Manufacturing
(vi) Distribution channel-whole sale and Retail trade.
(vii) Transportation and communication.
(viii) Services
(ix) Government and
(x) All others.

agency on some agreements. This strategy is very useful where marketing costs are significant and marketing efforts are considerable.

(IV) Product License Strategy : Instead of going through any contract, a license can be granted to third party to sell the products which company wants to drop for all.

(V) Product abandonment strategy : This strategy implies total stoppage of production and selling of product. Generally, when all other alternative strategies fail to provide any favourable results, the producers use this strategy.



CHECK YOUR PROGRESS

Q7. Mention two objectives of product diversification.

.....

.....

.....

Q8. Mention two product simplification strategy.

.....

.....

.....

.....

Q9. State whether the following statements are True or False.

(a) Product diversification is essential to meet changing tastes and desires of consumers.

(b) An electric bulb producing company starts producing fan also. It is unrelated product diversification.

(c) Standardization includes various elements as grading, packaging, labeling, branding etc.

(d) The run-out strategy is a product simplification strategy.

4.9 MEANING AND DEFINITION OF PRODUCT LIFE CYCLE CONCEPT

Every product passes through certain different or distinct stages, during its life span. Hence, the term, product life cycle concept denotes the

basis of present profitability. Sometimes a change in price, promotion or market channels can make a currently unprofitable product profitable. Product simplification is applied to eliminate the unprofitable grades and variations to reduce inventory expenses, to improve products, to simplify production and marketing.

Product Simplification Procedure: The suggested procedure has four steps.

(I) **Committee formation:** The committee should consist of personnel from different departments. The product simplification should be a subject of common consent and participative venture.

(II) **Design Criteria:** The committee is to review periodically the performance of the various products and recommend the product strategy including product simplification.

(III) **Spell out simplification strategies:** The committee is to formulate the product simplification strategies so that it can be executed in a phased manner. A planned action of simplification avoids the probable errors.

(IV) **Programme implementation:** The programme for product planning with the dimension of timing, parts and replacement, stock clearance etc. should be properly coordinated. A well designed programme makes implementation easy.

Product simplification strategies :

Some of the important strategies of simplification are outlined below:

(I) **Product-line pruning strategy:** It involves selective elimination of products. Only those products are selected for pruning whose contribution to the sales and profits are marginal.

(II) **The run-out strategy :** This strategy reduces the supporting costs on a product to the minimum level that will optimize the product's profitability. The supporting costs consist of communication, physical distribution and dealership.

(III) **Contract marketing strategy :** Under this strategy, the producing company market their products through an independent marketing

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

(b) Size of customers or size of users :

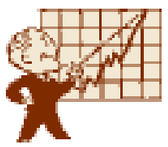
The size of an industry or trading house may be small, medium and large and accordingly their purchase-order or size may also vary. The marketer may have separate marketing policy to sell their products or services to bulk purchasers and small buyers.

(c) Type of buying situations :

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

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

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



CHECK YOUR PROGRESS

1.What do you mean by market segmentation ?

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Q2. What are the bases for consumer market segmentation ?

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Q3. What are the requirements for successful segmentation ?

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Q4. State whether the following statements are True or False.

(a) Grouping of products is termed as market segmentation.

(b) Market segmentation facilitates the preparation of sound marketing programme.

(c) Market segmentation helps the marketers to face the competition effectively.

(d) Market segmentation can be done on psychographic factors/ variable also.

(e) Organisational markets cover industrial markets, Re-seller markets and Government markets.

3.5 MARKET TARGETING

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

However, the term 'Target Market' means a group of customers at whom the organisation specially intends to aim its market effort.

In market targetting process, firms have to evaluate the segments and decide how many segments can be served effectively with its available resources and capacity. For example, a firm selling text books may form segments of the market as school books, college books, general books, G. K. books etc. In each segments, there may be further sub-divisions university wise or board wise such as books for Gauhati

process of formulating and applying rules for an orderly approach to a specific activity for the benefit of all concerned.

Determining standard for a product is a purely technical function which requires the consideration of the following physical properties of the product.

(I) Basic weights and measures.

(II) Size, shape and dimension.

(III) Chemical and technical properties.

(IV) Product-performance, etc.

