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Industrial and Rural Marketing

SEMESTER - 4

MASTER OF COMMERCE
(Marketing Specialisation)

BLOCK - 1

KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

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MASTER OF COMMERCE

INDUSTRIAL AND RURAL MARKETING

Block 1

DETAILED SYLLABUS

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Concept and characteristics of industrial marketing,

UNIT 2: **Types of industrial markets:** **Page No. : 17 – 40**

Industrial buyer behavior. Strategic industrial marketing – marketing research.

UNIT 3: **Classification of industrial products and services** **Page No. : 41 – 61**

ew product development and introduction. Industrial product management – pricing decisions in industrial markets.

UNIT 4: **Formulating channel strategies and physical distribution decisions** **Page No. : 62 – 81**

Promotional strategies for industrial goods/services. Developing marketing strategies and programs for industrial goods/services.

UNIT 5: **Rural Marketing**: **Page No. : 82 – 100**

A Conceptual Framework, Nature & Characteristics of Rural Market. Challenges & Opportunities, An Overview of Indian Rural Market.

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Characteristics of Rural, consumer ConsumerBehaviour Roles, Factors influencing Purchase of Products in Rural Market.

UNIT 7: **Rural Marketing Research** **Page No. : 110 – 117**

Process of Research in Rural Markets, Sources and Methods of Data Collection, Data Collection Approaches in Rural Markets.

COURSE INTRODUCTION

This is the third course of M.Com. fourth semester Marketing specialisation Programme. This course "Industrial and Rural Marketing" of M.Com. 4th semester will focus on the different aspects of Industrial and Rural Marketing. In this course we have briefly discussed about Industrial or Business marketing, it's various types and marketing strategies. We have also discussed about the concept of Rural Marketing and how it differs from urban marketing and different strategies for rural marketing.

This course consists of fourteen units. This course starts with the unit discussing the concept of the introduction to Industrial marketing.

The course has 14 units and is divided into two blocks: Block 1 and Block 2.

Block 1 deals with the introductory concepts of Industrial Marketing, types of Industrial markets, classification of Industrial products and services, formulating channel strategies and physical distribution decisions. Then we have discussed about Rural marketing, Rural Consumer Behaviour and Rural Marketing Research.

Block 2 concentrates on marketing strategies for rural marketing, like product, price, promotion strategies, market segmentation and positioning strategies and concepts of e- rural marketing etc.

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

BLOCK INTRODUCTION:

This is the first block of the course 'Industrial and Rural Marketing. The Block is divided into7 units and is primarily a learner oriented Self learning material, as it satisfies the requirements of the learners in the filed of Marketing.

This block comprises of the following seven units:

The first unit introduces us to Meaning and Concept of Industrial marketing, need of Industrial marketing, characteristics of Industrial markets, comparison of Industrial and consumer marketing and trends.

The second unit gives us a broad idea of Industrial buyer behaviour, strategic Industrial marketing and marketing research.

The third unit gives us an idea on the classification of Industrial product and services, pricing decision in Industrial markets etc.

The fourth unit will help us in formulating channel strategies, promotional strategies for Industrial goods and services, developing marketing strategies for Industrial goods and services.

The fifth unit gives us a broad idea rural marketing- it's concepts, phases of evolution and rural marketing model and an overview of Indian rural market

The sixth unit will help us in understanding the rural consumer behaviour, characteristics and role of rural consumers, factors influencing purchase of products in rural markets.

The seventh and the last unit of this block explains about rural marketing research- it's meaning and needs, marketing research process, sources and methods of data collection etc.

The Block is devided into seven units:

Unit 1: Introduction to Industrial Marketing

Unit 2: Types of industrial markets

Unit 3: Classification of industrial products and services

Unit 4: Formulating channel strategies and physical distribution decisions

Unit 5: Rural Marketing

Unit 6: Rural Consumer Behaviour

Unit 7: Rural Marketing Research

UNIT 1: INTRODUCTION TO INDUSTRIAL MARKETING

UNIT STRUCTURE

1.1 Learning Objectives

1.2 Introduction

1.3 Concept of Industrial Marketing

1.4 Need of Industrial Marketing

1.5 Characteristics of Industrial Markets

1.6 Industrial versus Consumer Marketing

1.7 Trends in Industrial Marketing

1.8 Let Us Sum Up

1.9 Further Reading

1.10 Answers to Check Your Progress

1.11 Model Questions

1.1 LEARNING OBJECTIVES

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

- define the concept of industrial marketing
- describe the significance of industrial marketing
- differentiate between industrial and consumer marketing
- explain the characteristics of industrial markets
- describe the emerging trends in industrial marketing

1.2 INTRODUCTION

For many of us marketing is all about consumer products, those that we buy and consume on a fairly regularly basis. However, there is also a huge market that is often unnoticed by us. This market is referred to as the industrial market and industrial marketing is concerned with the marketing of products and services that are bought and sold between organizations. In fact, industrial markets involve far more money and items than do consumer markets. Some of the characteristics of industrial marketing are

quite different from those associated with consumer marketing. There exist various reasons for these differences and the way they impact varies among organizations. In this unit, we shall focus mainly on industrial marketing its – definition, need, characteristics, trends, differences with consumer marketing etc.

1.3 CONCEPT OF INDUSTRIAL MARKETING

The term industrial marketing is also sometimes referred to as Business-to-Business Marketing, or Business Marketing, or Organizational Marketing. For example just imagine the large number of business transactions involved in the production and sale of single set of MRF tyres. Various suppliers sell MRF the rubber, steel, equipment, and other goods that it needs to produce the tyres. MRF then distributes the finished tyres to dealers, who in turn sell them to consumers. Thus, many sets of business purchases were made for only one set of consumer or business purchases. This is the industrial market.

The concept of organisational or industrial marketing is used to describe marketing activities targeted at all individuals and organisations – manufacturing companies, government undertakings, private sector organizations, educational institutions, hospitals, distributors, and dealers -.that acquire products and services that are used in the production of other products and services. These products include **capital goods** (e.g. buildings, land and machines), **operational products** (e.g. accessory equipment, supplies, maintenance services), and **output products** (e.g. raw materials, components, production services).Industrial marketing consists of all activities involved in the marketing of products and services to organizations which may be commercial, profit or non profit institutions, government agencies or resellers that use products or services in the production of consumer or industrial good and service, and to facilitate the operations of the enterprise.

According to Haas cited in Nwokoye, N.G. (2004) industrial marketing refers to *"marketing activities that are intended to acquire and sell goods or services to business or other organizations to be used directly or indirectly*

in their own operations. These businesses or organizations may be public or private, and domestic or multinational".

Industrial marketing comprises all activities directed at providing, businesses or organizations with inputs required for production or business operation. The aim of consumer market is to buy for final consumption while industrial market seeks to buy to aid business operations and production.

Viewed from the perspective of "marketing," industrial marketing is, then, human activity directed toward satisfying wants and needs of organizations through the exchange process. The major exchange processess of Industrial Marketing are discussed as follows.

(i) Product Exchange

The characteristics of the product or service involved have a significant effect on the industrial exchange process. The ease of exchange depends upon the ability of the seller to identify the buyer's needs and the product's potential to satisfy those needs.

(ii) Information Exchange

Information exchange often consists of answering technical, economic, and organizational questions regarding pre- and posts sale maintenance and servicing. Products must be planned and designed to serve the customers. To accomplish this, buyers and sellers tend to work together, exchanging product specific information over long periods of time.

(iii) Financial Exchange

Financial Exchange may involve such considerations as the granting of credit or the need to exchange money to one currency from another when dealing with foreign buyers.

(iv) Social Exchange

Social Exchange is important in such areas as reducing uncertainty between buyer and seller, avoiding short-term difficulties, and maintaining the exchange relationship over a lengthy transaction period.

Many aspects of an agreement between buyers and sellers in the marketing field are not fully formalized or based on legal criteria until the end of the transaction period. Rather, much of the process of exchange is based on mutual trust.

1.4 NEED OF INDUSTRIAL MARKETING

Industrial marketing as a specific field of study in marketing derives from the awareness that the market behaviour, which affects the demand and purchases of industrial products and services, is generally quite different from that experienced in consumer markets. One of the distinctive differences between industrial and consumer markets is that the demand for industrial products is a *derived demand*. The purchasing process of industrial products is also relatively more complex, and may be divided into a number of stages taking place over time. The purchase decision making process usually involves many people who are drawn from different departments of the buying organisation, depending on the strategic importance of the products or services being purchased. In contrast to consumer markets, industrial products are funded with organisational resources. That is, the buyers of industrial products do not finance the purchase with their personal money, but rather use organisational funds for the purpose.

Finally, it is assumed that members of the purchase decision making units (buying centre members) act rationally in the decision making process. That is, idiosyncratic considerations scarcely enter the decision making process. This implies that the decision-makers must be provided with substantial “objective” information by vendors on the basis of which their decisions can be made.

1.5 CHARACTERISTICS OF INDUSTRIAL MARKETS

In certain cases, business markets are much similar to consumer markets. Both involve people who assume buying roles and make purchase decisions to satisfy needs. However, business markets differ in many ways from decision making process. Business markets are characterized by a number of factors but the main ones are in market structure and demand, the nature of buying unit, and the types of decisions and the decision process involved, which are discussed as follows.

(i) Market Structure and Demand

The industrial marketer normally deals with very few number of buyers when compared with consumer marketer. For example, when MRF sells replacement tyres to final consumers, its potential market includes the owners of the millions of vehicles presently in use in India and many other countries around the world. But the fate of MRF in the industrial market rests on receiving orders from one of only a few of large auto makers. Even in large industrial markets, majority of the buying is often accounted by a few buyers.

Industrial or business markets are geographically concentrated i.e., industrial buyers are concentrated in certain geographical area because industrial market is determined considering the availability of natural resources, raw materials, labour supply, managerial and technical expertise, capital, transport facilities, cost, etc. Furthermore, industrial demand is derived demand, meaning that the magnitude of demand for these products varies with the demand for the finished products and services based on them. The demand in industrial markets is ultimately derived from consumer goods. For instance, the rate of demand for steel by an automobile company is necessitated by demand for cars. In case, the consumer demand for cars falls, so will the demand for steel and all the other products that are used for making cars. Therefore, in order to increase the business demand, industrial marketers sometimes promote their products directly to the final consumers.

(ii) Nature of the Buying Unit

More decision participants and a more professional purchasing effort are usually involved in industrial purchase compared to consumer purchases. These differences are a reflection of the potential high financial value associated with these transactions, product complexity, the relatively large value of individual orders, and the nature of the risk and uncertainty. Today the customers may have all the information about the company and its products and therefore it is important that industrial marketers must have well-trained salespeople to deal with well-trained buyers.

(iii) International Dimensions

Internationally, industrial marketing is much easier to conduct in comparison to consumer marketing. The reason being the fact that the requirements of the industries across the world are far more homogeneous than the needs of the consumers, whose preferences, tastes, and resources vary. As a result, an increasing number of industrial firms are moving into international markets. In addition to this, industrial firms benefit from a lower variety of product functionality and performance. This convergence in taste and preference is partly because the various trading associations across the world have agreed standards as to content and performance. This means that buying and selling of products and services, wherever located, are relatively simple and the business environment reasonably well regulated and controlled.

(iv) Relationships

One of the major characteristics that separate industrial marketing from consumer marketing is the focus on maintaining relationships. In industrial marketing, the interaction between buyers, sellers, and other stakeholders is of major significance. The development, maintenance and continuation of relationships between the buying and the selling organizations is primary to success. Interdependence, collaboration, and, in few cases, partnership, over the development, supply, and support of products and services, is considered a core element of industrial marketing.

1.6 DIFFERENCES BETWEEN INDUSTRIAL & CONSUMER MARKETING

Although the principles of consumer marketing are applicable to industrial marketing but still the work of industrial marketer is quite different from that of consumer marketer as industrial firms encounter marketing situations that are generally not faced in consumer markets. Table 1.1 shows the differences between industrial and consumer marketing.

Table 1.1: Differences between industrial and consumer marketing

Sr No.	Bases	Industrial Markets	Consumer Markets
1	Market structure	Very few buyers, Geographically concentrated	Large buyers, Geographically dispersed
2	Buying unit	Large decision participants, more professional purchasing effort	Few decision participants, less professional purchasing effort
3	Product characteristics	Technical complexity, customized	Less technical complexity, standardized
4	Channel characteristics	Shorter, direct, fewer intermediaries/middlemen	Indirect, multiple linkages
5	Promotional characteristics	More focus on personal selling	Focus on advertising
6	Price characteristics	Competitive bidding, negotiated prices	List prices or Maximum Retail Price (MRP)

After going through the comparison above, we can see that it is not only the factors like size of the market, the geographic concentrations & competitive nature of the markets will differ but also the factors as mentioned below will cause the difference between Industrial marketing and Consumer marketing.

1. Characteristics of the products
2. The type of buyers
3. The channel characteristics
4. The promotional characteristics
5. The price characteristics

In situations when a consumer marketing man is shifted to industrial marketing he/she takes time to fix their mindset and apply their cultivated knowledge.

1.7 TRENDS IN INDUSTRIAL MARKETING

(i) The education and experience of management industrial firms emphasizes technical and production considerations, which result in

a strong product orientation. In addition, much of the information industrial marketing managers have to work with is classified on the basis of product, process or material rather than markets.

(ii) The demand for industrial goods and services is a derived demand, whereby creating a customer often Involves satisfying his direct and indirect needs. Thus, the distance between the industrial marketer, and those who are the ultimate consumers is often so great that relevant needs and competition are obscured. The conflicting interests of the direct customer further restrain the ability to take effective action on indirect customer.

(iii) Four developments, which have significant-current momentum, appear to be of particular importance and provide the basis for expected trends in industrial marketing. They are

(a) the significant changes in the pattern of final demands

(b) the rapid pace of technological change

(c) the increasing size and complexity of the industrial firm and its customers and

(d) the growing impact of the computer and the management sciences.

These developments result in —

§ more effective coordination, direction and control and spacing

- new directions in marketing research.
- increased marketing involvement in R&D and acquisitions
- increased use of formal marketing planning
- emphasis on systems in all aspects of marketing



CHECK YOUR PROGRESS:

Q.1: Define “Capital goods”.

_____

_____

_____

_____

Q.2: Mention the four different types of exchanges in industrial marketing.

_____

_____

_____

_____



1.8 LET US SUM UP

In this unit, we have discussed the concept of industrial marketing, its characteristics and differences with consumer marketing.

In all, the concept of industrial marketing may be referred as marketing of goods and services to business organisations: manufacturing companies, service organisations, institutions and middlemen in private and public sector organisations, and Government undertakings. The differences between industrial and consumer marketing exist in certain characteristics such as market, product, buyer behavior, channel, promotional, and price. The demand for industrial products is derived from the ultimate demand for consumer goods and services. It is, therefore, called as derived demand.



1.9 FURTHER READING

1) Havaldar Krishna K (2005), *Industrial marketing* 1st ed., TATA McGraw Hill Publishing Company Limited, New Delhi.

2) C Krishnamacharyulu & R Lalitha (2008), *Industrial Marketing: A Process of Creating and Maintaining Exchange* ,Jaico Book House.

3) Govindarajan M. (2003), *Industrial Marketing Management* , Vikas Publishing House Pvt Ltd.

4) Ghosh P.K. (2005), *Industrial Marketing*, Oxford University Press.

1.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: *Capital goods* are long-lasting goods that facilitate developing or managing the finished product. For example, buildings. Land, machines etc.

Ans to Q No 2: The four different types of exchange in industrial marketing are product exchange, information exchange, financial exchange and social exchange.

1.11 MODEL QUESTIONS

1. What is industrial marketing?
2. What are the different characteristics of industrial market?
3. Discuss the differences between consumer and industrial marketing.
4. What are the emerging trends in industrial marketing?
5. Industrial marketing is more complex than consumer marketing. Do you agree to this statement? Explain.

*** ***** ***

UNIT 2: TYPES OF INDUSTRIAL MARKETS

UNIT STRUCTURE

2.1 Learning Objectives

2.2 Introduction

2.3 Types of Industrial Customers

2.4 Industrial Buyer Behaviour

- 2.4.1 Definition
- 2.4.2 Major Types of Buying Situations
- 2.4.3 Participants in the business Buying Process
- 2.4.4 Major Influences on Business Buyers
- 2.4.5 The Business Buying Process
- 2.4.6 Models of Industrial Buying Behaviour

2.5 Strategic Industrial Marketing

- 2.5.1 Strategic Planning in the Industrial Market
- 2.5.2 Developing Marketing Strategy In Industrial Marketing

2.6 Marketing Research

- 2.6.1 Steps in Marketing Research Process

2.7 Let Us Sum Up

2.8 Further Reading

2.9 Answers to Check Your Progress

2.10 Model Questions

2.1 LEARNING OBJECTIVES

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

- know the types of industrial markets
- gain an insight into the industrial buyer behavior
- explain the main processes and stages associated with industrial buying
- identify decision making units
- discuss the models of industrial buying behaviour
- learn about the importance of strategic planning in the industrial market

- discuss the concept of marketing research

2.2 INTRODUCTION

To develop an effective marketing plan, an industrial marketer needs to understand industrial markets. The industrial market is composed of commercial enterprises, governmental organisations, public or private institutions and cooperative societies, whose purchasing decisions vary with the type of industrial good or service under consideration. Effective marketing programs, thus, depend upon a thorough understanding of how marketing strategy should differ with the type of organisation being targeted and the products being sold.

The industrial market is characterised by diversity both in the customers served and the products sold. Component parts, spare parts, accessory equipment, and services are example of the types of products purchased by the variety of customers in the industrial market. Industrial distributors or dealers who in turn sell to other industrial customers, commercial businesses, government, and institutions buy a variety of products that, in one way or another, are important to the functioning of their own business endeavours. Knowing how this immense array of industrial customers purchase and use products and what criteria are important in their purchasing decision is an important aspect of industrial marketing strategy. For the purpose, industrial sellers understand the types of industrial buyers.

2.3 TYPES OF INDUSTRIAL CUSTOMERS

Industrial customers are normally classified into four groups:

(i) Commercial Enterprises,

(ii) Governmental Agencies,

(iii) Institutions, and

(iv) Co-operative Societies.

(i) Commercial Enterprises

Commercial enterprises are private sector, profit-seeking organisations

such as IBM, General Motors, Computer Land, and Raven Company, which purchase industrial goods and/or services for purposes other than selling directly to ultimate consumers. However, since they purchase products for different uses, it is more useful from a marketing point of view to define them in such a way as to understand their purchasing needs at the time of examination of the varieties of products they purchase and how marketing strategy can be developed to meet their needs.

Thus, it is more logical to look at commercial enterprises as:

(i) Industrial distributors or dealers,

(ii) Original equipment manufacturers (OEMs), and

(iii) Users.

Sometimes, these categories tend to overlap. However, it is useful for the industrial marketer because one is able to understand the ways of the use of products and services in buying firms.

(ii) Government Customers

In India, the largest purchasers of industrial products are Central and State Govern¬ment departments, undertakings, and agencies, such as Railways, Department of telecommunication, Defence, Director General of Supplies and Disposal (DGS&D), state transport undertakings, state electricity boards, and so on. These Government units purchase almost all kinds of industrial products and services and they represent a huge market.

(iii) Institutions

Public and private institutions such as hospitals, schools, colleges, and universities are termed as institutional customers. Some of these institutions have rigid purchasing rules and others have more flexible rules.

An industrial marketing person needs to understand the purchasing practice of each institute so as to be effective in marketing the products or services.

(iv) Cooperative Societies

An association of persons forms a cooperative society. It can be manufacturing units (e.g. Cooperative Sugar Mills) or non-manufacturing organisations (e.g. Cooperative Banks, Cooperative Housing Societies). They are also the industrial customers.