Standardization includes various elements as Grading, Packaging, Labeling, Branding etc.

Types of Standards:

Some of the important standards are explained below:

(I) Product Standards: Product standards are essentially technical descriptions and establish physical characteristics, quality and performance of a particular product. These standards are generally meant to assure consumers of uniformity in quality and performance.

(II) Material Standards: It is an attempt to standardize the raw-material used in the production process.

(III) Quantity Standards: The optimal quantity to be produced with the help of pre-determined inputs.

(IV) Process Standards: The most scientific and rationalized method of production is laid down which forms the standard process of production.

(V) Safety Standards: It means the rules and regulations formed to ensure the safety of employees working in factory.

4.8 PRODUCT SIMPLIFICATION

Product simplification requires continuous review of the various products and discontinue those products which are not contributing directly or indirectly to profits. However, decision should not be taken only on the

(f) to cope with the technological development in the process of production.

(g) to create new markets for the product etc.

(h) to expand the product line and/or product items.

(i) to enhance the amount of profit.

Forms of Diversification:

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

(i) 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, Face cream producer may introduce body cream etc. Such introduction of a new product increases the length of a existing product line but it does not introduce one new product line.

(II) 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 we call it unrelated diversification. For example if a book publishing company introduces a new face cream or a group of face cream products then it is unrelated diversification.

This strategy bears greater risk as the marketer is new both to the product and to the market. But in later stage after successful marketing, it reduces risk.

4.7 PRODUCT STANDARDISATION

"Product standardization means the determination of the basic limits or grades in the form of specifications to which manufactured goods must conform". -- Committee of the Journal of Marketing.

"Standardization is the determination of classes or grades of a product or service that have fixed limits". – Duddy and Revzan. On the basis of above two definitions we come to know that standardization is the

University, Dibrugarh University and Secondary Education Board of Assam and Central Board of Secondary Education. The firm may select one segment or two segments or all segments depending on its resources. The selected segment/segments are the target markets.

3.5.1 Evaluating Market Segments and Target Market Selection

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

(A) Relative attractiveness of the market segments

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

Let us discuss the above in detail:

(A) Relative attractiveness of the market segments:

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

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

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

(iii) Price sensitivity : In low price sensitive segments competition may be based more on quality and service. Hence the effort should be more on non-price factors.

(iv) Nature of competition : Strong aggressive competition is not that less favourable. The quality of competition is more important than the number of competitors in the segments.

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

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

(B) **Company's capability to serve and compete in various segments :**

A market segment may be profitable but it may be difficult to serve effectively due to lack of resources and competencies. A company should be very sure that it has the required resources such as exploitable marketing assets, cost advantage, technological edge and managerial capabilities and commitment.

Companies consider the following factors while deciding on segmentation. After evaluation of various market segments, the company should decide the number of segments to serve effectively and efficiently to earn good amount of profit and reputation. There are usually five different methods of selecting target market.

(i) **Single segment concentration :** Here, the company selects only one of the various segments and concentrates there on. The main advantages of this system are

(a) through concentrated marketing, the company can achieve a good market position on account of its greater knowledge of the segment and

(b) it can enjoy operating economies through specialising its products, distribution and promotion.

(ii) **Selective specialisation :** Here, the company selects a

Q6. State whether the following statements are Ture or False.

(a) Elimination of unprofitable products is not covered by product planning.

(b) Idea generation is the first step in new product development process.

(c) Introduction of new product is essential for growth and expansion of an organisation.

(d) Slight modification and adding new features in the existing products amount to new product.

4.6 PRODUCT DIVERSIFICATION

A company with the existing products can not meet the consumer's desires and requirements all the time. The multi-products company substitutes one for the other to the changing tastes of the consumers. 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. For example if a cigarette producing company like ITC starts Hotel business, then it is a diversification. It does not, however, mean the new product should be the product in same product line or entirely new product for a new product line. Diversification is a policy of an operating company, so that its business and profits come from a number of sources.

Objectives of Diversification:

Some of the basic objectives of product diversification are:

(a) to use the existing selling and distribution facilities up to optimum level.

(b) to meet changing tastes and desires of consumers.

(c) to take the advantage of existing reputation.

(d) to meet new products of competitors efficiently.