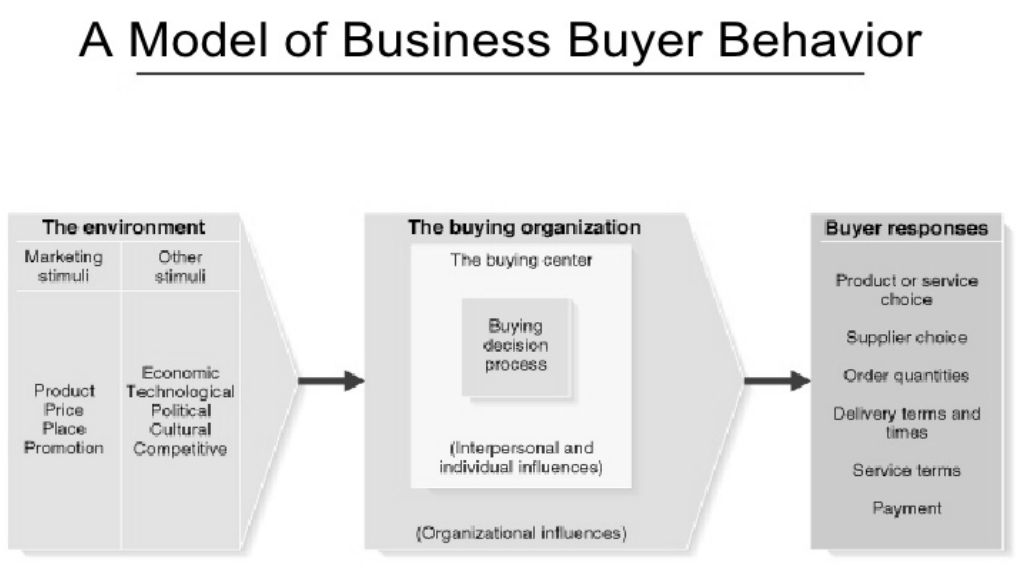
2.4 INDUSTRIAL BUYER BEHAVIOUR

Only by appreciating the particular behavior, purchasing systems, people, and policies used by an organization can suitable marketing and selling strategies be implemented. At the most basic level, marketers want to know how industrial or business buyers will take marketing stimuli. Fig. 2.1 shows a model of business buyer behavior. In this model, marketing and other stimuli affect the buying organization and produce certain buyer responses. As with consumer buying, the marketing stimuli for business buying consist of the four Ps: product, price, place, and promotion. Other stimuli include major forces in the environment: economic, technological, political, cultural, and competitive. These stimuli enter the organization and are turned into buyer responses: product or service choice; supplier choice; order quantities; and delivery, service, and payment terms.

Within the organization, buying activity consists of two major parts: the buying center, made up of all the people involved in the buying decision, and the buying-decision process. The model shows that the buying center and the buying decision process are influenced by internal organizational, interpersonal, and individual factors as well as by external environmental factors.

The model in Fig. 2.1 suggests four questions about business buyer behavior:

- What buying decisions do business buyers make?
- Who participates in the buying process?
- What are the major influences on buyers?
- How do business buyers make their buying decisions?



***Source**:* Adapted from Armstrong & Kotler (2007).

Figure 2.1: A Model of Business Buyer Behaviour

2.4.1 Definitions

Industrial or business buyer behavior refers to the buying behavior of the organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others. It also includes the behavior of retailing and wholesaling firms that acquire goods for the purpose of reselling or renting them to others at a profit. Also two definitions of industrial or business buyer behavior reveal important aspects of this subject. First, **Webster and Wind (1972)** defined organizational or business buying as *'the decision making process by which formal organizations establish the need for purchased products and services and identify, evaluate, and choose among alternative brands and suppliers'*. This adopts a buying organization's perspective and highlights the important point that organizational buying behavior involves processes rather than a single, static, one-

off event. A second definition, by **Parkinson and Baker** (1994), cited by **Ulkuniemi** (2003), states that industrial or organizational buying behavior concerns 'the purchase of a product or service to satisfy organizational rather than individual goals'. This takes a neutral perspective but makes the point that industrial buyer behavior is about satisfying organization-wide needs, and hence requires marketers to adopt processes that take into account the needs of different people, not a single individual.

Industrial buying behavior is about three key issues:

- The functions and the processes the buyers move through when purchasing products for use in business markets.
- Strategy, where purchasing is designed to assist value creation and competitive advantage, and to influence supply chain activities.
- The network of relationships that the organizations are part of when purchasing. The placement of orders and contracts between organizations can confirm a current trading relationship, initiate a new set of relationships, or may even signal the demise of a relationship.

What should be clear is that industrial or business buying behavior is not just about the purchase of goods or services. In addition to this fundamental task, it is concerned with the strategic development of the organization, creating value, and the management of inter-organizational relationships all key issues in B2B marketing.

2.4.2 Major Types of Buying Situations

There are three major types of buying situations. At one extreme is the *straight rebuy*, which is a fairly routine decision. At the other extreme is the *new task*, which may call for thorough research. In the middle is the *modified rebuy*, which requires some research.

In a straight rebuy, the buyer reorders something without any modifications. It is usually handled on a routine basis by the

purchasing department. Based on past buying satisfaction, the buyer simply chooses from the various suppliers on its list

In a modified rebuy, the buyer wants to modify product specifications, prices, terms, or suppliers. The modified rebuy usually involves more decision participants than does the straight rebuy.

A company buying a product or service for the first time faces a *new-task* situation. In such cases, the greater the cost or risk, the larger the number of decision participants and the greater their efforts to collect information will be. The new-task situation is the marketer's greatest opportunity and challenge.

Many business buyers prefer to buy a packaged solution to a problem from a single seller. Instead of buying and putting all the components together, the buyer may ask sellers to supply the components and assemble the package or system. The sale often goes to the firm that provides the most complete system meeting the customer's needs. Thus, a system selling is often a key business marketing strategy for winning and holding accounts.

2.4.3 Participants in the Business Buying Process

Although organizations usually designate a 'buyer' who is responsible for the purchase of a range of products and services, in reality a range of people are involved in the purchasing process. The purchasing process is a means by which an organization creates value. It is, therefore, an integral part of an organization's value at some point in the future. This group of people is referred to as either the decision-making unit (DMU) or the buying centre.

The buying center is not a fixed and formally identified unit within the buying organization. It is a set of buying roles assumed by different people for different purchases. Webster and Wind (1972) identified a number of people who undertake different roles within buying centres and they are;

Initiators start the whole process by requesting the purchase of an item. They may also assume other roles within the DMU or wider

organization.

Users literally use the product once it has been acquired and they will also evaluate its performance. Users may not only initiate the purchase process but are sometimes involved in the specification process.

Influencers very often help set the technical specifications for the proposed purchase and assist the evaluation of alternative offerings by potential suppliers. These may be consultants hired to a particular project.

Deciders are those who make purchasing decisions and they are the most difficult to identify. This is because they may not have formal authority to make a purchase decision, yet are sufficiently influential internally that their decision carries the most weight.

Buyers or purchasing managers select suppliers and manage the process whereby the required products are procured. Buyers may not decide which product is to be purchased but they influence the frame work within which the decision is made.

Gatekeepers have the potential to control the type and flow of information to the organization and the members of the business centre. These gatekeepers may be assistants, technical personnel, secretaries, or telephone switchboard operators.

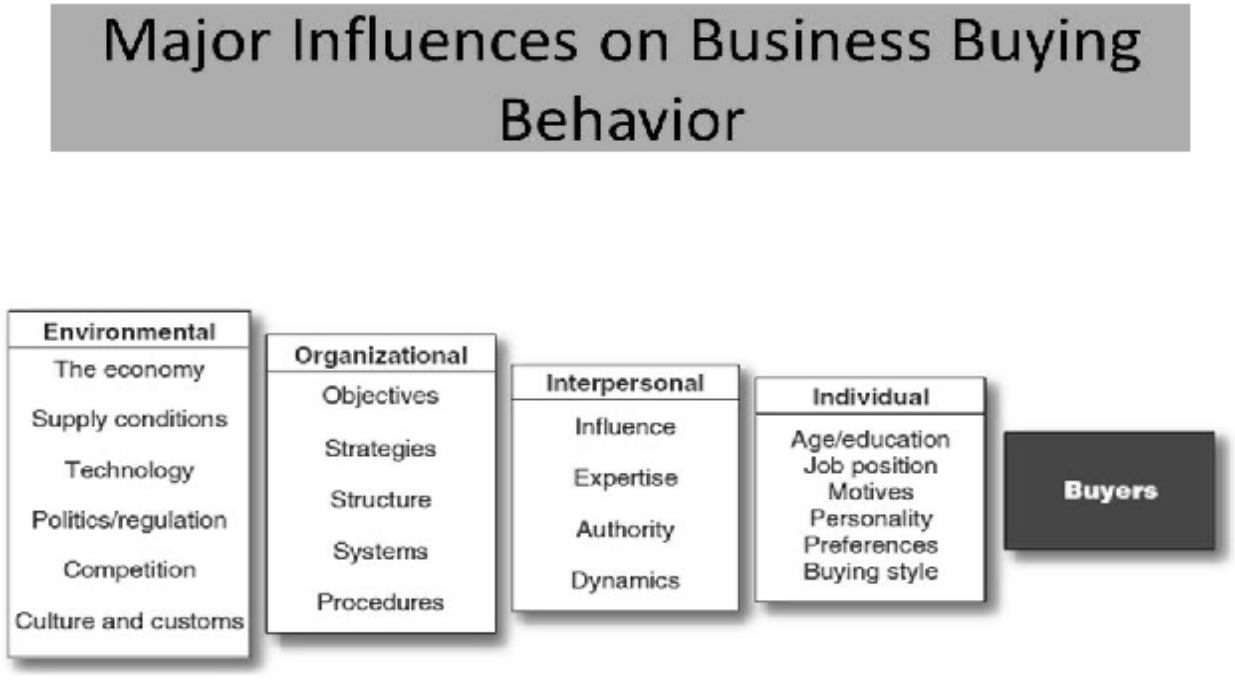
2.4.4 Major Influences on Business Buyers

Business buyers are subject to many influences when they make their buying decisions. Some marketers assume that the major influences are economic. They think buyers will favour the supplier who offers the lowest price or the best product or the most service. They concentrate on offering strong economic benefits to buyers. However, business buyers actually respond to both economic and personal factors. Far from being cold, calculating, and impersonal, business buyers are human and social as well. They react to both reason and emotion.

Today, most business-to-business marketers recognize that

emotion plays an important role in business buying decisions.

Fig. 2.2 lists various groups of influences on business buyers –



Source: Adapted from Armstrong & Kotler (2007).

Figure 2.2 Major Influences on Business Buyer Behaviour

Environmental factors play a major role. For example, buyer behavior is heavily influenced by factors in the current and expected economic environment, such as the level of primary demand, the economic outlook, and the cost of money. Another environmental factor is shortages in key materials.

Industrial or business buyer is also influenced strongly by *organizational factors*. Each buying organization has its own objectives, policies, procedures, structure, and systems, and the business marketer must understand these factors well.

The buying centre usually includes many participants who influence each other, so *interpersonal factors* also influence the business buying process. However, it is often difficult to assess such interpersonal factors and group dynamics.

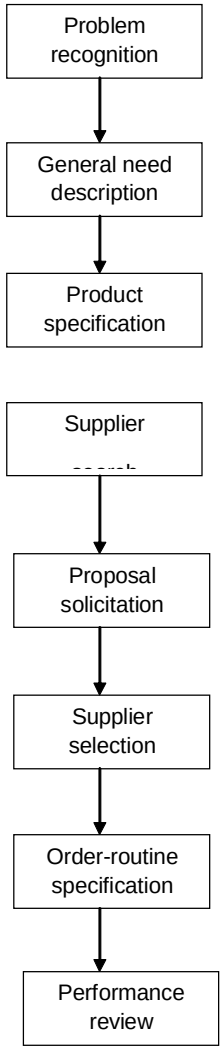
Finally, business buyers are influenced by *individual factors*. Each participant in the business buying decision process brings in personal

motives, perceptions, and preferences. These individual factors are affected by personal characteristics such as age, income, education, professional identification, personality, and attitudes toward risk. Also buyers have different buying styles.

2.4.5 The Business Buying Process

Fig. 2.3 outlines the eight stages of the business buying process. Buyers who face a new-task buying situation usually go through all stages of the buying process. Buyers making modified or straight rebuys may skip some of the stages. We will examine these steps for the typical new-task buying situation.

Problem recognition



Source: Adapted from Armstrong & Kotler (2007).

Fig. 2.3: Stages of the Business Buying Process

The steps involved in business buying behaviour are discussed as follows —

Stage 1: Problem Recognition

The buying process begins when someone in the company recognizes a problem or need that can be met by acquiring a specific product or service. Problem recognition can result from internal or external stimuli. Internally, the company may decide to launch a new product that requires new production equipment and materials. Externally, the buyer may get some new ideas at a trade show, see an ad, or receive a call from a salesperson who offers a better product or a lower price.

Stage 2: General Need Description

Having recognized a need, the buyer next prepares a general need description that describes the characteristics and quantity of the needed item. The alert business marketer can help the buyers define their needs and provide information about the value of different product characteristics.

Stage 3: Product Specification

The buying organization next develops the item's technical product specifications, often with the help of a value analysis engineering team. The team decided on the best product characteristics and specifies them accordingly. By showing buyers a better way to make an object, outside sellers can turn straight rebuy situations into new task situations that give them a chance to obtain new business.

Stage 4: Supplier Search

The buyer now conducts a supplier search to find the best vendors. The buyer can compile a small list of qualified suppliers by reviewing trade directories, doing a computer search, or phoning other companies for recommendations. Today, many companies are viewing supplier search more as *supplier development*.

The newer the buying task, and the more complex and costly the item, the greater the amount of time the buyer will spend searching

for suppliers.

Stage 5: Proposal Solicitation

In the proposal-solicitation stage of the business buying-process, the buyer invites qualified suppliers to submit proposals. In response, some suppliers will send only a catalog or a salesperson. However, when the item is complex or expensive, the buyer will usually require detailed written proposals or formal presentations from each potential supplier.

Business marketers must be skilled in researching, writing, and presenting proposals in response to buyer proposal solicitations. Proposals should be marketing documents, not just technical documents.

Stage 5: Supplier Selection

The members of the buying centre now review the proposals and select a supplier or suppliers. During supplier selection, the buying centre often will draw up a list of the desired supplier attributes and their relevant importance. The members of the buying centre will rate suppliers against some specified attributes and identify the best suppliers.

Buyers may attempt to negotiate with the preferred suppliers for better prices and terms before making the final selections.

Stage 6: Order-Routine Specification

The buyer now prepares an order-routine specification. It includes the final order with the chosen supplier or suppliers and lists items such as technical specifications., quantity needed, expected time of delivery, return policies, and warranties. In the case of maintenance, repair, and operating items, buyers may use blanket contracts rather than periodic purchase orders.

Stage 7: Performance Review

In this stage, the buyer reviews supplier performance. The buyer may contact users and ask them to rate their satisfaction. The performance review may lead the buyer to continue, modify, or drop the arrangement. The seller's job is to monitor the same factors used by the buyer to make sure that the seller is giving the expected

satisfaction.

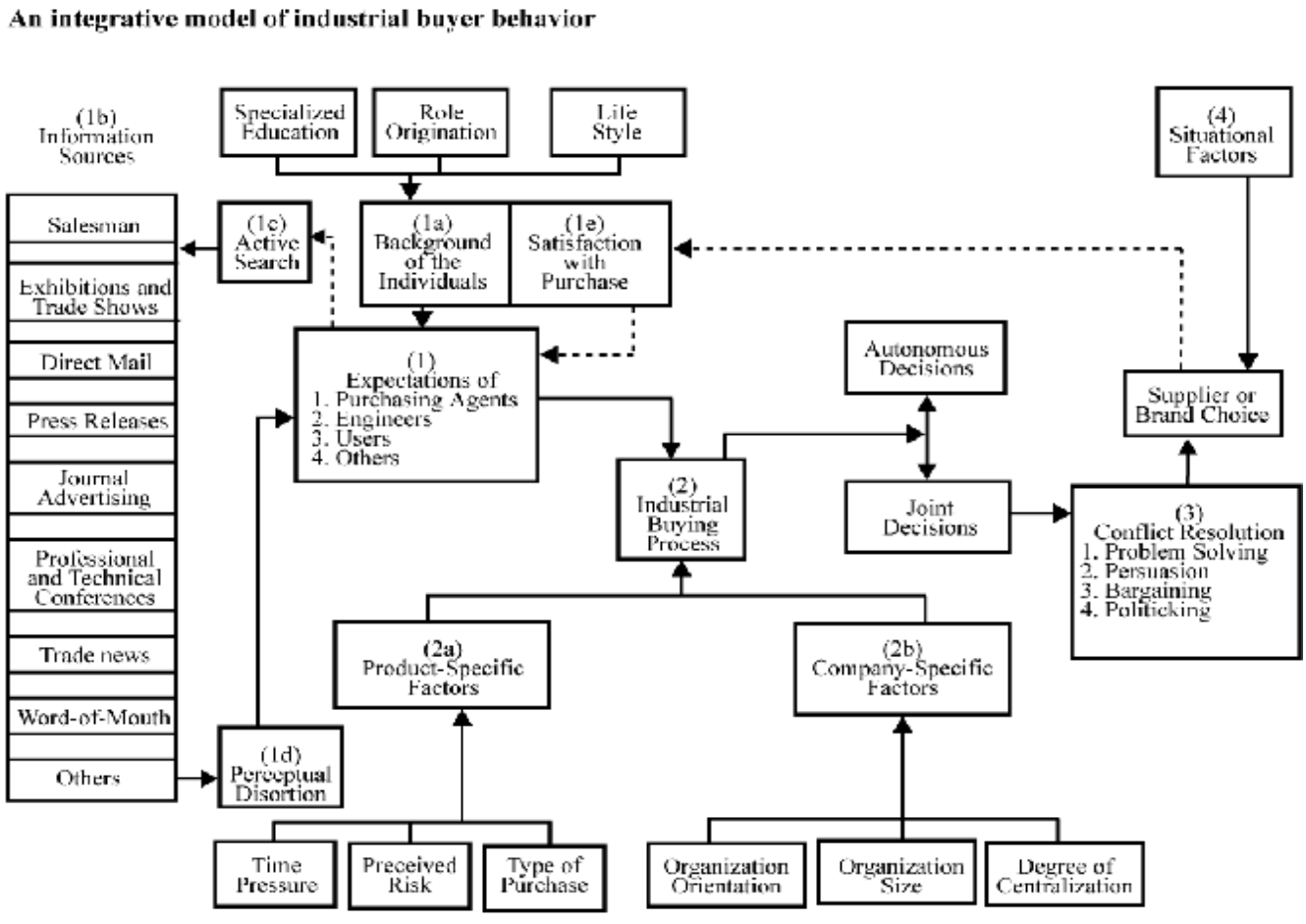
This eight-stage model provides a simple view of the business buying decision process.

2.4.6 Models of Industrial Buying Behaviour

The buying decisions of industrial buyers are influenced by many factors. Usually, these are influenced by organizational factors or task oriented objectives viz. best product quality, or dependable delivery, or lowest price and personal factors or non-task objectives viz. like promotion, increments, job security, personal treatment, or favour. In this section we will discuss two models which explains Industrial byuing beheviour.

(i) The Sheth Model

The model of industrial buyer behavior is shown in Fig. 2.3. Although this illustrative presentation looks complex due to the large number of variables and complicated relationships among them, this is because it is a generic model which attempts to describe and explain all types of industrial buying decisions. One can, however, simplify the actual application of the model in a specific study in at least two ways. First, several variables are included as conditions to hold constant differences among types of products to be purchased (product-specific factors) and differences among types of purchasing organizations. These exogenous factors will not be necessary if the objective of a study is to describe the process of buying behavior for a specific product or service. Second, some of the decision-process variables can also be ignored if the interest is strictly to conduct a survey of static measurement of the psychology of the organizational buyers. For example, perceptual bias and active search variables may be eliminated if the interest is not in the process of communication to the organizational buyers.



Source: Adapted from Sheth (1973)

Fig 2.3: The Sheth Model

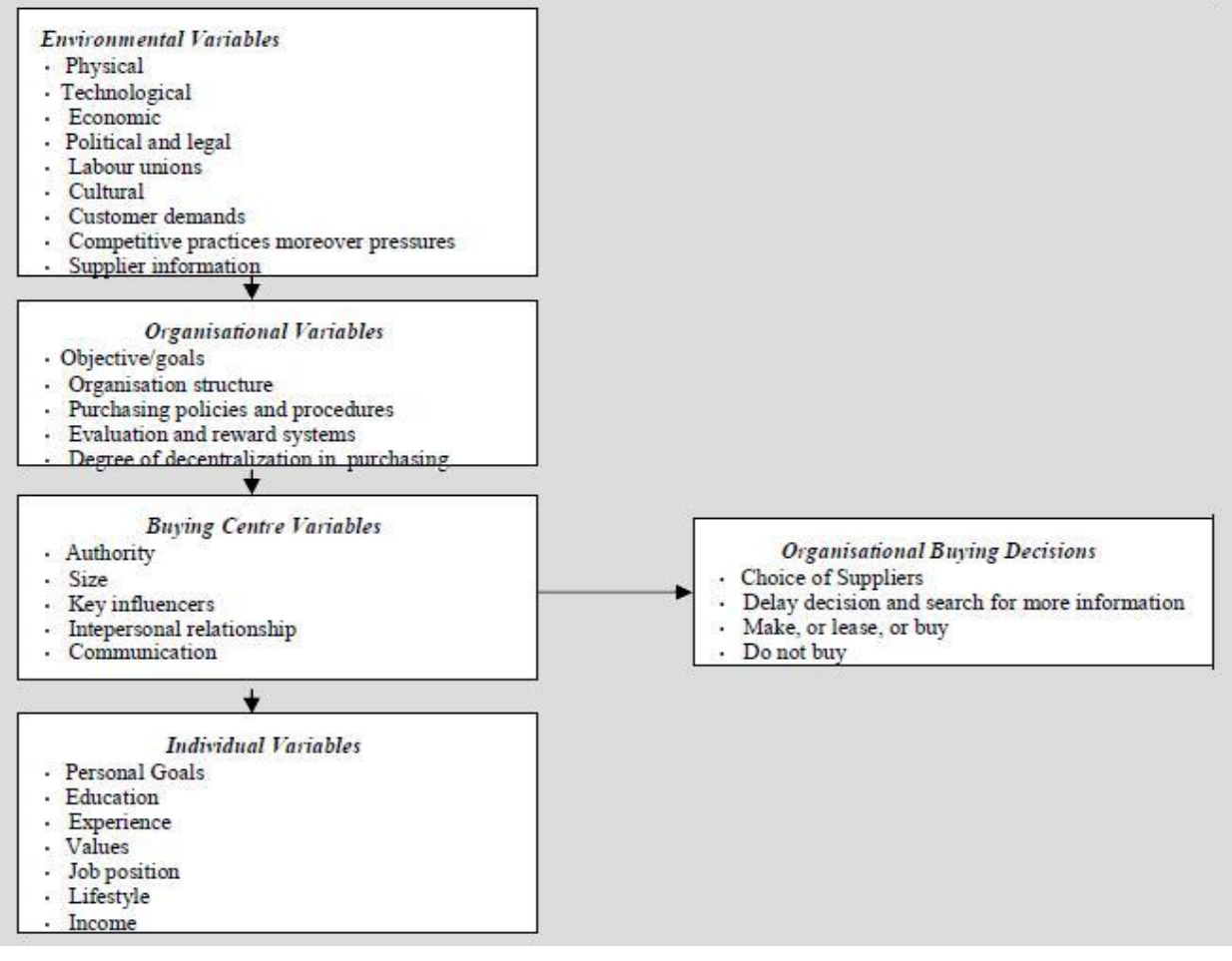
This model is similar to the Howard-Sheth model of buyer behavior in format and classification of variables. However, there are several significant differences. First, while the Howard-Sheth model is more general and probably more useful in consumer behavior, the model described in this article is limited to organizational buying alone. Second, the Howard-Sheth model is limited to the individual decision-making process, whereas this model explicitly describes the joint decision-making process. Finally, there are fewer variables in this model than in the Howard-Sheth model of buyer behavior.

Organizational buyer behavior consists of three distinct aspects. The first aspect is the psychological world of the individuals involved

in organizational buying decisions. The second aspect relates to the conditions which precipitate joint decisions among these individuals. The final aspect is the process of joint decision making with the inevitable conflict among the decision makers and its resolution by resorting to a variety of tactics.

(ii) The Webster and Wind Model

The Webster and Wind model of organizational buying behavior (Fig.2.4) is quite a comprehensive model. It considers four sets of variables: environmental, organizational, buying centre, and individual which affect the buying-decision making process in a firm.



Source: Adapted from Webster & Wind (1972)

Fig 2.4 The Webster and Wind Model

The environmental variables include physical, technological, economic, political, legal, labour unions, cultural, customer demands, competition and supplier information. For example, in a recessionary economic condition, industrial firms minimize the quantity of items purchased. The environmental factors influence the buying decisions of individual organisations. The organizational variables include objectives, goals, organisation structure, purchasing policies and procedures, degree of centralization in purchasing, and evaluation and reward system. These variables particularly influence the composition and functioning of the buying center, and also, the degree of centralization or decentralisation in the purchasing function in the buying organisation.

The functioning of buying center is influenced by the organisational variables the environmental variables, and the individual variables. The output of the group decision-making process of the buying center includes solutions to the buying problems of the organisation and also the satisfaction of personal goals of individual members of the buying centre. The strengths of the model, developed in 1972, are that it is comprehensive, generally applicable, analytical, and that it identifies many key variables which could be considered while developing marketing strategies by industrial marketers. However, the model is weak in explaining the specific influence of the key variables.

2.5 STRATEGIC INDUSTRIAL MARKETING

To place marketing planning in perspective, we need first to understand the strategic planning task which firms carry out at the corporate level. Marketing planning, which takes place at the business unit level of the firm, does not start abruptly; it has an intimate chord with the strategic planning of the firm as a whole. Marketing planning differs from Strategic market planning in three ways: time horizon, responsibility, and details. The components of marketing planning are executive summary, current

marketing situation, threats and opportunities, objectives and issues, marketing strategies, action plans and control measures.

Strategic planning is the management task concerned with the growth and future of a business enterprise. It can be viewed as a stream of decisions and actions that guides the firm's long-term growth and shapes the strategies needed for achieving them. It involves a thorough appraisal of the external environment in which the corporation operates and an internal appraisal of the corporation, and its businesses.

The need for a lengthy time frame in industrial marketing can arise from a variety of reasons, like long lead times, long life cycles of many existing industrial products and alternative sources of resources on a long term basis. The selection of a suitable forecasting technique depends on (a) identification of new opportunities or threats (b) identification of potential markets and (c) market estimation and product specification.

2.5.1 Strategic Planning in the Industrial Market

While the basic principles of planning apply in both consumer and industrial markets, many organizations have found that what works well in the consumer market fails to do so in the industrial market. Two significant differences between these markets appear to account for this phenomenon. First, unlike the consumer market where products are normally marketed through one or two channels, most industrial marketers face diverse markets that must be reached through a multiplicity of channels each requiring a different marketing approach. A producer of communication equipment, for example, may market to such diverse segments as the commercial, institutional, and governmental market, each of which will require a unique marketing plan. Second, in contrast to consumer marketing, successful industrial marketing strategy depends more on other functional areas. Where the elements of planning in consumer marketing can often be contained within specific areas of marketing, such as advertising, selling, and product management, planning in the industrial market is largely dependent on, or constrained by, the

activities of other functional areas. For example, engineering, manufacturing, and technical services. When marketing emphasizes tailor-made products and fast deliveries, for instance, manufacturing must be prepared to follow through with product output. Planning, then, in the industrial marketing arena requires a higher degree of integrated effort across functional areas and a closer relationship with overall corporate strategy than in the consumer market.

- **Functional Isolation**

While planning in the industrial market is as sophisticated as it is in the consumer arena, too often industrial firms concentrate on the planning efforts in the marketing department, failing to recognize the interdependency between marketing and other functional areas. Perhaps this is due to what may be referred to as "functional isolation".

- **Functional Conflict**

While successful planning depends on cooperation between the different functional areas, whenever tasks and objectives are different or unclear between two or more departments a strong tendency for disharmony exists. Potential areas of conflict between marketing and engineering exist in such basic matters as new product development, product quality, and technical services. Potentials conflict also exists between marketing and manufacturing in such areas as sales casting and production planning, and between marketing and R&D in the new product development

2.5.2 Developing Marketing Strategy in Industrial Marketing

Once strategic alternatives have been decided upon, the development of marketing strategy rests on

(1) Market segmentation analysis

(2) Target market(s) selection and

(3) The development of the marketing mix strategies, which are discussed as follows:

(i) Market Segmentation and Target Marketing

Market segmentation analysis is fairly well recognized by most marketing managers and can be thought of as a process of dividing a larger market into sub markets each having different demand pattern needs, buying styles, and responses to various suppliers' marketing strategies. Market segments must be assessed, however, in terms of their market potential, competition, customer profiles, and the company's -capability in serving them. The important point is that marketing planning cannot be undertaken until the firm has carefully chosen those markets it is capable of serving. Assessment of potential target markets must be based on the following aspects:

(i) their current size-which must be sufficient if marketing objectives in terms of sales volume, market share, profitability, or return on investment are to be achieved.

(ii) their potential for future growth that is if the firm is to realize a sufficient return for its efforts to serve a particular market.

(iil) whether they are owned or over occupied by existing competition if the firm is to assess realistically its capability of penetrating a particular market.

(iv) whether there exists a relatively unsatisfied need that the firm can satisfy better than its competitors

(ii) Formulating Marketing Mix Strategy

Once a target market has been identified, marketing strategy can address the components of product, place, price, and promotion. Decisions with respect to how product lines, features, quality levels, services, and new product development will be used to satisfy customer needs must be clearly formulated and integrated with manufacturing, R&D, and technical services. Since products or services must be delivered to customers when and where they are wanted, distribution strategy is primarily concerned with developing the right combination of factors (e.g., inventory levels, storage facilities, and transportation modes) to ensure consistency with the total marketing strategy. Promotion strategy defines the manner in

which the firm will communicate with its target market and provides the bases for formulating personal selling, advertising, sales promotion, an media selection plans.

2.6 MARKETING RSEARCH

Before embarking on a description of market research techniques it is useful to clarify the differences in emphasis between industrial and consumer market research as this influences the importance of the techniques used. These differences are adequately described by both Gordon and Hutchison, and the most important points can be summarized as follows:

1. Consumer goods are purchased by members of the public whereas industrial goods are purchased on behalf of an organization.
2. The industrial market researcher tends to require knowledge of product technology.
3. The consumer population tends to be normally distributed and thus subject to sophisticated statistical analysis.

Marketing Research usually involves formal studies that are undertaken either to solve a particular problem or to discover an opportunity. It specifies the information needed to address specific marketing areas, the appropriate data collection techniques, data analysis and supporting of the research findings and implications.

2.6.1 Steps in Marketing Research Process

There are four steps in marketing research process. These are:

i. Defining the problem and research objectives.
ii. Developing research plan
iii. Implementing the research plan and
iv. Interpreting and reporting the findings.

(i) Defining the Problem and Research Objectives

This forms the first activity of any research process. This sounds very simple but many research problems go wrong because people do not clearly decide what information they need from the research

they commission. Before any external research starts one should make sure that the information does not already exist.

(ii) Developing a Research Plan

Specific information needs must be determined according to the stated research objectives. Information collected can be either secondary or primary data. Secondary data is the data that already exists e.g., journals, magazines and reports. Primary data is data collected for specific purpose e.g., by distributing questionnaires.

Researchers would normally exhaust secondary data sources before commencing with primary data collection. In certain situations, secondary data may be sufficient to meet the researcher's information needs.

(iii) Implementing the Research Plan

If an external agency is asked to conduct the research, it needs to be ensured that the agency is provided with a proper brief, showing in detail the information required. The organisation must also make sure that the research agency is aware of all the information that it already has so that there is no wastage of money finding things that are already known.

(iv) Analyzing, Interpretation and Reporting of Findings

Interpretation should be conducted not only by the researcher but also by the marketing manager. Today, computer software has made quantitative analysis very easy and faster as they are capable of storing and analysing large amounts of data. For example, multidimensional data are easily captured and analysed using cross tabulations and provided to the manager in a readable format.

Information has no value unless it assists managers in better decision-making. Traditionally companies have relied on centralised MIS (Marketing Information System) to provide managers with routine information. They also have direct and quick access to data and information and are able to tailor it to meet their own needs.



CHECK YOUR PROGRESS:

Q.1: Define “Commercial Enterprises”.

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Q.2: Define “Industrial Buyer Behaviour”.

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Q.3: How does marketing planning differ from strategic market planning?

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Q.4: What do you mean by straight rebuy?

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2.7 LET US SUM UP

In this unit, we have discussed the types of industrial customers, industrial buying behaviour, strategic planning in the industrial market and marketing research.

It is important to recognize that, although there are some substantial differences between consumer and business marketing, there are also several areas where there are distinct similarities. This suggests that the

principles of marketing apply equally to consumer and business markets, and, when planning and implementing marketing programmes, particular care should be given to understanding the nature and characteristics of the buying processes and procedures of the target market.

The purchasing objectives and purchasing activities of industrial buyers must be understood by the industrial marketers to formulate an effective marketing strategy. The industrial marketers should identify the key members of buying centre in each buying organization. The industrial marketers should also be aware of models of organizational buying behaviour and the up to date purchasing activities. Strategic planning plays a vital role in coordinating and directing the business activities toward organizational goals. It is required at all the levels of the firm from the business operations level to corporate level. In business markets, the firm can gain a competitive advantage by designing the marketing strategy aligned with strategies of other functional areas. Marketing information system plays a significant role in its endeavour to achieve organizational goals.



2.8 FURTHER READING

1) Havaldar Krishna K (2005), *Industrial marketing* 1st ed., TATA McGraw Hill Publishing Company Limited, New Delhi.

2) C Krishnamacharyulu & R Lalitha (2008), *Industrial Marketing: A Process of Creating and Maintaining Exchange* ,Jaico Book House.

3) Govindarajan M. (2003), *Industrial Marketing Management* , Vikas Publishing House Pvt Ltd.

4) Ghosh P.K. (2005), *Industrial Marketing*, Oxford University Press.



2.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: *Commercial enterprises* are private sector, profit-seeking organisations such as IBM, General Motors, Computer Land, and

Raven Company, purchase industrial goods and/or services for purposes other than selling directly to ultimate consumers. However, since they purchase products for different uses, it is more useful from a marketing point of view to define them in such a way as to understand their purchasing needs at the time of examination of the varieties of products they purchase and how marketing strategy can be developed to meet their needs.

Ans to Q No 2: *Industrial or business buyer behavior* refers to the buying behavior of the organizations that buy goods and services for use in the production of other products and services that are sold, rented, or supplied to others.

Ans to Q No 3: Marketing planning differs from Strategic market planning in three ways: time horizon, responsibility, and details.

Ans to Q No 4: In a *straight rebuy*, the buyer reorders something without any modifications. It is usually handled on a routine basis by the purchasing department. Based on past buying satisfaction, the buyer simply chooses from the various suppliers on its list



2.10 MODEL QUESTIONS

1. Define business market and identify the major factors that influence the buyer behavior.
2. Discuss the different types of industrial customers.
3. Explain the models of organisational buyer behaviour and their implications on the industrial marketing process.
4. Identify the different industrial buying situations.
5. Discuss the importance of strategic planning in industrial marketing.
6. What is marketing research? Write down its importance in industrial marketing.

*** ***** ***

UNIT 3: CLASSIFICATION OF INDUSTRIAL PRODUCTS AND SERVICES

UNIT STRUCTURE

3.1 Learning Objectives

3.2 Introduction

3.3 Classification of Industrial Products and Services

3.4 Industrial Product management

- 3.4.1 Industrial Product Lifecycle – Stages & Strategies
- 3.4.2 New product Development

3.5 Pricing Decisions in Industrial Markets

- 3.5.1 Characteristics of Industrial prices
- 3.5.2 Factors Influencing Pricing Decision
- 3.5.3 Selection of Pricing Strategy
- 3.5.4 Key Terms Associated with Pricing of Industrial Products

3.6 Let Us Sum Up

3.7 Further Reading

3.8 Answers to Check Your Progress

3.9 Model Questions

3.1 LEARNING OBJECTIVES

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

- describe the different types of industrial goods and services
- explain the processes and issues associated with new product development
- know the product life cycle concept and its application
- describe the concept of pricing in industrial marketing
- comprehend the factors affecting industrial pricing decision
- know about pricing strategies in industrial marketing

3.2 INTRODUCTION

Most organizations, at various points in their development, have to decide whether to make/supply their own products and services or buy

them in from outsourced providers. This 'make or buy' decision can have far-reaching effects not only on the strategic and operational aspects of an organization, but also on the purchasing function and its role within an organization. The subject of this unit is classification of industrial products and services and it will deal with the relevant issues connected both this subject.

3.3 CLASSIFICATION OF INDUSTRIAL PRODUCTS AND SERVICES

Classification of Industrial products is necessary as it helps decision making for the organization. Industrial goods are classified on the basis of their relative cost and where they enter the production process.

There are 4 major classes of Industrial products, these are —

1. Materials & Parts
2. Capital items
3. Supplies
4. Business services

Overall, there are many sub parts of the major classes, and each of them has a separate role in the classification of Industrial products (Fig. 3.1). Let us delve deeper into the classification.