(e) to increase the amount of sales and quantity of existing products also.

phased manner or the product may be introduced simultaneously depending on the company's plan and resources available. The phased manner introduction helps to avoid short supply of the product due to initial gaps in production and distribution.

The new product development process may be presented through a flow chart given below:

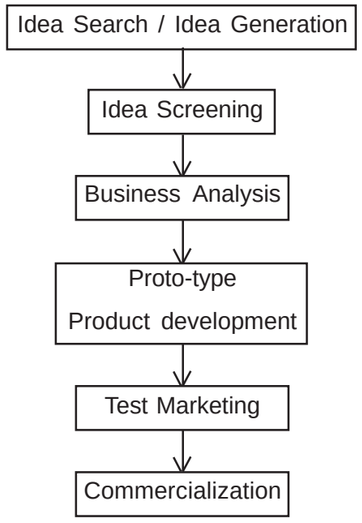
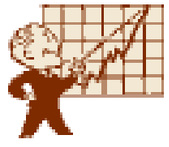


Figure 4.1: Stages in New Product Development



CHECK YOUR PROGRESS

Q4. What are the components of modern product planning ?

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Q5. Mention the various stages in product development process.

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number of appropriate segments. This is known as multi segment strategy. The main advantage of this system is even if one segment becomes unprofitable, the company can earn profit in other segments.

(iii) **Product specialisation :** Here, the company concentrates on the production of a certain product and sells it to several segments. This type of strategy enables the firm to build up a good reputation in the specific product area.

(iv) **Market specialisation :** Here, the marketer concentrates on satisfying the needs of a particular group of customers. For example baby products.

(v) **Full Market Coverage :** Here, the marketer tries to serve all customer groups with all the products that they may need. This is applicable only in case of large business houses.

3.6 MARKET POSITIONING

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

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

There are large number of information sources for buyers about any product and services. On the basis of information, during buying decision making process, the buyers arrange the products and services into various groups as per their mental position. The marketers should not leave their products' and services' positions to be decided on the basis of chance. The marketers, therefore, put their best efforts to position their products and services to get competitive advantage in selected target markets and they develop their marketing mix accordingly.

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

Ries and Trout, who developed the concept of positioning, defined it as follows :

"Positioning starts with a product, a piece of merchandise, a service, a company, an institution or even a person; but positioning is not what you do to a product. Positioning is what you do to the mind of the prospect. That is, position of the product in the mind of the prospect."

3.6.1 Definitions

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

3.6.2 Positioning Strategies

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

1. **Positioning on Product Attributes :** The marketer can position its product on specific product attributes, for example Sony features technical and performance attributes.
2. **Positioning on Benefits :** The marketer can also position its product on the basis of benefits it offers for example – Colgate reduces cavities, clinic shampoo-an all clear shampoo.

(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 marketing people 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. In the words of P. Kotler- "Test marketing is the stage at which the product and marketing programme are introduced into more realistic market settings". 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. In this process, the marketers approach the trial purchasers and first repeat purchaser to know their feelings and reaction about the product as well as marketing programme. On the basis of their opinions the marketers make certain required modification in the product as well as marketing programme. After the favourable result usually, products are sent for commercialization.

(VI) Commercialization : After favourable response in test marketing, full scale production and marketing programmes are planned and then the product is launched. It may be in

4.5.2 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, salesmen, top executives, consultancy organisations, Research and Development Department etc. The first step is to collect as ideas many as possible so that the company can find out the best idea out of those ideas to convert the same in to actual product.

(II) Screening of Ideas: All new ideas can not be converted into products as it requires heavy capital investments. Those ideas should be screened and all unworkable ideas should be dropped. Only viable, feasible and promising one should be selected for further processing. The company uses the 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.

3. **Positioning according to usage occasions :** The marketers can also position, their products on the basis of specific usage occasions, for example casual dresser, formal dresser or oranaments for specific occasion.

4. **Positioning the product for certain classes of users :** There are certain movie or films for children and for adult only. Similarly, certain publishers are concentrating only on comic series publications to suit the needs of children.

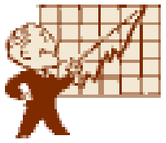
5. **Positioning directly against a competitor :** In its “dare to compare campaign”, Texas Instruments asked its consumers to make side by-side comparisons of its personal computers with that of IBM’s. It attempted to position the product as easier to use and more versatile.