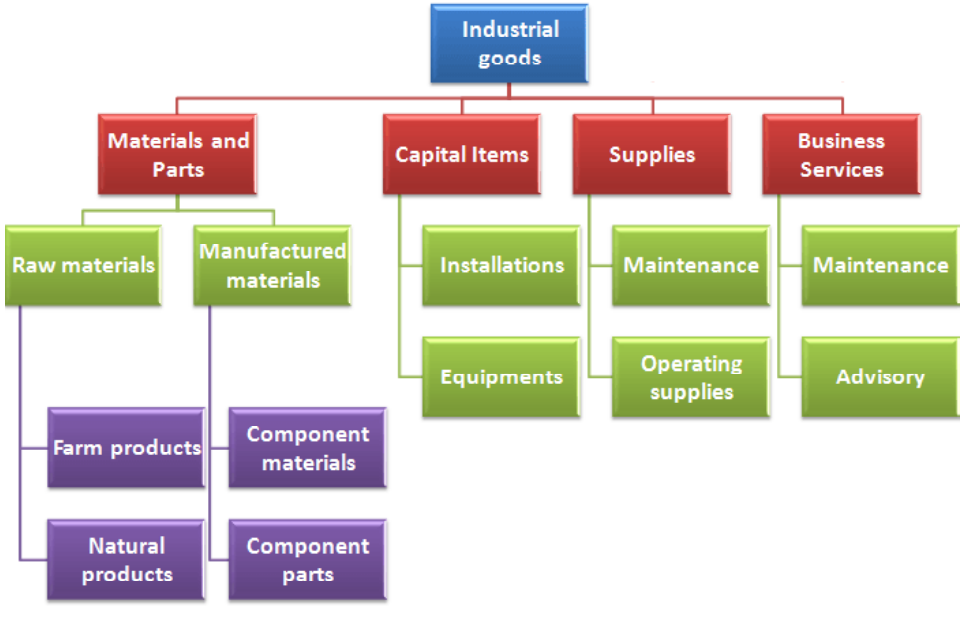


Fig. 3.1: Classification of Industrial Products and Services

1) Material & Parts – The goods that enter the manufacturers products completely are classified as Materials and parts. In this, there are two types of materials commonly used for Industrial goods classification.

a) Farm products – Farm products are products which can be re produced or recycled easily. They are present in ample amount. However, due to their nature, they are perishable and have to be handled accordingly. But because they are commonly used, there is hardly any marketing applied to them. Some common products include cheese, eggs, fruits and vegetables, cotton, wheat etc.

b) Natural products – Natural products are products occurring naturally in the earth and hence they cannot be recycled or re produced. Petrol or Diesel or oil (commonly used) is products which occur naturally and can be classified as an Industrial product. These products are found in bulk and the rarer they are, the higher the value. Price is totally dependent on reliability of supply and keeps changing. Government intervention for these products is high too.

2) Manufactured Materials and parts – raw material which has to be manufactured is classified as manufactured materials. And many a time, small manufacturers manufacture smaller parts which are used in larger machines like an Automobile. These are manufactured parts, and they are the 2nd type in classification of industrial products.

a) Manufactured Materials – If we use the iron supplied to us to make a final product then we have manufactured a material and that is the industrial product that we supply. Similarly, yarn is woven into cloth to make the final material – dresses and clothes. Any process which requires raw material to be processed to give final products is a part of manufactured materials classification. The pricing and marketing of the product in this case depends on the raw material being used. So, if the yarn which is used to make the cloth is very high quality, the pricing of the end product will be high and the marketing will also be premium marketing.

b) Manufactured Parts – Using the same example above, if we are making smaller units which play their role in larger products, then we are manufacturing parts as an industrial product. Ball bearings are the perfect example of Manufactured parts. Now, there are so many ball bearings

manufacturers out there, that their marketing has become tedious as there is no or very little differentiation possible. Hence, pricing and availability of manufactured parts becomes a major issue instead of advertising, branding or marketing.

3) Capital items – To make any manufacturing business or large scale industry possible, capital items are used. They are important in the classification of industrial products. Capital items generally fall under the Assets column of the balance sheet. These are items necessary for the functioning of the organization, and very useful to be invested in for the long term. Due to their very nature, these capital items have a residual value to the company. And hence a company which has large capital, has to ensure that it has large revenue, otherwise Capital (which is a fixed cost) will bring the company down. There are two types of capital items

a) **Installations –** Large installations such as factories, warehouses and other buildings are capital items which require long time installation and are used for an even longer time. There are very few people in between when an installation is bought by a company. Design is critical to such installations and there is absolute absence of Marketing in installations. The only thing installations can be used for is to reinforce the reputation of the company.

b) **Equipment –** Equipments are both – heavy machineries as well as a utility to the organization using them. Equipments in case of factories will be caterpillars, trucks, cranes and what not. Equipment in case of industrial services will be computers, hardware and design equipment, printers, copiers etc. All these are pieces of equipment which are assets. They have a short span of life when compared to installations, but as compared to the life span of normal operating supplies (paper, pen) they have a longer life span. These kinds of equipment are sold mainly through intermediaries, though larger the equipment, more is the involvement of the brand directly. In the sale of equipment, personal selling plays a major role as compared to marketing and advertising.

4) Supplies – Any short term goods or material which is necessary for the day to day operations or a company or businesses is termed as supplies.

A simple example is A4 sized paper. Supplies can be of two types.

a) **Maintenance and repair supplies –** Paints are a form of maintenance supplies and Asian paints is the leader in that. Cleaning services are another form of maintenance.

b) **Operating supplies –** Pen and paper, notepads, lubricants for automobiles are part of the operating supplies needed on a day to day basis. Kangaro is an excellent brand which comes to mind when it comes to staplers and staple pins.

5) Business services – A major product and a growing industry in the classification of industrial products is Business services. Business services are generally third party services given to businesses and they are in form right now because businesses do not want to spend the time or the energy on getting regular things running. Hence they either use Business advisory services or business maintenance services.

a) Business advisory services – Any business out there requires a Chartered accountant. This accountant can be hired or it can be a firm which handles the business. Similarly legal, consulting, advertising, marketing are all business agencies within themselves which provide services to industries. These advisory services are on the rise because of the growing economy of developing nations.

b) Maintenance and repair services – There is a difference between repair goods and repair services. While paint is a repair good, a repair service is window cleaning or printer and copier repairing, something which is best left to the professionals. And there are many professionals out there who pick industrial contracts on an annual basis for repair and maintenance of day to day products and equipments within an organization.

The above are some of the major classification of Industrial products and there are numerous sub classes within them. Depending on the abilities of the small business or the large business, they can contribute to one sub class or another.

3.4 INDUSTRIAL PRODUCT MANAGEMENT

Industrial product is defined as a complex set of economic, technical,

legal, and personal relationship between the buyer and the seller. A product is a combination of basic, enhanced, and augmented properties. Basic properties are included in the generic product, with fundamental benefits sought by customers. Generic products are made differentiable by adding tangible enhanced properties such as product features, styling and quality. The augmented properties include intangible benefits such as technical assistance, availability of spare parts, maintenance and repair services, warranties, training, timely delivery, and attractive commercial terms. The product package as expected by the prospective customers should be well understood by the industrial marketer.

Industrial product development is the process by which the product ideas are generated,, assessed, directed and converted into products. There are seven stages in the process of industrial product development. These are descussed below:

3.4.1 Industrial Product Life Cycle – Stages and Strategies

Underpinning the product lifecycle concept (PLC) is the belief that products move through a sequential, pre-determined pattern of development similar to the biological path that life forms Follow. This pathway, known as the product life cycle, consists of four distinct stages, namely introduction, growth, maturity, and decline. Sales and profits rise and fall across the various lifestages of the product, as shown in Fig. 3.2.

Products move through an overall cycle that consists of different stages. Speed of movement through the stages will vary, but each product has a limited lifespan. Although the life of a product can be extended in many ways, such as introducing new ways of using the product, finding new users, and developing new attributes, the majority of the products have a finite period during which management need to maximize their returns on the investment made in each of their products.

The PLC concept advocates that different strategies are needed at different stages. This concept also highlights the significance of long range planning for a new product. This point should be kept in mind while estimating return on investment during

the business analysis stage of new product development process.

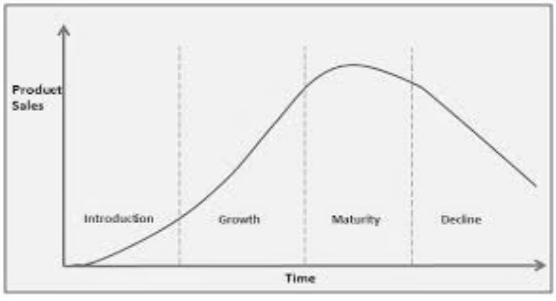


Fig. 3.2 Stages of Product Life Cycle (PLC)

Usually most of the industrial products follow a set pattern in its PLC as shown in Fig. 3.2 above, but in certain cases the products may not follow the set pattern. One such case is the pattern of high tech products like computer & telecommunication goods. In case of these products the new product development cost and time are high. The introduction, growth stages are long but the maturity and decline period are short as shown in the above figure because of rapid change in technology.

(i) Introduction Stage

Depending upon the changes in the user's habits some of the industrial products are accepted rapidly after introduction and others are accepted a bit slowly. For the slowly accepted industrial products marketing strategies should concentrate on market development efforts. For the products that are accepted fast, the marketing strategies which meet intense competition should be evolved.

(ii) Growth Stage

During the growth state the marketing strategies of an industrial marketer should focus on three important areas;

(a) Improve Product design to offer more benefits

(b) Improve distribution network to enable the customers' easy availability of the product.

(c) As a result of increased volume of production the cost will be lowered. Hence price should be reduced.

(d) The emphasis of personal selling from product awareness to bring acceptance of the product.

If these strategies are not implemented by industrial marketers in the growth stage, it becomes easy for the competitors to enter the market because of non-availability of the product and high profits due to high prices.

(iii) Maturity Stage

In maturity stage the number of competitors entering the market will increase. As a result of increased competition the profits will be reduced. The marketing strategies to be adopted for an industrial product in the maturity stage are;

(a) To enter the new market

(b) To find out the ways and means of satisfying the existing customers and upgrading them.

(c) To cut production, marketing and other costs to maintain profit margins.

(iv) Decline Stage

This stage is characterized by severe price competition and concurrent decline in sales and profit. Under this stage an industrial marketer should adopt the strategy of withdrawing the existing product from the market or introducing a new product as a replacement or reduce marketing or other costs to make some profits.

The PLC is a well-known and popular concept and is a useful means of explaining the broad path a product or brand has taken. It also clearly sets out that no product, service, or brand lasts forever. In principle, The PLC concept allows marketing managers to adapt strategies and tactics to meet the needs of evolving conditions and product circumstances.

3.4.2 New Product Development

One of the key points that the product life cycle concept tells us is that products do not last forever; their usefulness starts to diminish at some point and eventually nearly all come to an end, and die. Therefore, one of management's tasks is to be able to

control the organization's range or portfolio of products and to anticipate when one product will become relatively tired and when new ones are necessary in order to sustain the organization and to help it to grow.

New Product Development process is the process by which the product ideas are generated, assessed, directed and converted into products. There are seven stages in the process of new product development. They are:

1. Idea Generation
2. Idea Screening
3. Concept Development & Testing
4. Business Analysis
5. Product Development
6. Market Testing, and
7. Commercialization

Stage 1: Idea Generation

The Industrial marketer should consciously search for new product idea and to their sources both inside and outside the company. The idea generation can be reactive or proactive. Internally the new product ideas may come from sales staff that is close to customers, R&D experts, from top management. External source of ideas include channel members such as distributors or customers. An industrial marketer can get good ideas by using techniques like brainstorming and attribute listing.

Stage 2: Idea Screening

In order to select the product ideas which are likely to succeed, screening of new product ideas will be undertaken. Specified criterion and procedure should be set for screening new product ideas. Major considerations in the screening of a new product idea includes expected profit potential, the competitive situation, the general adaptability of the company to the new product and the volume of investment that would be necessary for the implementation of the new product idea.

Stage 3: Concept Development and Testing

After the screening of the new product idea it should be developed into a product concept. A Product concept is a detailed version of the product idea that is expressed in a meaningful terms. The product concept is the summation of technology, attribute and benefits that the product would offer. It is the usual practice to develop different versions of product concept and each product concept is assessed by getting response from the customers.

Stage 4: Business Analysis

In the business analysis stage an estimated projection of the sales, costs and profitability of the proposed new product will be developed. It is an elaborate analysis which is expressed in terms of investment required for the installation of the plant, equipment, investment in working capital; Market potential, sales forecast, customer and competitive analysis; cost of product development, manufacturing and marketing the product; likely price levels, profitability and return on investment etc.

Stage 5: Product Development

Product development is a process of creating the desired product by the technicians. The R&D department develops one or more prototypes of the product concepts. The ability to produce the product within the estimated cost will be confirmed or negated by the development of the prototype.

Stage 6: Market Testing

Market testing is done by using different methods such as, (a) Alpha & Beta Testing, (b) Introduction of the new Product at trade shows, (c) Testing in distributor/dealer show rooms, (d) Test Marketing.

The method to be adopted for testing depends on the cost and size of the product, the degree of confidentiality to be maintained during market testing and the preparedness to introduce the product within a short period.

(a) Alpha and Beta Testing

When a product is tested internally within the organization which as characteristic of high price with new technologies such testing is

called Alpha testing. The product testing is conducted to assess the operating cost and performance standards. If the results of Alpha testing is satisfactory the company will go for the next stage of Beta testing at the potential users' organization.

(b) Trade Shows

One commonly used method of market testing is the introduction of the new product at trade shows where usually large number of prospective customers is exposed to the new product. The reactions of the customers, their purchase intentions can be assessed in such trade shows; also the orders placed by the potential customers will be taken care of. The limitation of testing the new product in trade shows is that it also gets exposed to the competitors. The company will have very short span of time to introduce the product.

(c) Dealer show rooms

The distributors or dealers show rooms or display rooms can be considered the best spot for product testing, if the new industrial product is sold through such a channel. The customer's attitudes, preference and actual sales can be recorded under this method as this method uses the normal selling situation. The company should be ready to execute the orders within the reasonable time.

(d) Test Marketing

In normal marketing situations the test marketing method is used to test the product in a limited geographical area. This method is used by many industrial marketers through their sales force. Along with sales training the required material such as price list, product catalogue etc., are given to the sales personnel. When the product is launched on a full scale basis, the market information received from test marketing will help the company in taking effective decisions.

Stage 7: Commercialization

An industrial product is launched when it is introduced to a target market. The commercialization process involves execution of the various activities developed in an action plan as a part of the

marketing plan. The activities such as customer service, maintaining adequate stocks at the company warehouses and or with dealers/ distributors, introductory advertisement, price lists, product catalogues, training of sales force etc. would be taken up at this stage. Sophisticated network techniques such as PERT and CPM can be used by industrial marketers to ensure proper coordination and timely completion of all the activities concerning the launching of new industrial product.

Any perceived rigidity in this formal process should be disregarded. Many new products come to market via rather different routes, at different speeds, and different levels of preparation.

3.5 PRICING DECISIONS IN INDUSTRIAL MARKETS

Price still remains one of the most important elements determining company market share and profitability. Generally, prices were set by buyers and sellers negotiating with each other. Setting one price for all buyers is a relatively modern idea. Price is the only element in the marketing mix that produces revenue.

The industrial marketers should understand the various aspects of the pricing, since pricing is the most critical part of industrial marketing strategy. Different strategies such as market segmentation strategy, product strategy, and promotion strategy are related to pricing strategy. In order to achieve the dual objective such as to meet the company objective and satisfy the market needs, the industrial marketer has to integrate the various strategies.

When the members of buying committee of a buying firm, purchase a particular industrial product, they are buying a given level of technical service, product quality, and delivery reliability. The other elements such as the reputation of the supplier, friendship, a feeling of security and other personal benefits flowing from the buyer-seller relationship are also important. In figure given below it can be observed that the bundle of attributes expecting by the buying committee are fall under three categories**.**

(1) Product specific attributes

(2) Company related attributes and

(3) Sales personal related attributes.

Therefore, the total product includes much more than its physical attributes. In the same way the cost of industrial products includes much more than the seller's price. Hence, decisions on pricing and products are inseparable and must be balanced with in the firm's market segmentation plan.

Companies handle pricing in a variety of ways. In small companies prices are often set by top management rather than by marketing or salespeople. In large companies, pricing is typically handled by division and production managers. In industries, where pricing is a key factor, companies will often establish a pricing department to set prices or assist others in determining appropriate prices.

Now let us examine three questions:

1. How should a price be set on a product or service for the first time?
2. How should the price be adapted over time and space to meet varying circumstances and opportunities?
3. When should the company initiate a price change, and how should it respond to a competitor's price change?

3.5.1 Characteristics of Industrial Prices

Morris has identified seven distinguishing characteristics of Industrial prices.

1. Price is not an independent variable. It is intertwined with product promotion and distribution strategies.
2. The real price an industrial customer pays is quite different from the list price; this is because of the factors like delivery and installation cost, training cost, discounts, financing cost, trade in allowances etc.
3. By changing the quantity of goods & services provided by the seller, changing the premiums and discounts that are offered, changing the time and place of payment and also in numerous other ways prices can be changed. Compared to product and distribution decisions, the decision regarding pricing is more flexible.

4. The complimentary and substitute product sold by the same company should be considered at the time of deciding the price for industrial goods.
5. Prices can be resolved through negotiation in many cases. In most of the cases the industrial prices are established by competitive bidding on a project by project basis.
6. Industrial buyers who are experienced and able to estimate the vendors'approximate production costs expect the increasing price to be justifiable on the basis of either increasing cost or improvement in product. Hence, industrial pricing is often characterized by an emphasis on fairness.
7. Industrial prices are affected by several economic factors such as inflation, change in interest rates, fluctuation in exchange rates etc. This problem is particularly critical for the marketer locked into long term contract with no escalation clause.

3.5.2 Factors Influencing Pricing Decision

The factors influencing pricing decision of an industrial marketing firm are explained below.

a) Survival: Survival is one of the short term objectives for many industrial companies. Due to intense competition and other reasons the firm may be unable to sell its products. For the survival of the firm it reduces the prices to convert the inventory into sales. The survival is more important than prices. The prices are fixed in such a way that they cover variable cost and a part of fixed cost so that the company continues in business. Survival is only a short term pricing objective and in the long run the firm must increase its prices to cover the total cost and end up with some profits.

b) Maximum short term sales: To maximize the sales revenue in the short run is the pricing objective for some firms. The belief behind such an objective is that by maximizing sales revenue in the short run the firms will have growth in terms of market share and also have profit maximization.

c) Maximum short term profits: Setting prices with the objective of maximization of profit in the short run may be the pricing objective of some of the marketing firms. These firms estimate the market demand and costs at alternative prices and select the price that maximizes the present profits. Estimating demand and cost is very difficult. This objective emphasizes on short term profit maximization rather than long term performance and customer relationships. The competitors'reactions and legal implications are not considered by the companies adopting this objective.

d) Product-quality Leadership: By producing superior quality products and charging little higher prices than the competitors price the industrial marketing firm may have an objective to be a product quality leader in the market. This pricing objective results in higher profits.

e) Other pricing objectives: The other pricing objectives such as to meet or prevent the competition, to stabilize the market, to avoid government intervention etc. may be considered as objectives of pricing by many industrial marketers.

3.5.3 Selection of Pricing Strategy

After the analysis of pricing objectives, demand, costs, competition and government regulations, the appropriate pricing strategy should be formulated by the industrial marketer. Pricing strategies vary as the industrial product moves through its life cycle. The pricing strategy is a key factor in each of the four cells of Product Life Cycle. Let us discuss it in detail—

(i) Introductory Stage Pricing Strategy

There are two pricing strategies available for a new product which is in the introductory stage of its life cycle. These are:

(a) Penetration Strategy, and

(b) Skimming Strategy.

An industrial marketer must analyze the price from the angle of the buyers. How soon the firm should try to recover the investment on

the new product is another important factor to be considered by the industrial marketer.

(a) Penetration Strategy

When the price elasticity of demand is high or the buyers are highly price sensitive, when strong threat exists from potential competitors and opportunity exists to reduce the unit cost of production and distribution with increase in volumes, then the penetration strategy is effective. The firm can draw on experience curve effect and can also achieve the economies of scale. This would give the company a strategic advantage of cost leadership over the competitors. The firm can adopt the pricing objective of long term profit through large market share instead of short term profit objectives.

(b) Skimming Strategy

For a distinctly new product meant for a market segment that is not sensitive to the initial high price the skimming strategy can be adopted. The greatest advantage of this strategy is that it focuses on recovering the investment at an early stage by generating more profits. The price will be reduced at the later stages to reach other market segments that are more sensitive to price. The limitation of the skimming strategy is that more competitors are attracted due to high profits. The products that are distinctive with sophisticated technology and capital intensity are suitable to adopt this strategy.