6. **Positioning away from competitions :** A product may also be positioned away from competitors. 7-up became the number three cold drink when it was positioned as the “Un-Cola”, the fresh and thirst alternative to Coke and Pepsi.

7. **Positioning as to different product classes :** The product can also be positioned with respect to different product classes, for example Mediker shampoo is positioned with “lice clear” means better performance compared to other brands of general shampoo.

Positioning strategies generally apply one of the two approaches– one focusing on consumers and the other on the competitors. Both the approaches focus on the association of product benefits with consumer needs, the first one does so by linking the products with the benefits and the needs of consumers and the second approach positions the products by comparing its products features with the competitors’ products. From the above discussion you can determine that there are basically four elements or variables that affect the position of a product– (a) The

Product (b) The Company (c) The Competition and (c) The Consumer.



CHECK YOUR PROGRESS

Q5. What do you mean by market targeting ?

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Q6. What is market positioning ?

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Q7. State two positioning strategies.

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Q8. State whether the following statements are True or False.

(a) Companies' objective' and Resources' is one of the important factors in evaluating the market segments.

(b) When a company selects one of the various segments and concentrates there on then it is known as single segment concentration.

(c) Positioning on Product Attributes is one of the strategies of positioning.

4.5.1 Product Development

Product development is the introduction of new products in the existing product line or introduction of an entirely new product line. A business firm meets its social responsibility through its product. In fact, the competitive conditions will not permit any firm to continue its business with an out-dated product or poor product for a long-run. A good and quality 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 consumer 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, consumer considers 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–

(I) An entirely new products or service i.e. genuine innovation.

(II) Slight modification and adding new features in the existing products.

(III) An existing product, if introduced in new markets. The consumers of new market may considers the old product as new product in the there geographical area.

4.5 PRODUCT PLANNING AND DEVELOPMENT

Product planning is the initial step of the overall marketing programme. In the competitive business world, producers try to produce products which can be nearer to consumer expectation. The pressure of competition forces the producers to replace the existing products by developing new products which are consumer firendly. Product planning covers all activities which enable producers and middle men to determine what should constitute a company's line of products. Product development covers the technical activities of product research, production and design. A well designed product development process increases the scope to satisfy the needs of the customers.

In short, product planning involves the introduction of new products and improvement in the existing product.

Definition of Product Planning: "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". – Karl. H. Tietjen. 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.

Components or Elements of Product Planning :

Some important components of modern product planning are:

(I) Product Development

(II) Product Diversification

(III) Product Standardization and

(IV) Product Simplification



3.7 LET US SUM UP

In this unit, we have discussed about market segmentation. Market segmentation is the sub-division of a market into homogeneous groups of customers. The marketer is in a better position to spot and compare marketing opportunities. He can make fine adjustments of his product and marketing appeals. Instead of applying one marketing programme for total market, he can create separate marketing programmes to meet the needs of different buyers effectively. The ultimate basis for meaningful segmentation are differences in customer response to different marketing elements.

Organisations adopt the policy of market segmentation for two main reasons :

- In order to match their own limited resources to market opportunities.
- To provide guide lines for the development of an appropriate marketing mix.

Target Marketing is a strategy in which the marketer distinguishes the major market segments, targets one or more of these segments and develops products and marketing programes tailored to each selected segment. It is about evaluating the different segments and finding out the segment which can be served effectively with limited resources to earn profit.

Positioning is the process of creating a distinct offer and communicating it to the customer. Positioning is created by designing a marketing mix which is suitable for the target market but is different from marketing mixes for other products.

3.8 FURTHER READING

1) Philip Kotler, Kevin Lane Keller, Abraham Koshy, and Mithileshwar Jha (2007), *"Marketing Management: A South Asian Perspective"*, Pearson Education, Delhi.

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

3.9 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q.1.: Market segmention is grouping of buyers according to some common characteristics such as income, age sex, qualification, geographical location etc, so that their needs are better served.

Ans. to Q.2.: The basis for consumer market segmentation are given below :

Market Segmentation

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

Ans. to Q.3.: The requirements for successful segmentation are as follows:

(a) Identity (b) Substantiality

(c) Accessibility (d) Measurability

(e) Nature of demand (f) Formulation of effective programmes.

lot of personal selling, advertising and publicity, dealers-aids, and after sales service etc. to satisfy the consumers and to get referral consumers.