(ii) Growth Stage Pricing Strategy

As the new competitors enter the market and more customers start using the product at growth stage the industrial marketer faces the pressure of reducing the prices below the introduction stage. At this stage the industrial marketer focuses his attention on product differentiation, product line extension and building new market segments at this stage. As more suppliers enter the market the industrial buyers follow the purchasing policy of buying from more than one supplier. Therefore, the innovator firms are under the pressure to reduce the price.

(iii) Maturity Stage pricing strategy

The competitors are very aggressive in the maturity stage. The industrial marketer has to cut into competitors' market share to increase sales volume. By adopting the low price strategy to match the competitor's prices the industrial marketer can achieve the high volume of sales.

(iv) Decline Stage Pricing Strategy

At the decline stage the industrial marketer has a wide choice of pricing strategies subject ton certain conditions. The firm need not cut the price but reduce the cost to earn sum profits provided it has built a reputation of high product quality and dependable services. Another major strategy is to reduce the prices to increases sales volume above breakeven volume of sales and use the product to help sell other products in the product mix.

3.5.4 Key Terms Associated with Pricing of Industrial Products

(a) List price

List price is a base price or the basic price of a product consisting of various sizes or specifications. It is the published statement of basic price which is sometimes quoted or informed to the customers. The list price statement indicates the effective date of its applicability and mentions the extra charges for optional product features, the excise duty, freight, sales tax, octroi, and transit insurance. The net price is worked out based on list price less discounts or any other concessions. The net price is most important to the organizational buyers because that is the price which is applicable to the industrial buyer after subtracting discounts and concessions.

(b) Trade Discounts

The trade discounts are offered to the intermediaries such as dealers and distributors. The amount of trade discount depends on the particular industry norms or the functions performed by the intermediaries.

(c) Quantity Discounts

A quantity discount is granted to industrial customers who buy large volumes. It is a price reduction given by subtracting the volume discount from the list price. The quantity discounts are justified as they reduce the cost of selling (since a bulk moves out with lesser of personal selling expense), inventory carrying, and transportation. The quantity discounts are given either on individual orders or on a series of orders over a longer period of time, usually one year. The basic idea behind offering quantity discount is to encourage customers to buy larger quantities and to maintain their loyalty. The decision on the amount of quantity discount depends on demand, costs, and competition analysis.

(d) Cash discount

To ensure prompt payments cash discounts are offered to customers in industrial marketing. It is the discount applicable on the gross amount of the bill, provided the customer pays the bill within the stipulated period from the date of invoice.

(e) Geographical Pricing

Geographical pricing refers to the location at which the price is applicable. Geographical pricing strategy is influenced by a number of factors such as the location of the company's plant, the location of the competitors' plants and their pricing strategies, dispersion of customers, extent of transport costs, demand and supply conditions and competitive environment. In geographical pricing, there are generally two methods of price basis which are stated in the offers or quotations submitted by a seller to a buyer. These are (i) Ex-factory and (ii) FOR destination.

(f) Ex-Factory

"Ex-factory" means the prices prevailing at the factory gate. When a seller quotes to a buyer "ex-factory price', it means that the freight and transit insurance costs are to the buyer's account. In other words, the seller will charge the costs of freight and insurance to the buyer. The more distant customers' landed costs are higher

because of freight cost.

(g) FOR Destination or FOB Destination

When a seller quotes to a buyer "FOR destination or FOB destination" (free on road/free on board destination), it means the freight costs are absorbed by the seller or included in the quoted prices. However, transit insurance costs, which are small amounts, are generally absorbed by the seller, but sometimes the goods are dispatched under the open insurance policy of the buyer. In this method of price basis, all the customers get the product at the same price irrespective of their locations from the seller's factory premise. If the quotation or the price list is on FOR destination basis, generally the industrial marketer estimates the average freight and insurance costs and adds the same to the basic product prices. Absorbing these costs is rarely done by a seller; it is done only in an intense competitive situation to get business from a particular customer.



CHECK YOUR PROGRESS:

Q.1: Define "Industrial Product".

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_____

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_____

Q.2: Define "Material and Parts".

_____

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_____

Q.3: Mention the different stages of the Product Life Cycle (PLC).

_____

_____

_____

_____

Q.4: Mention atleast two characteristics of industrial prices?

_____

_____

_____

_____



3.6 LET US SUM UP

In this unit, we have mainly focused on types of industrial products and services, industrial product management e.g., product life cycle, new product development and pricing decisions in industrial marketing. We have considered how industrial products are conceived and developed, and the stages through which a product passes through in its lifespan. Also the strategies applicable at each stage of the product life cycle.

In this unit we considered the various factors that influence pricing decision in the industrial market. These ranges from internal to external factors.



3.7 FURTHER READING

1) Industrial marketing by Krishna K Havaldar, 1st ed., TATA McGraw Hill Publishing Company Limited, New Delhi.

2) Industrial Marketing: A Process of Creating and Maintaining Exchange by C Krishnamacharyulu & R Lalitha Jaico Book House.

3) Industrial Marketing Management by Govindarajan, Publisher: Vikas Publishing House Pvt Ltd.

4) Industrial Marketing by Ghosh, Publisher: Oxford University Press.

5) Marketing by P Baines, C Fill, & K Page, OXFORD Higher Education.

3.8 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: *Industrial product* is defined as a complex set of economic, technical, legal, and personal relationship between the buyer and the seller.

Ans to Q No 2: The goods that enter the manufacturers' products completely are classified as *materials and parts*.

Ans to Q No 3: The different stages of PLC are introduction, growth, maturity, and decline.

Ans to Q No 4: The two characteristics of industrial prices are;

1. Price is not an independent variable. It is intertwined with product promotion and distribution strategies.
2. The real price an industrial customer pays is quite different from the list price; this is because of the factors like delivery and installation cost, training cost, discounts, financing cost, trade in allowances etc.

3.9 MODEL QUESTIONS

1. What are the different types of industrial products and services? Explain.
2. What are the main stages associated with the new product development process?
3. Explain the product life cycle and identify the key characteristics that make up each of the stages.
4. Discuss the various pricing strategies adopted by a firm.

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UNIT 4: FORMULATING CHANNEL STRATEGIES AND PHYSICAL DISTRIBUTION DECISIONS

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Introduction

4.3 Formulating Channel Strategies and Physical Distribution Decisions

- 4.3.1 Channel Design Process
- 4.3.2 Developing a Distribution and Channel Strategy
- 4.3.3 Channel Management Decisions

4.4 Promotional Strategies for Industrial Goods and Services

- 4.4.1 Developing a Successful Industrial Promotion Programme

4.5 Developing Marketing Strategies for Industrial Goods and Services

4.6 Let Us Sum Up

4.7 Further Reading

4.8 Answers to Check Your Progress

4.9 Model Questions

4.1 LEARNING OBJECTIVES

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

- gain an insight into industrial channel strategies and physical distribution decisions
- describe the promotional strategies for industrial goods and services
- develop a successful industrial promotion programme
- comprehend the marketing strategies for industrial goods and services

4.2 INTRODUCTION

This is the fourth unit of the course. Here we will discuss about channel and distribution strategies. Few producers sell their goods directly to the final users. Instead, most use intermediaries to bring their products to market. They try to forge a *marketing channel* (or distribution channel)- a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user. A company's channel decisions directly affect every other marketing decision.

Companies often pay too little attention to their distribution channels, sometimes with damaging results. In contrast, many companies have used imaginative distribution systems to gain a competitive advantage. Marketing channel decisions often involve long-term commitments to other firms. It is very important that a distribution channel is properly aligned to satisfy the needs of channel members and also for the success of any industrial marketing strategy. A good industrial channel creates the title and physical supply linkages with existing and potential customers. Channel designing is a dynamic process that consists of either developing the new channels or modifying the existing ones.

4.3 FORMULATING CHANNEL STRATEGIES AND PHYSICAL DISTRIBUTION DECISIONS

Channel strategy formulation in industrial marketing involves an analysis of conditions that have a bearing on the best choice among the structural alternatives and on the relationship between them and the manufacturer which will be most productive. In general, the industrial marketer has a choice of three types of structural arrangements.

1. Direct to users – through the manufacturers own sales force, with or without a network of branch warehouses.
2. Indirect to users – through agents or wholesale distributors. The choice of an indirect channel system involves the choice of a selective or intensive relationship.

3. Mixed structure – the nature of the structural network differs with the segmentation of the market. One segment may buy the manufacture's product in standard grades, while another may want special quality variations. While indirect distribution may be suitable for the former, direct distribution may be required for the latter.

4.3.1 Channel Design Process

It is very important that a distribution channel is properly aligned to satisfy the needs of channel members and also for the success of any industrial marketing strategy. A good industrial channel creates the communication and physical supply linkages with existing and potential customers. Channel designing in industrial markets is a dynamic process that consists of either developing new channels or modifying the existing ones.

Designing an appropriate industrial distribution channel and managing it is a tough and continuing task. A well designed channel structure helps to achieve the desired marketing objectives. A channel structure consists of types and number of middlemen, terms and conditions of channel members, number of channels. The various steps that are involved in industrial distribution channel design in industrial markets are given in Fig. 4.1.

Let us understand each of the stages of the design process in detail:

Stage 1: Analyzing the Needs of the Customer

When a marketer designs a marketing channel, he must understand the service output levels desired by the target customers. Different customers have different levels of service requirements. A high potential customer needs to be offered effective and professional service backup, ensured availability of varied products compared to the low potential customer. The marketing channel designer has to know at this stage itself that providing superior service output means increased channel costs and higher prices for customers.

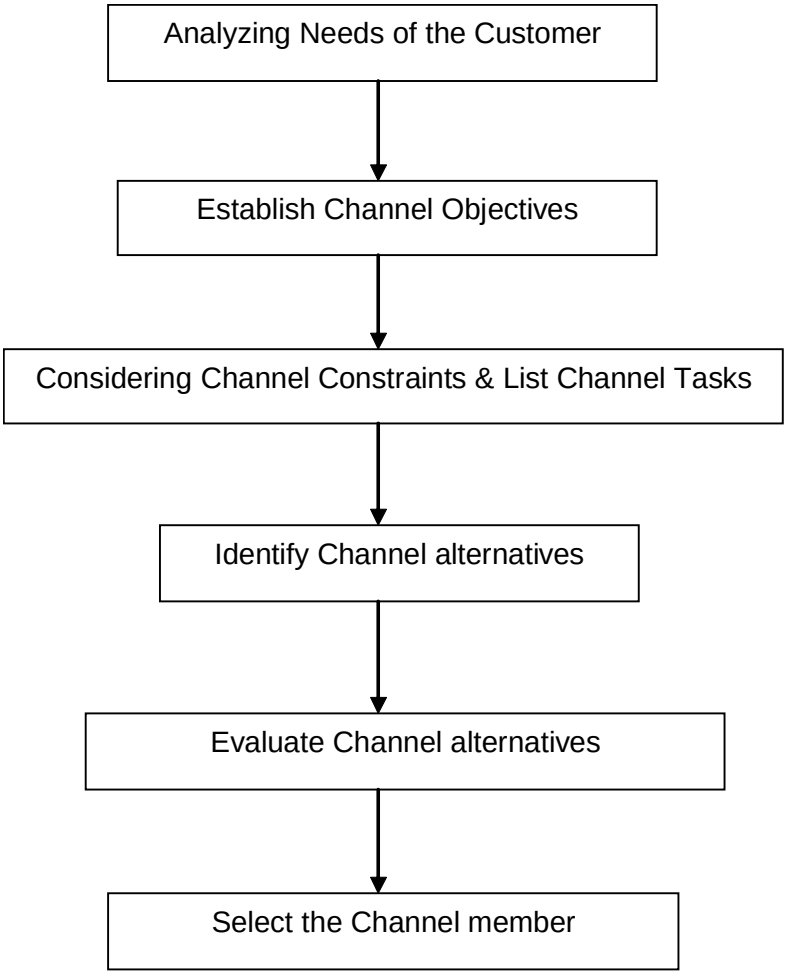


Fig 4.1 Channel Design Process

Stage 2: Establishing Channel Objectives

Channel objectives are aligned to the company's marketing objectives that need to be stated in terms of targeted service output levels. Profit considerations and asset utilization must be reflected in channel objectives and the resultant design. It should be the endeavour of the channel members to minimize the total channel costs and still provide with the desired level of service outputs. Channel alternatives keep varying depending on the characteristics of the products.

Stage 3: Considering Channel Constraints

The industrial marketer develops his channel objectives keeping into consideration various constraints like the company, competition,

the environment, product characteristics and the level of service output desired by the target customers.

- *Company*

If a company has financial limitation as a constraint, then it may restrict its direct distribution approach through company sales force to a few high potential customers.

- *Competition*

If a competitor has been very successful through direct service then it may force all other firms also to adopt the same strategy of direct selling.

- *Environment*

Economic conditions, legal regulations are the environmental factors that affect channel design. During recession, producers use economical ways to sell the products to avoid additional costs. Similarly, the law looks down upon those channel arrangements that try to build a monopoly market or minimize competition.

- *Product characteristics*

As already mentioned, complex and non-standard products require direct distribution without any intermediaries. For example, if an industrial marketer is providing customized machinery to his customer, then he deals directly with him rather than involving any intermediary to understand the customer needs better.

- *Customer*

The industrial marketers depend on intermediaries to offer services to customers who are either giving less business or are located at far-off places and prefer to serve the nearby or high potential customers by themselves.

Stage 4: Listing Channel Tasks

The industrial marketers have to creatively structure the necessary tasks or functions to meet the customer requirements and company goals. They have to first make a list of various tasks to be performed, identify the critical tasks, take objective and realistic decisions on which tasks can be effectively performed by the company and which

cannot be performed due to certain constraints. For instance, a company manufacturing pumpsets depend on distributors to sell them to customers who are located at distant locations but they would use their own sales force to serve those customers who are of high potential.

The careful analysis of customer needs, establishing objectives, considering constraints and listing the channel tasks form the backbone of channel design process. Once these aspects are delineated individually, the next step of identifying and evaluating channel alternatives starts.

Stage 5: Identifying Channel Alternatives

There are four issues that are involved in identifying the channel alternatives. They are:

(a) The types of business intermediaries,

(b) The number of intermediaries,

(c)The number of channels, and

(d) The terms and responsibilities of each channel members.

Stage 6: Evaluating alternate channels

There are several channel alternatives available to the industrial markets. They have to determine the best among the alternatives by evaluating them based on the following criteria: (a) The economic performance of the channel

(b) The degree of control exercised on them

(c) The degree of adaptability of channels to the market situations

4.3.2 Developing a Distribution and Channel Strategy

As an example establishing cost-effective ways to get goods to India's rural population is the critical first step in penetrating these markets. Smart companies have found that they need to focus on distribution even before making the seemingly commonsense moves of identifying and approaching target customers.

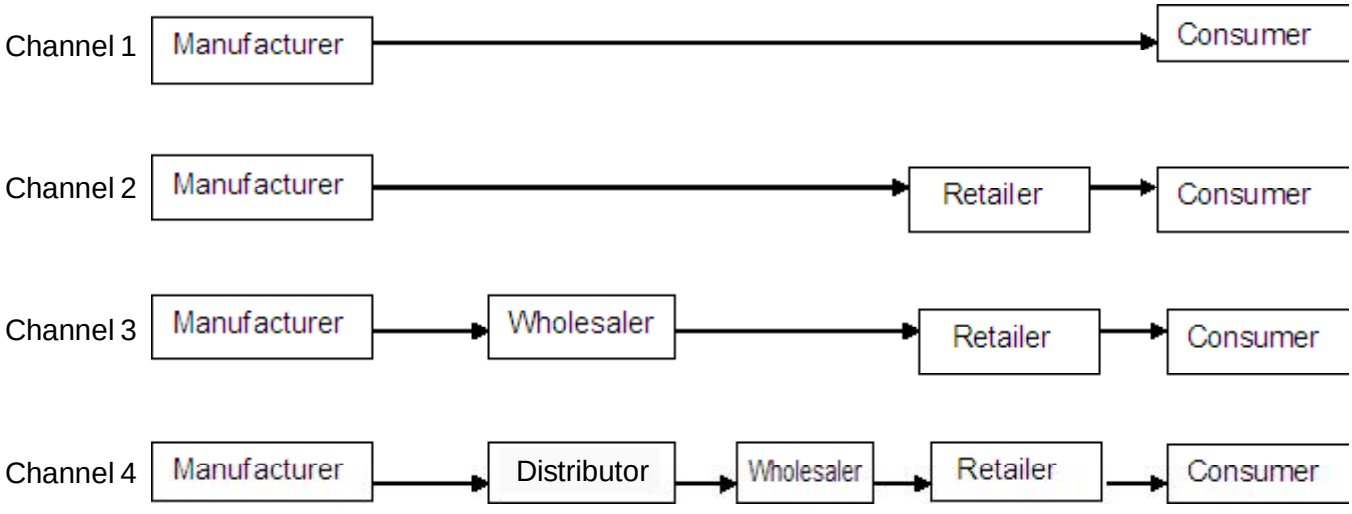
A company's channel decisions directly affect every other marketing decision. But often they pay too little attention to their

distribution channels, sometimes with damaging results. Distribution channel decisions often involve long-term commitments to other firms. Therefore, management must design its channels carefully, with an eye on tomorrow's likely selling environment as well as today's.

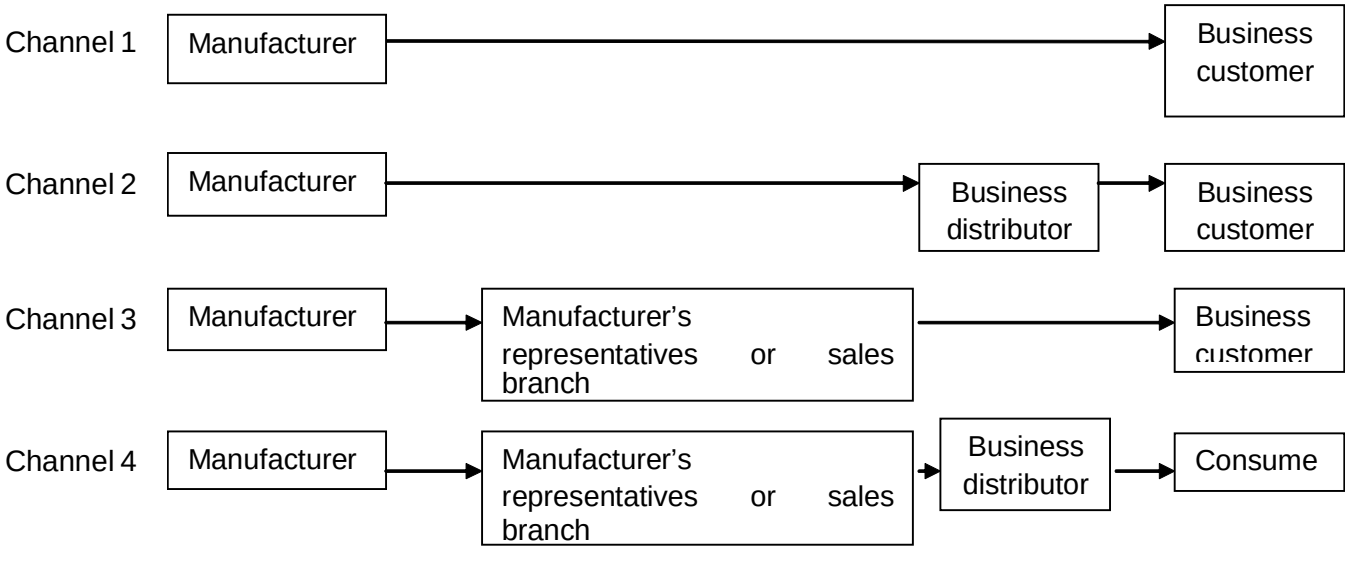
Companies can design their distribution channels to make products and services available to customers in different ways. Each layer of marketing intermediaries that performs some work in bringing the product and its ownership closer to the final buyer is a channel level. Because the producer and the final consumer both perform some work, they are part of every channel.