4.4.3 Products based on Tangibility

(I) Tangible products : It must be capable of being touched, seen, verified for 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 uniformity is a difficult task. As the service providers are human beings, variation in service can not be eliminated, but can be reduced.

CHECK YOUR PROGRESS

1. Mention the essential features of a product.

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2. Classify product on the basis of durability.

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

(a) A product may be tangible or intangible. (T/F)

(b) A product must have capacity to satisfy consumers. (T/F)

(c) Shopping goods are normally consumer durable items. (T/F)

and basic inputs constitute a major *cause* of the cost. In a tea garden , tea leaves are the basic raw materials of manufacturing of tea.

(c) Fabricated materials and parts: These are semi processed goods but they may require further processing before being the part of final products.

(d) Operating Supplies: These are not the part of final products but 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, wheel of a machine etc.

4.4.2 Products based on durability

(I) Perishable products : These are the products which have very short life and can not be stored for long time such as newspaper. A particular service for one day or limited period like availing a taxi service can be considered.

(II) Non-durable products: When the consumers start consuming or using the products, the products last for few uses and get depleted on consumption are non durable goods. For example, tooth paste, powder etc. The consumers purchase these goods very frequently if they are satisfied with the products. Hence, the marketers should be very careful about the quality of the products and services to the consumers.

(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 consumers usually take long time to take the decision of purchasing. The marketing of this type of goods require a

Ans. to Q.4.: (a) False (b) True (c) True (d) True

Ans. to Q.5.: Market targeting is the process of distinguishing the major market segments, to target one or more of these segments and develop products and marketing programmes tailored to each selected segments.

Ans. to Q.6.: Market positioning starts with a product. A piece of merchandise, a service, a company, an institution or even a person, but positioning is not what you do to a product. Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect.

Positioning is the perception or the image that customers have of the company and its products. It is the customer's belief about the company's products being of, say, very expensive, high quality, durable etc.

Ans. to Q.7.: These are two positioning strategies:

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

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

Ans. to Q.8.: (a) True (b) True (c) True



3.10 MODEL QUESTIONS

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

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UNIT 4: CONCEPT OF PRODUCT

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Introduction

4.3 Concept of Product

4.3.1 Essential Features or Attributes of a Product

4.4 Classification of Products

4.4.1 Products based on uses

4.4.2 Products based on durability

4.4.3 Products based on Tangibility

4.5 Product Planning and Development

3.5.1 Stages in New Product Development Process

4.6 Product and Diversification

4.7 Product Standardisation

4.8 Product Simplification

4.9 Meaning and definition of Product Life Cycle

4.9.1 Stages of Product Life Cycle Concept

4.9.2 Factors Affecting Product Life Cycle

4.10 Let Us Sum Up

4.11 Further Reading

4.12 Answers To Check Your Progress

4.13 Model Questions

4.1 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 some characteristics
- describe the meaning of product planning and development
- explain the various stages of new product development
- explain the concept of product diversification, standardization and simplification
- describe the concept of branding, packaging and labelling

4.2 INTRODUCTION

In the previous units, we have already explained the basic concept and functions of marketing and market segmentation. In this unit, we shall

appropriate distribution system. For Example - Branded surgical instruments for doctors, Peter England dresses from its exclusive showroom etc.

(d) **Unsought Products:** The buyers do not know about the existence of the products or they do not want to purchase. It may be regularly unsought product such as service of life insurance company, a lawyer's service, safety alarm etc. or/any new unsought product which are completely new and unfamiliar to consumers. For example new course like B.Sc (Bio-technology), Post-Graduate Diploma in Political Science etc.

(B) **Industrial Products:** Goods which are used for commercial production or in carrying out 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. For example: Rice when we cook and eat at home, it is consumer products and when the same is sold in a restaurant or hotel, it is treated as industrial goods. Industrial buyers are mostly rational buyers, i.e. they are cost, quality and standard conscious.

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 equipments, building, assembly lines etc.

(b) **Raw Materials:** These are the main inputs to the final products. These are the part of the final products. Raw materials are processed in the production process towards manufacturing a final product.In some caeses, raw materials

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:** there are Goods required 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, sarees etc.