The number of intermediary levels indicates the length of a channel. Fig. 4.2 shows several consumer distribution channels of different lengths. Channel 1, called a direct marketing channel, has no intermediary levels; the company sells directly to consumers. The remaining channels in Fig. 4.2 are indirect marketing channels, containing one or more intermediaries.

Distribution (also known as the *place* variable in the marketing mix, or the 4 *P*s) involves getting the product from the manufacturer to the ultimate consumer. Distribution is often a much underestimated factor in marketing. Many marketers fall for the trap that if you make a better product, consumers will buy it. The problem is that retailers may not be willing to devote shelf-space to new products. Retailers would rather often use that shelf-space for existing products have that proven records of selling.



Customer Marketing Channels



Business marketing channels

Source: Armstrong & Kotler, 2007

Fig. 4.2: Consumer and Business Marketing Channels

4.3.3 Channel Management Decisions

After a company completes the task of choosing a channel alternative, it has to start the process of selecting the intermediaries, motivate them, control any channel conflicts and evaluate the performance of channel members.

(i) Selecting the intermediaries

Selecting the intermediaries is not part of channel design as some intermediaries leave the channel while others are terminated by the manufacturer. Selecting the best intermediary is a continuous process that is sometimes a more difficult task as producers have to work hard to get qualified middlemen. It involves finding out the distinct characteristics possessed by the intermediaries. Such evaluation is generally based on the experience possessed by the intermediaries, their number of years in the line of business, exposure in other fields, their past history, growth and profit records, their reputation, future growth potential, type of clientele possessed, etc., Thus, a channel that effectively satisfies the needs of a customer better than the competitors should find a place in the manufacturer's priority list.

(ii) Motivating the channel members

After selecting the middlemen, the industrial marketer needs to continuously motivate them to do their job better to achieve long-term success. Though the terms and conditions that made them join the channel is a motivating factor, it must be further supplemented by training and encouragement. Understanding the needs and wants of the middlemen is the first step of motivation process. Depending on the motivational technique used by the manufacturer, there would be varying levels of support from the middlemen. Manufacturers generally try to maintain relationship with their distributors by motivating through cooperation, partnership, discounts/commission, and distributor councils.

(iii) Managing Channel Conflicts

Through a well designed distribution channel has several benefits as observed, it is not the ultimate for the manufacturers. There are several differences and problems that still exist between the manufacturers and the distributors due to various simple and intricate reasons like, dissimilar objectives, less interest shown on products by the distributors, customer dealings, dissimilar views, commission to distributor, territorial problems, etc.

(iv) Evaluating Channel Performance

The performance of the channel is said to be effective if the channel members are able to reach the overall objectives smoothly. This calls for periodic evaluation of their performance where various parameters like meeting the sales target, maintaining the required inventory levels, on time delivery to customers, their cooperation and service levels, generation of new customers, etc., are taken into consideration. The aspects where the middlemen score less during the evaluation process are analyzed and discussed with them where they are motivated to improve upon those areas. Sometimes, manufacturers terminate their services with middlemen if they are unable to meet their expectations or shape up as required.

4.4 PROMOTIONAL STRATEGIES FOR INDUSTRIAL GOODS AND SERVICES

Have you ever wondered how organizations manage to communicate with so many different people and organizations? This can be accomplished through the use of marketing communications. Promotion is one element of the marketing mix. It is used for communicating the elements of an organization's offering to a target audience.

Promotion strategy is used by the industrial marketers to inform, persuade and influence the decision making power of prospective and existing customers. The objectives of promotional strategy vary from company to company where some companies use the strategy for capturing selected markets while others use it to increase or stabilize the sales and to give additional information and added value of their products.

Promotion strategy is the direct way through which an organization tries to reach its publics. Promotion strategy has remained the only way firms gain competitive edge in the market. Promotion strategy involves the five elements of the promotion mix i.e. advertising, sales promotion, personal selling, public relations, and direct marketing. In order to keep up with the competition and changing consumer needs and wants, firms are forced to adopt effective promotional strategies to promote growth beyond boarders

thus creating awareness about and increasing usage rates of their products and services. Promotional strategies enable firms to attract and retain customers thus will increased growth in terms of return on investments due to expanded client base (Kotler, 2007).

4.4.1 Developing a Successful Industrial Promotion Program

Today's economic conditions call for careful consideration of the elements that are essential in developing an effective communication program – whether it is industrial or consumer oriented. Promotional variables must be artfully integrated if communication objectives are to be achieved most effectively.

Most of the principles that are followed in developing consumer advertising programs are not only applicable but are necessary in developing an effective industrial promotional program. The objective of industrial promotional programme is to communicate something about the company and its products.

The industrial products are technical in nature having very few buyers compared to the consumer products. This makes the industrial marketers change their promotional strategy for industrial goods and services. The promotional mix used by the industrial marketer consists of advertising, sales promotion, publicity, public relations, personal selling and direct marketing. These tools help them to build awareness, develop company image, inform about the product features thus assisting the company sales force and other intermediaries to increase their sales.

(i) Advertisement

Advertising is the most preferred promotional tool in the consumer market rather than in the industrial market. It is preferred less by the industrial marketers compared to personal selling as they get to meet the customers personally and understand their needs better in personal selling. But still advertising is used to a good extent by the industrial marketers to assist their sales force and intermediaries

to generate more leads. Advertising plays an important role in industrial marketing strategy by supporting and supplementing personal selling efforts. The advertising budget for industrial goods is far less compared to that of consumer goods. But, to have an increased efficiency and effectiveness of the overall marketing strategy, industrial marketer should have an integrated and well planned advertisement strategy that blends properly with personal selling efforts.

Any industrial marketer uses advertising as a promotional tool as it performs so many functions that help him to achieve the following objectives:

(a) Create awareness

The industrial advertising creates awareness about a supplier or his products to the potential industrial buyers who are unaware about the availability of their products in the industrial markets.

(b) Reaching inaccessible places

There are places that are not reachable by the company sales force and there are important decision makers for purchase of industrial products who cannot be met by the sales force.

(c)Improve sales

Advertising helps salespersons to improve their sales by increasing their sales efficiency and effectiveness as people are already aware of their company, products, etc.

(d) Reduce cost

A single advertising reaches a vast number of people that comes out cheaper than a single salesperson meeting so many people personally and explaining them in details about the company's products. Thus, advertising not only reduces cost but also saves time of the company.

Besides the above, some other objectives of advertising are to provide relevant information to the potential buyers, influence their attitudes, remind them about a product or a company, support and motivate the distribution channel members and sales agents.

(ii) Sales Promotion

Sales promotion is an activity used by the industrial marketer to boost the immediate sales of a product or service. It is used for increasing the sales by impressing the customers, rewarding them and also motivating the sales force to get more business. There are different techniques used in a sales promotion activity like a free-sample campaign, offering free gifts, arranging demonstrations or exhibitions, organizing competitions with attractive prizes, temporary price reductions, door-to-door calling, telemarketing, using personal letters, etc. More than any other element of the promotional mix, sales promotion is about "action". It is about stimulating the customers to buy a product.

- **Methods of Sales promotion**

There are many sales promotional methods available for industrial marketers. Some of the techniques they can use are as follows:

(i) Trade Shows (or Exhibitions)

Trade shows present the manufacturers an occasion to exhibit and demonstrate their products to a large number of customers in a short period of time.

(ii) Catalogues

Catalogs are the printed form of direct marketing promotional tools used by industrial marketers to provide information about their products especially if they have long product lines with different shapes, sizes or other features. The company sales force meets the potential buyers and explains the product features by offering catalogues. Based on the different catalogs collected from different suppliers, a potential buyer compares the features of different products and seeks quotations from the supplier who provides best quality product at economical price.

(iii) Samples

Samples are the free or charged offerings given to the prospective buyers as a part of product development program. Samples are

used mostly to make an entry in the prospective customer's place. There are various ways in which a sample can be distributed.

(iv) Promotional Letter

This is one of the effective forms of promotion where personalized letters are sent to individual customers along with catalogues and coupons giving technical specifications about existing or new products which are to be launched. Letters to customers at regular periods is a good way of keeping in touch with them particularly in case of products that are purchased infrequently. The cost of promotional letter is very less compared to the personal visits made by the sales force and it also receives good attention. Since good correspondence and writing skills are the requisite for this, there should be special correspondence section which can take advice from salesperson regarding the kind of letters to be sent and to whom it should be addressed.

(v) Sales Contests

There are various sales contests that are held by different industrial organizations in order to boost the morale of their employees and other intermediaries. Depending on the amount of sales generated, employees and dealers are offered incentives in the form of cash prizes, gifts or foreign trips.

(vi) Seminars

Seminars are conducted by the industrial marketers by making audio-video presentation through the technical experts of the company. The seminar is followed by a question and answer session for the benefit of buying organizations where technical information is provided to them relating to their nature of activity. This helps in creating a favorable image about the company and also to establish new contacts with various technical people from the buying organization.

(vii) Promotional Novelties

These are the small gift items given by the company to existing and potential customers with their company name and logo printed on

it. The common promotional novelties include diaries, key chains, calendars, pens, bags etc. Promotional novelties should be generally inexpensive, unusual and eye-catching, useful to the customers and have multiple impacts.

(viii) Entertainment

Manufacturers of highly standardized industrial products use entertainment for promotional purposes. Entertaining a customer depends on the type of products, the circumstances for the seller and the government regulations governing them. Entertainment can have either positive or negative effects depending upon the buying situation, the nature of products, policies of buyer's organization and the buyer's culture.

(ix) Publicity

When any significant news about a product is made known to the people through a published medium like radio, television, newspaper or otherwise, such kind of act is known is publicity. Publicity has very high credibility in the eyes of organizational buyers as the sponsor does not pay anything for publicity and it is not a part of any promotional program. It is the least costly promotional alternative available for the company and it is very effective.

(x) Public Relations

Public Relations Department is located at the top level of the company and it deals with everybody i.e. customers, suppliers, shareholder, employees, legislators, government and press. And the important job of this department is to maintain relations with people and build a good image about the company in their eyes.

(xi) Direct Marketing

This is a recent activity that has come up and is used extensively by the industrial marketers. The various tools used in direct marketing are direct mails, telemarketing and online marketing channels. A direct marketing channel does not involve any intermediary and the sale is done by the company by directly contacting the target customer. As the cost involved in direct marketing activity is much

less compared to the cost of company sales force directly meeting the customers, many industrial organizations prefer this tool. This tool aids the sales force to gain entry into prospective customer's office where prospective customers are identified beforehand and are informed about the company products.

(iii) Personal selling

It is one of the oldest forms of promotion. It involves the use of a sales force who orally communicates in the face-to-face mode about the company's products or services to the potential buyers with an intention to make a sale. Personal selling is the primary demand stimulating force in the industrial marketer's promotional mix. Its role is very dominant in industrial markets because of less number of potential customers present compared to the consumer markets and the large amount of money purchases involved. As the cost per sale through personal selling is too high, industrial marketers have to carefully manage and integrate personal selling into organization's marketing mix. This will also lead to maximize its effectiveness and efficiency. The job of personal selling starts after determining the target segment in the organization's market. The sales force in most of the industrial organizations follow the "systems selling" approach where they recognize the entire problems faced by their buyers and offer them total solutions rather than just selling the product. This is advantageous to the industrial buyers as all their problems are solved at a single go by one party who would take the responsibility if anything goes wrong. Marketers too have competitive advantage by adopting this strategy.

4.5 DEVELOPING MARKETING STRATEGIES AND PROGRAMS FOR INDUSTRIAL GOODS AND SERVICES

Have you ever thought about how organizations organize themselves so that they can make sales, achieve profits, and keep all their stakeholders satisfied? A great deal of thought, discussion, planning, and action needs to

occur to make this happen. This involves getting answers to questions such as which markets the organization should be operating in, what resources are necessary in order to be successful in these markets, who are the key competitors and what strategies are they using, how can we develop and sustain an advantage over these competitors, and what is happening in the wider world that might affect our organization?

The planning process is divided into several steps or stages, which are discussed below:

(i) Preliminary Analysis

The technical nature of most industrial goods complicates market planning For example, the demand for a material, component, supply item, or price of equipment may be changed profoundly and abruptly by changes in technology. The uncertainty of total demand for the individual firm is aggravated by the small number of large users which characteristics many industries. A shift in patronage by any one buyer can subtract heavily from the sales volume of one supplier and add substantially to that of another. The analysis which precedes the formulation of marketing strategy includes both the situation analysis and the analysis of potential markets.

(ii) Choice of strategy components

The central problem in choosing the components of a marketing strategy is to find the combination of components which will produce the maximum net revenue. It involves the application of marginal analysis. But it is very difficult to forecast the results of any marketing action unless they can be measured. This is possible with direct mail advertising or promotional material designed to bring in orders. In spite of the lack of adequate means to forecast the results of marketing action, the marketing manager cannot avoid trying to do so. Recently, much has been devoted to improve both measurement and forecasting in this area.

Once management has accumulated some experience with estimates, it is often possible to predict outcomes with sufficient confidence to formulate strategies effectively.

(iii) Formulating Channel Strategy

Formulating the channel strategy involves an analysis of conditions which have a bearing on the best choice among structural alternatives and on the relationship between them and the manufacturer which will be most productive.



CHECK YOUR PROGRESS:

Q.1: Define "Marketing Channel".

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_____

Q.2: Identify the three types of structural channel arrangement available to industrial marketers.

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Q.3: What do you mean by "Sales Promotion"?

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4.6 LET US SUM UP

In this unit, we have mainly discussed the channels and physical distribution decisions that help the manufacturer to deliver the goods to the end-users along with marketing strategies for industrial goods and services.

Industrial distribution is quite distinct compared to the channels used for consumer goods or services. The industrial products are technical in nature that has very few buyers compared to the consumer products. This

makes the industrial marketers to change their promotional strategy for industrial goods and services. The promotional mix used by the industrial marketer consists of advertising, sales promotion, publicity, public relations, personal selling and direct marketing. These tools help them to build awareness, develop company image, inform about the product features thus assisting the company sales force and other intermediaries to increase their sales. The Marketing Activities of industrial products are an integral part of the company's total operating system. Therefore, it is useful to identify the major types of plans by which operations of an enterprise are directed. These may be designated as strategic, operational, logistical, and organizational.



4.7 FURTHER READING

1) Havaldar Krishna K (2005), *Industrial marketing* 1st ed., TATA McGraw Hill Publishing Company Limited, New Delhi.

2) C Krishnamacharyulu & R Lalitha (2008), *Industrial Marketing: A Process of Creating and Maintaining Exchange* ,Jaico Book House.

3) Govindarajan M. (2003), *Industrial Marketing Management* , Vikas Publishing House Pvt Ltd.

4) Ghosh P.K. (2005), *Industrial Marketing*, Oxford University Press.



4.8 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: *Marketing channel* (or distribution channel)- a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user. A company's channel decisions directly affect every other marketing decision.

Ans to Q No 2: In general, the industrial marketer has a choice of three types of structural arrangements.

1. Direct to users – through the manufacturers own sales force, with or without a network of branch warehouses.
2. Indirect to users – through agents or wholesale distributors. The choice of an indirect channel system involves the choice of a selective or intensive relationship.
3. Mixed structure – the nature of the structural network differs with the segmentation of the market. One segment may buy the manufacture's product in standard grades, while another may want special quality variations. While indirect distribution may be suitable for the former, direct distribution may be required for the latter.

Ans to Q No 3: Sales promotion is an activity used by the industrial marketer to boost the immediate sales of a product or service. It is used to increase the sales by impressing the customers, rewarding them and also motivating the sales force to get more business.



4.9 MODEL QUESTIONS

1. Discuss the need for channel designing and what are the various stages involved in the process?
2. Explain the need for distribution channel in industrial marketing?
3. What is sales promotion? Why do industrial marketers go for it?
4. What is the role of advertising in industrial marketing?
5. How do industrial marketers develop marketing strategies for industrial goods and services? Discuss.

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UNIT 5: RURAL MARKETING

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 Rural Marketing

- 5.3.1 Concept of Rural Marketing
- 5.3.2 Phased Evolution of Rural Marketing
- 5.3.3 Rural Marketing Model

5.4 Nature and Characteristics of the Rural Market

- 5.5 Opportunities of the Rural Market
- 5.6 Challenges of the Rural Market

5.7 An Overview of Indian Rural Market

5.8 Let Us Sum Up

5.9 Further Reading

5.10 Answers to Check Your Progress

5.11 Model Questions

5.1 LEARNING OBJECTIVES

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

- discuss the fundamental concepts of rural marketing
- learn about the phased evolution of rural marketing in India
- explore rural marketing model to explain the rural marketing process
- comprehend the nature and characteristics of the rural market
- explain the challenges and the opportunities of the rural market

5.2 INTRODUCTION

The size of the prize in India's rural hinterlands is growing bigger than many businesses initially thought. More companies are expanding their base in India's rural markets than at any other time in history – and for good reason. The marketing battle field has shifted from the towns/cities to the villages. "Go rural" seems to be the latest slogan of the marketers.

In this connection Adi Godrej says: *"The rural consumer is discerning*

and the rural market is vibrant. At the current rate of growth it will soon outstrip the urban market. The rural market is not sleeping any longer. We are."

India's vast rural market offers a huge potential for a marketer facing stiff competition in the urban markets. The rural market environment is very different from the familiar surroundings of the urban market. The current dynamics clearly necessitates sound marketing strategies for marketers trying to tap the rural market and drawing benefits from the growing rural consumption.

5.3 RURAL MARKETING

In a large economy like India's, rural marketing has emerged as an important and distinct internal sub-division within the marketing discipline. This sub-divison clearly highlights the differences between rural marketing and mainstream marketing.

5.3.1 Concept of Rural Marketing

The definition of rural marketing based on flows between rural and urban locations presumes defining the rural area. Collin's Cobuild Dictionary (2001) describes the word rural as "places far away from towns or cities". The definition of rural market that is used by the Census of India (2001) as it has advantages of relevance, simplicity and measurability. Rural is defined as that which is not Urban. And, Urban means:

- all locations with a municipality/corporation, cantonment board or a notified town area;
- all other locations satisfying all of the following criteria:
  a) a minimum population of 5,000;
  b) at least 75 percent of the male workforce engaged in non-agricultural activities; and
  c) a population density of over 400 per sq. km.

The term 'rural marketing' which was earlier used as an umbrella term to refer to all commercial transactions of rural people, acquired

a separate meaning of great significance in 1990s. Prior to mid-1960s, rural marketing referred to marketing of rural goods and services in rural and urban areas and agricultural inputs in rural markets. It was considered synonymous to "Agricultural Marketing". During the period from mid 1960s to mid 1990s, the marketing of rural products received considerable attention in the general marketing framework. The formation of bodies like KVIC, GCC, APCO Fabrics and the increasing importance given by government to promote and market these products contributed to the upsurge of these products. After mid 1990s, rural marketing represented the emergent distinct activity of attracting and serving rural markets to fulfil the needs and wants of individuals, households and occupations of rural people. In 21st Century, the corporate world has finally realized that quick-fix solutions and piecemeal approaches will deliver only limited results in the rural market. A long-term commitment with the rural market is needed on the part of the organizations to explore the existing potential of this market. At the same time the focus of the marketer should not be limited to just selling product and services, rather they should set an aim at creating an environment for this to happen.

5.3.2 Evolution of Rural Marketing

Rural marketing as it exists today is a result of evolution over many decades. Different patterns of flow of goods and services were dominating the rural marketing spectrum at different times. These time spans were long enough to be called as different phases, which are described below:

***(i) Phase I (before 1960)*:** Rural marketing referred to selling of rural products in rural and urban areas and agricultural inputs in rural markets. Phase I was treated as synonymous to 'agricultural marketing'.

***(ii) Phase II (1960 to 1990)*:** In this era, green revolution resulted from scientific farming and transferred many of the poor villages

into prosperous business centers. As a result, the demand for agricultural inputs went up especially in terms of wheats and paddies. During these period, marketing of agricultural inputs took the importance. In phase II, rural marketing represented marketing of agricultural in rural markets and marketing of rural produce in urban areas.

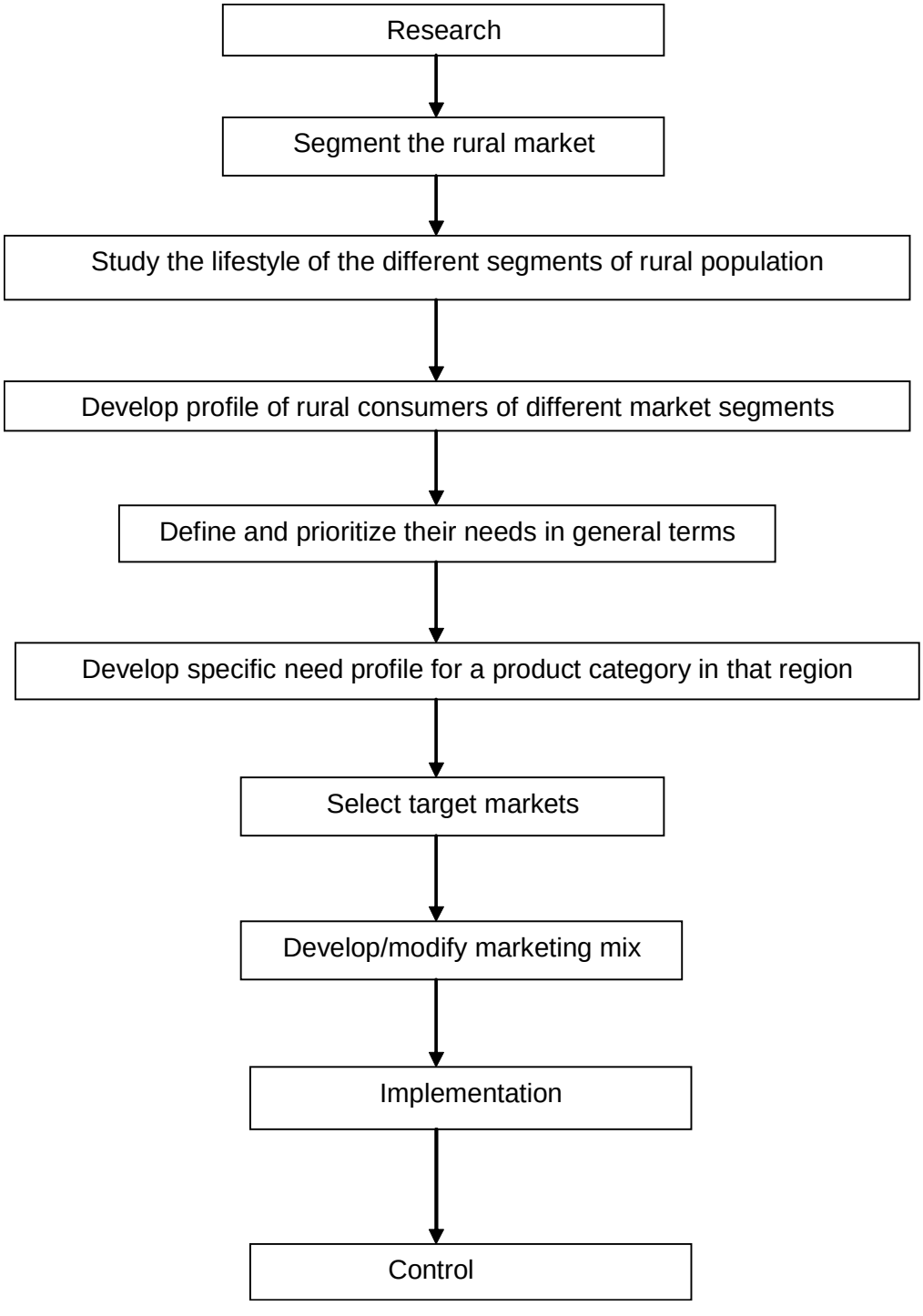
***(iii) Phase III (post-liberalization period of the 20th century)*:** In this phase, rural marketing represented the emerging, distinct activity of attracting and serving rural markets to fulfil the needs and wants of rural households, people and their occupations.

***(iv) Phase IV (21st century)*:** In this phase, the corporate world realized that to tap the real potential of the rural market, it needs to make a long-term commitment with this market. Its approach and strategies must not focus on just selling products and services, but they should also aim at creating an environment for this to happen. This approach has been demonstrated successfully by HUL's *Project Shakti*, ITC's *e-choupal*, AMARON Batteries' *Amaragaon campaign*, etc.

As a result of the above analysis, we are in a position to define rural marketing in the following words : "Rural marketing can be seen as a function which manages all those activities involved in assessing, stimulating and converting the purchasing power into an effective demand for specific products and services, and moving them to the people in rural area to create satisfaction and a standard of living for them and thereby achieves the goals of the organization".

5.3.3 Rural Marketing Model

The Rural Marketing Model (Fig. 5.1) describes a step-by-step process of execution of a rural marketing effort. This model has certain nuances, which need to be understood to attain success in the rural market.



Source: Dogra & Ghuman (2012)

Fig. 5.1 Rural Marketing Model

The different steps for implementation of the rural marketing model are described below:

(i) Segmentation

A key factor for the rural market is that it is a distinct and unique market. Each of these markets has rural consumers with quite different lifestyles, socio-cultural, economic and demographic backgrounds. Therefore, the first step for implementing any rural marketing effort is to segment the rural market on the basis of select parameters that influence the demand for certain product categories.

(ii) Lifestyle Analysis

An organization planning to serve the rural market has to develop an understanding of the lifestyle of the consumers in different rural market segments. Lifestyle analysis is important because it broadly defines and prioritises the consumer needs in a market segment. In some cases, it may not be the buying capacity but the lifestyle of the consumers that influences the demand for a given product.

(iii) Profiling of Rural Consumer

The lifestyle analysis enables a business organization to develop a generic profile of the consumers in a rural market segment. This profile should be considered while designing or modifying the marketing mix for that market. Here the regional and local organizations are in an advantageous position as they are fully aware of the consumers' profile in a rural market segment, and they can design an appropriate marketing mix to make a mark in that segment.

(iv) Need Profile

Analysis of the generic profile of the consumers of a rural area or market segment helps business organizations identify the needs of those consumers in general terms. A marketer can then translate these broadly defined needs in more specific terms, from the perspective of different product categories.

(v) Selection of Target Market

After undertaking the above steps, a business organization can judge whether it could serve the needs of a particular market segment

effectively and efficiently with its present market strategy or modifies marketing mix. Once the organization finds compatibility between the consumer needs and its marketing mix in a rural market segment, then that segment can be identified and selected as its target market.

(vi) Designing/Modifying Marketing Mix

An organization needs to consider modifications in different elements of its marketing mix to serve highly heterogeneous rural market in India. Organizations may vary the promotional campaigns or packaging across different territories to adapt to variations in tastes and preferences of the consumers.

(vii) Implementation

Implementation is a major problem in rural marketing. Serving such a huge, widely scattered and highly heterogeneous territory could be a huge task for any organization. Rural marketing plans cannot be implemented with an urban mindset. Therefore, an organization needs to make a comprehensive effort and ruralize its strategy in a real sense to make significant inroads in the rural market. To have a meaningful success in the rural market an organization has to be as passionate in implementation as it is in planning.

(viii) Control

The rural picture is undergoing transformation at a faster speed. Organizations striving to achieve success in the rural market need to constantly research the developments in rural territories.

5.4 NATURE AND CHARACTERISTICS OF THE RURAL MARKET

The characteristics of the rural market not only make it different from the urban market but also justify its study as a distinct discipline. These characteristics are discussed below:

(i) Large and Scattered Market

India's rural market is large and scattered in the sense that it consists of nearly 75 crore rural consumers who live in approximately 6, 38, 365 villages spread over 32 lakh square kilometer area. Nearly 1, 45,098 villages, or

23% of the total number of villages in India, have population less than 200; and another 21% have population between 200 and 500.

(ii) Heterogeneous market

The rural market is not a homogeneous one. More than 20,000 ethnic groups are present in rural India, and this poses a formidable challenge to the marketer. There are approximately 24 languages and 1,642 dialects, and the dialect varies every 100 km or so, making it extremely difficult to develop a uniform promotional message.

(iii) Income from Agriculture

Nearly 55% of rural income comes from the agriculture sector, hence rural prosperity depends to a great extent on agricultural prosperity. However, the recent past has witnessed a gradual reduction in the sole dependence on agriculture, as other sectors have started playing significant role in the rural economy.

(iv) Standard of Living

Over 70% of the rural population is employed in small-scale agricultural and related occupations. This dependence on agriculture and natural factors has led to an acute seasonality and presence of high change element in income receipts in rural areas. This unreliability factor in case of rural income makes the rural consumers extremely conscious in their purchase behavior as they are not confident about their future earnings.

(v) Infrastructural Facilities

The infrastructural facilities like roads, warehouses, communication system, and financial facilities are insufficient in rural areas. Infrastructure or its inadequacy is the single most important factor that distinguishes urban and rural markets. Promotion and physical distribution thus become very difficult in the rural terrain because of inadequate infrastructural facilities.

5.5 OPPORTUNITIES OF THE RURAL MARKET

Recent years have seen rural markets emerging as an important growth engine in the India consumption story. With 70 per cent of India's population living in more than 6 lakh villages spread over 32 lakh square kilometres, they present a significant market opportunity. In fact despite

rising urbanization, 63% of India's population will continue to live in the rural areas even in 2025.

The business environment in rural market is improving, thanks to better infrastructure and the growing number of consumers who are earning more and are buying products and services that support their aspirations. The confidence of these forces is driving the rural market. For many businesses, in today's volatile business environment,India's rural markets hold the key to future growth. Companies that recognize this enormous opportunity are stepping up efforts to gain a strong foothold in these markets.

There are quite a few reasons for the growing interest in rural markets. Their vast untapped potential, increasing income and purchasing power, improved accessibility and the increasing competition in urban markets make rural markets an attractive destination for organizations.

(i) Untapped Potential

The Indian rural market, with its vast size and demand base, offers ample opportunities to companies. The size of the rural economy in 2012-13 has been estimated at Rs 16 trillion (NSSO data). As mentioned earlier rural India accounts for 70 percent of India's population, 48 percent of national income, 56 percent of the total expenditure and one-third of total savings. More than 800 million people live in villages equaling 12% of the globe's population. Since most companies are since in the early stages of rural market development, therefore it is still unexplored to a great extent and thereby offers plethora of opportunities to marketers. Nearly 42 percent of rural households owned a television in 2009-2010, up from 26 percent five years earlier. Similarly, 14 percent of rural households had a two-wheeler in 2009-2010, twice the penetration during 2004-2005. To have some idea of the potential of the rural market, we can consider the following facts:

- Rural FMCG market accounts for 40 percent of the overall FMCG market in India, in revenue terms.
- Dabur generates over 40-45 percent of its domestic revenue from rural sales.
- LIC sells 50% of its policies in rural India.

(ii) Rising Rural Prosperity

Rural India accounts for about 50 percent of India's GDP. Per capita rural GDP has also experienced strong improvement over the last few years. Since 2000, it has grown faster than per capita urban GDP. As incomes rise, rural consumption shifts from necessities to discretionary goods and lifestyle products.

As a result of the growing affluence, fueled by good monsoon and the increase in agricultural output, rural India has a large consuming class with 41% of India's middle class and 58% of total disposable income.

With increase in per capita income due to use of superior quality of seeds and fertilizers and also due to the fact that there are a lot of rural schemes introduced by the government of India for the rural population the standard of living has improved.

The income of a large proportion of the population that resides in rural areas but which drives down to urban areas, also acts as a multiplier when one aggregates the income in the two markets. According to NCAER, the percentage of very poor families in rural India (having an annual income of Rs.16,000 or less) had fallen from 61.4% in 194-95 to just less than 25% in 2006-07.

(III) Less Reliance on Agriculture and Monsoon

Agriculture now contributes 18% of India's economy from as high as 50% in the 1950s. A third of more than 900,000 farming households in the country depend on agriculture only for supplementary income, amounting to less than half of their monthly expenses, according to a survey released by the statistics ministry in December.

There was a time when market predictions were made on the basis of the state of the monsoon but this trend has changed over the years. There is a significant non-farming sector, which generates almost 45 percent of the rural wealth. Corporate India has also come a long way to live with the uncertainty of monsoon.

(iv) Increasing Rural Consumption

Nowhere is this phenomenon more evident than in India. From 2009 to 2012, spending by India's 800+ million rural residents reached $69 billion,

some 25% more than their urban counterparts spent over the same period. And projected growth rates are simply astounding: According to recent Nielsen estimates, consumption in rural areas is growing at 1.5 times the rate in urban areas, and today's $12 billion consumer goods market in rural India is expected to hit $100 billion by 2025.It is the surge in rural consumption that that has made the rural market so attractive to the corporate. Without the surge in rural consumption, their sales in the rural market would not have been materialized. Not only has rural consumption grown substantially in recent years, but has also outplaced the urban consumption. In the two years between 2009-10 and 2011-12, spending on goods and services by rural India at Rs.3.75 lakh crore was much higher than the urban spending (Rs.2.99 lakh crore). In growth rate of spending too, rural India was ahead of urban. The growth rate in the two-year period was 19 percent for rural India while it was 17 percent for urban India.

As per the data from the CSO, the monthly per capita rural consumption rose 18 percent in real terms in 2011-12 to Rs.707.24 from Rs.599 in 2009-10 (at 2004-05 prices). According to Nielson more than 80 percent of FMCG products are growing faster in rural market than in urban.

(v) Large Population

Out of the total of 1210.2 million population in India, the size of rural population is 833.1 million (or 68.84% of the total population) and urban population 377.1 million (or 31.16%). During 2001-2011 the population of the country increased by 181.4 million and the growth of rural population has been 12.18%.

(vi) Rural Marketing Efforts

Many corporations are recognizing this enormous opportunity and stepping up efforts to gain a strong foothold in India's rural markets. But they are meeting with mixed results. An undeveloped transportation infrastructure, unreliable telecommunications and electricity services, inadequate distribution networks, and widely dispersed consumers make it costly to establish a profitable presence at scale. And finding partners to help identify, sell to, and service rural customers is also difficult. The growing number of companies is realizing the importance of the rural markets. To tap the rural

markets, the marketing efforts of these organizations are becoming more aggressive day by day. Companies are coming up with innovative models to make the products reach the rural consumers. The increased penetration is one of the major reasons for the development of the rural market.

India's rural markets present opportunities that companies seeking to become high-performance businesses cannot afford to ignore. But the size and scale of those markets have been offset by concerns about the profitability of these markets and the durability of rural demand.

5.6 CHALLENGES OF THE RURAL MARKET

The growth opportunities in India's rural markets are significant. To capitalize on them, however, businesses must overcome significant sales and distribution barriers. There are vast differences between rural and urban markets, including infrastructure, business and social structure, market size and consumer behavior. Today, when companies are seriously considering of putting in efforts to tap the rural market, the challenges experienced by them can be classified into three major categories – reaching, acquiring and retaining rural customers.

(i) *Reaching Rural Customers*

Rural markets are geographically dispersed and lack adequate physical and social infrastructure. As a result, the distribution of goods and services to and from villages is extremely difficult and costly. Even today, when it comes to going rural, "high cost-to-serve the rural markets" is the number one challenge.

The deficits in rural market infrastructure and lack of established supply chain networks adversely affect the service as well as the cost aspect. One of the greatest challenges for rural marketers lies in reaching out to the remotest destinations and having a number of vendors at the retailing end.

(ii) Acquiring Rural Customers

Today's rural consumers are better connected and more aware of products and services than many businesses realize. To acquire these consumers, businesses need to develop compelling value propositions.

As rural consumers become more demanding, companies should meet those requirements with better products and skilled sales people. The challenge these sales professionals face is to understand rural customers' needs know how to appeal to their aspirations and motivations. However, finding qualified sales staff is a major hurdle in rural markets.

(iii) Retaining Rural Customers

With increasing rural competition and high costs to-serve, customer retention is emerging as a major challenge. High customer acquisition costs make it imperative for companies to increase customer retention in order to scale operations profitably. To boost retention, companies must provide satisfying experiences across the customer lifecycle and generate positive word of mouth. However, providing reliable and consistent after-sales service and optimizing the costs of a high-quality experience remain major obstacles. The wide geographic dispersion of a small number of customers drives high sales-service costs, and many businesses cannot provide a dedicated after-sales service network. Also, rural markets have limited data on consumer demographics, behaviors, preferences and perceptions, which effect in sales planning. Moreover, poor connectivity prevents companies from easily acquiring real-time and reliable sales data. That makes it difficult for them to monitor and measure key performance indicators including the number customers lost or gained.

Though the rural market offers a big attraction to the marketers, it is not easy to enter the market and take a sizeable share in a short time. Some of the other barriers in exploring rural markets are as follows:

- Low literacy levels of the rural population
- Traditional lifestyle
- Backwardness of the rural masses
- Variation in languages and dialects
- Seasonality of demand
- Banking and credit problems

Therefore, it can be easily understood that challenges in rural markets are huge and many. Companies need to design a right marketing mix to crack open the potential of the rural market.

5.7 AN OVERVIEW OF INDIAN RURAL MARKET

The rural market is transforming year after year, and it would be quite inappropriate to approach with a mindset about its past image. Rural consumers are particularly aspiring or striving to purchase branded, high quality products. Consequently, businesses in India are optimistic about growth of the country's rural consumer markets, which is expected to be faster than urban consumer markets. The better networking among rural consumers and their tendency to proactively seek information via various sources to be better informed while making purchase decisions. Importantly, the wider reach of media and telecommunication services has provided information to India's rural consumers and is influencing their purchase decisions. Rural consumers in India are evolving towards a broader notion of value provided by products and services which involves aspects of price combined with utility, aesthetics and features, and not just low prices.

The hinterlands in India consist of about 6, 38,365 villages. These villages are inhabited by about 850 million consumers making up for 70 percent of population and contributing around half of the country's Gross Domestic Product (GDP). Consumption patterns in these rural areas are gradually changing to increasingly resemble the consumption pattern of urban areas. Some of India's largest consumer companies serve one-third of their consumers from rural India. Owing to a favourable changing consumption trend as well as the potential size of the market, rural India provides a large and attractive investment opportunity to private companies.

Market size

India's per capita GDP in rural regions has grown at a Compound Annual Growth Rate (CAGR) of 6.2 per cent since 2000. The Fast Moving Consumer Goods (FMCG) sector in rural and semi-urban India is expected to cross US$ 20 billion mark by 2018 and reach US$ 100 billion by 2025.

Recent Developments

Following are some of the major investments and developments in the Indian rural sector.

- India's unemployment rate has declined to 4.8 per cent in 2017

compared to 9.5 per cent in 2016, as a result of the Government's increased focus towards rural jobs and the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) scheme.