(c) **Specialty Goods :** A good number of buyer 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 so unique to loyal customers, reminder advertising to the target market and

explain the concept of product, its classification, product planning and development, diversification, standardization and product simplification and different concepts related to branding, packaging and labelling. After studying this unit you will be able to realize that the marketers need to apply different marketing strategies to sell the different types of products, i.e. to consumer market , industrial market and institutional markets.In addition to the above you will also study the reasons behind diversification, standardization and product simplification.

4.3 CONCEPT OF PRODUCT

In a narrow sense, a product is a set of tangible, physical attributes assembled in an identifiable form. Each product carries a name, such as car, iron, building etc. But in marketing, 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. A commodity is a tangible object such as salt. A service is an intangible entity which provides benefits and satisfaction to the users such as health service or doctors' or nurses' service. An idea is a philosophy or concept-such as ''stop smoking,'' ''use seat belt during driving'', ''suggestion for doing physical exercises''. etc.

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 its after sales service, durability, colour, manufactures reputation etc. are intangible part of product. Good products are key to market success and therefore products should be produced as per the needs and wants of target market.

"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 tangible goods, service, place, person or idea"– W. J. Stanton

"A product should be considered as a bundle of utilities consisting of various product features and accompanying services".– W. Anderson

"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".– Philip Kotler.

The product concept is a management orientation that assumes that consumer will favour those products that offer the most quality and other features for the price and therefore producers should effort for continuous improvement of product quality and other features of product.

4.3.1 Essential Features or Attributes of a Product

From the above definitions, some of the essential features can be identified as given below :

(a) **Tangibility:** To be a product, it should have a tangibility character such as it can be touched or seen, for example a car, building, cloth etc.

(b) **Intangible Attributes:** The product may also be intangible in the form of services for instance, banking, insurance, music composition, repairing, nursing etc.

(c) **Associated Attributes:** A product may have number of features which differentiate it from competitor's products. Associated attributes usually cover the colour, package, brand name, installation, instruction etc. For example Hindustan Lever's vanaspati ghee has a brand name DALDA and with its package it can be identified by the consumers. It has developed an image in such a way that all kinds of vanaspati ghee sold are being referred to as DALDA ghee.

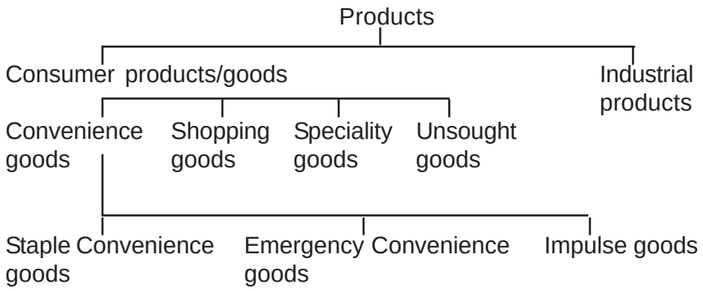
(d) **Exchange Value:** A product may be tangible or intangible but it must have exchange value. It must be capable of being exchanged between seller and buyer at mutually agreed price.

(e) **Consumer satisfaction:** A product should have the capacity to satisfy consumer's real or psychological needs and wants. At the same time, it must have capacity to generate profit for the satisfaction of sellers.

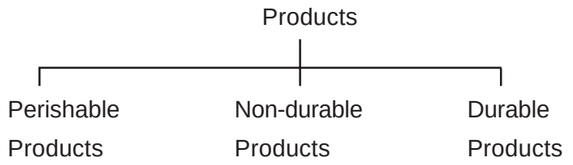
4.4 CLASSIFICATION OF PRODUCT OR GOODS

Broadly products can be classified into following categories.

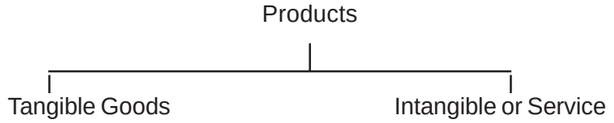
(A) Based on uses



(B) Based on durability :



(B) Based on Tangibility :



4.4.1 Products based on uses

(A) **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 buyer 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 and time consuming as the buyers have sufficient information and knowledge about these types of products. For example bread, newspaper etc.