- The Ministry of Rural Development is expecting to achieve its annual targeted length of 48,812 kilometers of rural roads by March 31, 2017 under the Pradhan Mantri Gram Sadak Yojana (PMGSY), which has reached a completion stage of 67.53 per cent (32,963 kms) as on January 27, 2017.
- The National Bank for Agriculture and Rural Development (NABARD) plans to provide around 200,000 point-of-sale (PoS) machines in 100,000 villages and distribute RuPay cards to over 34 million farmers across India, to enable farmers to undertake cashless transactions.
- Magma Fincorp, a Kolkata-based non-banking finance company (NBFC) plans to expand its operations in South India, with specific focus on rural and semi-urban markets to help the company grow rapidly.
- Bharti Airtel is applying for a payments bank licence and has involved Kotak Mahindra Bank as a potential investor in the venture, in a bid to tap significant revenue opportunities from the Reserve Bank of India's financial inclusion initiative. Payments banks are meant to fan out into the rural, remote areas of the country, offering limited but critical services such as money transfers, loans and deposit collection. While banks have the knowhow, telecom companies have the network, making it an ideal match.

Government Initiatives

The Government of India has planned various initiatives to provide and improve the infrastructure in rural areas which can have a multiplier effect in increasing movements of goods, services and thereby improve earnings potential of rural areas subsequently improving consumption.

- The Government of India has approved the proposal to construct 10 million houses for the rural population, which will require an investment outlay of Rs 81,975 crore (US$ 12.7 billion) for the period

from 2016-17 to 2018-19.

- The Government of India aims to provide tap water regularly to every household by 2030 in line with United Nations Sustainable Development Goals, requiring a funding of Rs 23,000 crore (US$ 3.57 billion) each year until the target is met.
- The Government has introduced various reforms in the Union Budget 2017-18 to uplift the rural markets. Some of the key highlights of the Budget are:
    - Rs 187,223 crore (US$ 28.08 billion) has been allocated towards rural, agriculture and allied sectors.
    - The Allocation for Pradhan Mantri Aawas Yojana-Gramin has been increased from Rs 15,000 crore (US$ 2.25 billion) to Rs 23,000 crore (US$ 3.45 billion) in the year 2017-18 with a target to complete 10 million houses for the houseless by the year 2019.
    - The pace of roads construction under Pradhan Mantri Gram Sadak Yojana (PMGSY) has been accelerated to 133 kms per day as against an average of 73 kms per day during the years 2011-14.
    - The allocation to the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) has been Rs 48,000 crore (US$ 7.2 billion) in the year 2017-18, which is the highest ever allocated amount.
- The Government of India is looking to install Wi-Fi hotspots at more than 1,000 gram panchayats across India, under its ambitious project called Digital Village, in order to provide internet connectivity for mass use, as well as to enable delivery of services like health and education in far-flung areas.
- In the Union Budget 2017-18, the Government of India mentioned that it is on course to achieve 100 per cent village electrification by May 1, 2018.
- The Government of India has sought Parliament's approval for an additional expenditure of Rs 59,978.29 crore (US$ 8.9 billion), which

will be used to support the government's rural jobs scheme, building rural infrastructure, urban development and farm insurance.

Road Ahead

As is the trend with urban India, consumers in the rural regions are also expected to embrace online purchases over time and drive consumption digitally. The rural regions are already well covered by basic telecommunication services and are now witnessing increasing penetration of computers and smartphones. Taking advantage of these developments, online portals are being viewed as key channels for companies trying to enter and establish themselves in the rural market. The Internet has become a cost-effective means for a company looking to overcome geographical barriers and broaden its reach.



CHECK YOUR PROGRESS:

Q.1: Define 'Urban'.

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Q. 2: How rural marketing defined before 1960?

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5.8 LET US SUM UP

In this unit we have discussed the scenerio of Indian Rural market. India's Rural Market for consumer products and services is growing at an accelerated pace. An urban marketer interested to tap these marketing opportunities in rural India needs to develop a deeper understanding of the rural marketing ecology. Further, a marketer requires better insights on the logic of organizing marketing efforts in rural areas considering these rural specificities. Also, rural market is changing very fast and is very much

different from the urban one. The marketer with an urban mindset and the image of rural India as it used to exist would be in for a surprise when he makes a serious attempt to understand the evolution of rural areas as the market of the future with all the indicators showing an upward sign.

As the space is not for too many players, those who target and tap this market first in a systematic manner and build a relationship with the consumer and the trade will be benefited.



5.9 FURTHER READING

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3) Mohamed (Dr.) N. S*., Rural Marketing in India: Opportunities, Challenges and Strategies*, www.alliancebschool.com.

4) Kashyap P. and Raut S.,(2005) *The Rural Marketing Book* Biztantra Publications,



5.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Urban is:

- All locations with a municipality/corporation, cantonment board or a notified town area;
- All other locations satisfying all of the following criteria:
  - d) a minimum population of 5,000;
  - e) at least 75 percent of the male workforce engaged in non-agricultural activities; and
  - f) a population density of over 400 per sq. km.

Ans to Q No 2: Rural marketing referred to selling of rural products in rural and urban areas and agricultural inputs in rural markets. Phase I was treated as synonymous to 'agricultural marketing'.



5.11 MODEL QUESTIONS

1. Discuss the evolution of rural marketing over a period of time.
2. Illustrate the different steps of the rural marketing model.
3. Give an overview of the Indian rural market.
4. Discuss the various opportunities and challenges in the rural market.
5. How does the heterogeneity of the Indian rural market affect the marketing mix strategies?

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UNIT 6: RURAL CONSUMER BEHAVIOUR

UNIT STRUCTURE

6.1 Learning Objectives

6.2 Introduction

6.3 Meaning of Consumer Behaviour

6.4 Characteristics of Rural Consumer

6.5 Consumer Behaviour Roles

6.6 Factors Influencing Purchase of Products in Rural Markets

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:

- define the conceptual background of consumer behaviour
- explain rural consumer's buying behaviour
- know the factors that affect a rural consumer's purchase decision

6.2 INTRODUCTION

The *value philosophy of marketing* stresses that marketing is all about delivering value to the consumer. The marketer has to go by the thinking of the consumer on what constitutes value, and deliver her the value she seeks. This implies that practising the value philosophy has to begin with knowing consumer-behaviour and buying decision process.

By knowing consumer-behaviour and the nuances of the buying-decision process, the marketer benefits in his value-delivery endeavour. In fact, he derives benefit in executing every step of the value-delivery process, starting from value-selection and extending to value-communication. In this unit, we will briefly discuss the behaviour of rural consumer.

6.3 CONSUMER BEHAVIOUR-THE MEANING

While knowledge of consumer behaviour is essential, decoding it – what a consumer would buy and how she reaches a buying decision – is no easy task. In the first place, consumer behaviour is deeply dependent on the psychological processes that underlie consumer behaviour.

The actions and decisions of individuals who purchase products for their personal use constitute consumer buying behaviour. The process involved in purchasing products can differ from buyer to buyer and from product to product. Consumer behaviour is a dynamic interaction of affection and cognition, behaviour and the environment by which human beings conduct exchanges during their lives.

Schiffman and Kanuck (2000), define consumer behaviour as, "the behaviour that consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs. It is thus a study of how individuals make decisions to spend their available resources – like time, money, effort – on consumption related items."

The characteristics of *the buyer as an individual* play a big role in determining the priorities the buyers will assign to the desires and the ways in which they will try to realize them. Uncovering this process is not an easy task.

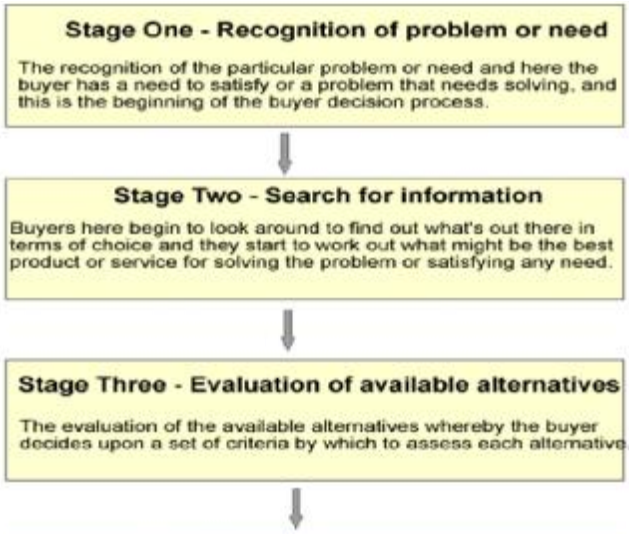




Fig. 6.1: Buying decision process for rural consumer

6.4 CHARACTERISTICS OF RURAL CONSUMER

Although it is an important task to profile the rural consumer, it is nest to impossible to sketch a single profile that can represent the whole market perfectly. As there exists a great deal of heterogeneity in the rural market, there is less likelihood of a clear definition of Indian rural consumer. The characteristics of the rural consumer differ from not only region to region but within the region itself.

The characteristics of the rural consumer can be studied on the basis of the following parameters:

(i) Traditional Outlook

The rural consumers appreciate old traditions, customs and practices. They exhibit resistance to change. Rural consumers possess a set of attitudes, which influence their purchases; and these are different from their urban counterparts.

(ii) Conscious of Value for Money

The rural consumer is very conscious of getting value for money. He is not ready to pay extra for something which he cannot use. He displays logic in his purchase and hence has a very high involvement in any product purchased, especially when he decides to buy high end products, which involves a few hundreds or thousands of rupees.

(iii) Realistic Aspirations

A rural consumer is someone who is very realistic in his aspirations. He can go an extra mile and stretch the budget but he would prefer to do it within limits only. He is ready to pay more if additional tangible benefits are found.

(iv) Concept of Quality

The rural consumer's concept of quality has to do with products that are long lasting, useful and have low-cost maintenance.

(v) Perception and its Influence

The rural consumer understands symbols, colours, sizes and shapes better, and looks for endorsement by local leaders or icons. For example, the colour yellow indicates prosperity in the rural south, while in the north, yellow is indicative of sickness and disease.

(vi) Suspects Hype and Fear of being Cheated

The rural consumer suspects hype and is afraid of being cheated or fooled by the marketing gimmicks in future. Respect is very vital for them, and they do not want the entire village to laugh at them.

Therefore, marketers need to have comprehensive knowledge with regard to the characteristics of the rural consumers, as it will help them to develop effective marketing strategies to tap the rural market.

6.5 CONSUMER BEHAVIOUR ROLES

The purchase decision of a customer for a particular product is being influenced by different members of a family or the society .These roles vary across different product categories.

Table 6.1 Role Played by Consumers in Decision Making Process

Role	Description
Initiator	The individual who determines that some need or want is not being met and authorizes a purchase to rectify the situation.
Influencer	A person who by some intentional or unintentional word or action, influences the purchase decision or the actual purchase of a product/service.
Buyer	The individual who actually makes the purchase transaction.
User	The person most directly involved in the consumption or use of purchase

***Source**: Adapted from Dogra & Ghuman, 2012*

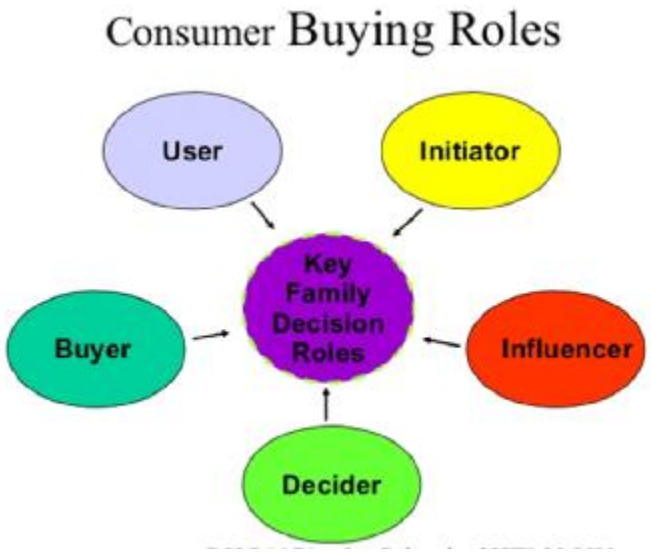


Fig. 6.2: Role played by consumers in decision making process

(i) Family Dynamics in Decision-making

Members of the family together decide the majority of the purchases in India, especially in the case of consumer durables. Therefore, the real target for the marketer should not be an individual member but the family as a whole. The traditional rural family in India still has three generations staying together as joint and even extended families.

Different family members play a more active role during certain stages of the buying process pertaining to different products. The marketer needs to identify the members who play the roles of initiator and influencer for particular products and then develop an appropriate communication strategy targeted at them to arouse the desired response.

(ii) Customer Orientation

Today, customers have many options in terms of more quality, more variety, more service and more for the every penny being spent. Acquiring things was never that easy for Indian consumers, as it is now when the seller's market has transformed into a buyer's market. In this changing scenario, customer orientation and the ability to both attract and retain customers is of major concern for marketers.

Marketers have to probe and explore the customers for what really matters to them and then build a strategy around delivering those expectations.

Organizations need to develop a mechanism by which sales people can connect to the consumers and conveying the same to the key decision makers in the organization. Acting on the information may help the organization to attract and retain customers.

6.6 FACTORS AFFECTING CONSUMERS DURING PURCHASE OF A PRODUCT IN RURAL MARKETS

About 70 percent of India's population lives in rural areas and Consumers in this huge segment have displayed vast differences in their purchase decisions and the product use. Villagers react differently to different products, colours, sizes, etc. in different parts of India. Therefore, it is important to study the thought process that goes into making a purchase decision.

Consumer behavior is complex and dynamic and influenced by various factors. The factors influencing a rural consumer's purchase decision can be enumerated as following:

(i) Socio-cultural Factors

Social customs, traditions and beliefs exert the broadest and deepest influence on consumer behavior. These are the most basic elements that shape a person's wants and behaviour. In India, there are so many different cultures, which only gives rise to a variety of goods and services which are culture specific. Rural consumers being conservative in their outlook, take a longer time to be influenced. They tend to discuss the issue of purchase with other villagers considered to be important and knowledgeable.

(ii) Family

The family is the most important consumer buying organization in society, and family members constitute the most influential primary reference group. Family size and the roles played by family members exercise considerable influence on the purchase decisions. Industry observers are increasingly realizing that at times, purchase of durables has less to do with income, but has more to do with the size of the family & that's where rural India with joint family structures, becomes an attractive proposition.

(iii) Group

Consumers are part of a group to which they belong. In group, there exist

opinion leaders, who by their sheer competence or acceptability have a direct influence on others. It is very important for the companies to ensure the acceptability of n idea or by the group and by the opinion leaders is critical in rural areas.

(iv) Role and Status

We each participate in many groups-family, clubs, organizations-and these are often an important source of information and help to define norms for behavior. We can define a person's position in each group in terms of role and status. A role consists of the activities a person is expected to perform. Each role in turn connotes a status. A Headmaster enjoys a higher status in a village, people trust him and his advice and opinion is given respect during purchase and other decisions.

(v) Economic Factors

Both product and brand choice are greatly affected by economic circumstances like spendable income (level, stability, and pattern over time), savings and assets, debts, borrowing power, and attitudes toward spending and saving. Many people in the rural market are below the poverty line and for large number of people, agriculture is the primary occupation. More than 70% of the people are in small-scale agricultural occupation. These factors affect the purchase decision.

(vi) Sociability

In the rural areas, individuals are well known to each other compared to their urban counterparts. The desire to be accepted by the group makes them agreeable to group and consensus decision making.

(vii) Political Factors

The philosophy and decisions of the party in power and the thinking of the opposition greatly influence the lives of rural people. The focus of any political party and the government on the development of the rural population directly and indirectly, influences the people residing there.

(viii) Factors which Influence the Final Choice

There are certain other factors that also influence the overall decision. The factors that are important enough to be able to change a decision that is previously thought-over, are as follows:

- Attitude of others

- Advice of the retailer
- Experience at the retail outlet
- Demonstration of products
- Sudden change in situational factors
- Mind change



CHECK YOUR PROGRESS:

Q.1: Define 'Consumer Behaviour'.

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Q.2: Who is an initiator?

_____



6.7 LET US SUM UP

We can conclude that rural consumer scene is in the grip of big change. Rural consumers are simpler, more forthright, with low to medium aspiration level, are influenced by social pressure, rituals and norms. But, at the same time, the rural consumer is very different from his urban counterpart.

Currently, the rural consumer is in an upbeat mood and full of aspirations. This is a positive sign and an indicator for the industry, but it is also a challenge for the marketers to connect to the rural consumers and tapping the rural market. The marketers' understanding of the rural consumer has to keep pace with the various changes occurring in rural markets.

According to C K Prahalad, the marketing potential at the bottom of the pyramid in countries like India is great and marketers can convert it into a profitable market, provided they device a different kind of business model to serve it.



6.8 FURTHER READING

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4) Understanding Rural Buyer Behaviour by M.Jha, IIM-B Management Review, Vol.15, No.3, September 2003, pp 89.



6.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Schiffman and Kanuck (2000), define consumer behaviour as, "the behaviour that consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs. It is thus a study of how individuals make decisions to spend their available resources – like time, money, effort – on consumption related items."

Ans to Q No 2: The individual who determines that some need or want is not being met and authorizes a purchase to rectify the situation.



6.10 MODEL QUESTIONS

1. Define consumer behavior.
2. Discuss the importance of studying consumer behavior in the rural market.
3. Explain how rural consumer behavior is different from urban consumer behavior.
4. What are the various roles played by a consumer in decision making process? What are the factors that influence rural consumer behavior and the consequent decision making process in the rural market?
5. Discuss in detail the role of family in the decision-making process of a rural consumer.

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UNIT 7: RURAL MARKETING RESEARCH

UNIT STRUCTURE

7.1 Learning Objectives

7.2 Introduction

7.3 Meaning of Marketing Research

7.4 Need of Rural Marketing Research

7.5 Marketing Research Process

7.6 Sources and Methods of Data Collection

7.7 Data Collection Approaches in Rural Markets

7.8 Let Us Sum Up

7.9 Further Reading

7.10 Answers to Check Your Progress

7.11 Model Questions

7.1 LEARNING OBJECTIVES

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

- understand the meaning of marketing research
- explain the need of rural marketing research
- describe the steps involved in marketing research process
- identify the sources and methods of data collection
- explore the data collection approaches in rural markets

7.2 INTRODUCTION

This chapter explores the process of marketing research and its role in the achievement of strategic marketing and organizational objectives in rural markets. Clearly, it is necessary to have valid information to make any rational decision. Making effective marketing decisions require accurate marketing information. It is therefore essential that organizations collect and analyse data on environment within which they operate. Marketing research is used to obtain information that provides the management of a company or organization with sufficient insight to make more informed decisions on future activities.

7.3 MEANING OF MARKETING RESEARCH

The American Marketing Association (AMA) defines market research as: '*The systematic gathering, recording and analysing of data about problems related to marketing of goods and services*.' Different organizations approach the domain of market research from different perspectives outlined as following:

(a) Reactive Approach

These organizations do not conduct research, but follow what others do and see

(b) Proactive Approach

These organizations anticipate developments in the market and introduce new ideas and methods to exploit opportunities or to minimize problems so as to get ahead of competition.

7.4 NEED OF RURAL MARKETING RESEARCH

Research is an extremely important function before designing and implementing any marketing initiative; this fact is equally true in the rural areas. Traditionally, firms have not used marketing research to find out what the consumer in the rural markets of India wants. Rural markets are highly under researched and conducting research in the rural areas is also not that easy. As the rural market is widely scattered and heterogeneous, the research effort required is quite expensive.

The research process is very critical to rural marketing. There are two reasons for this:

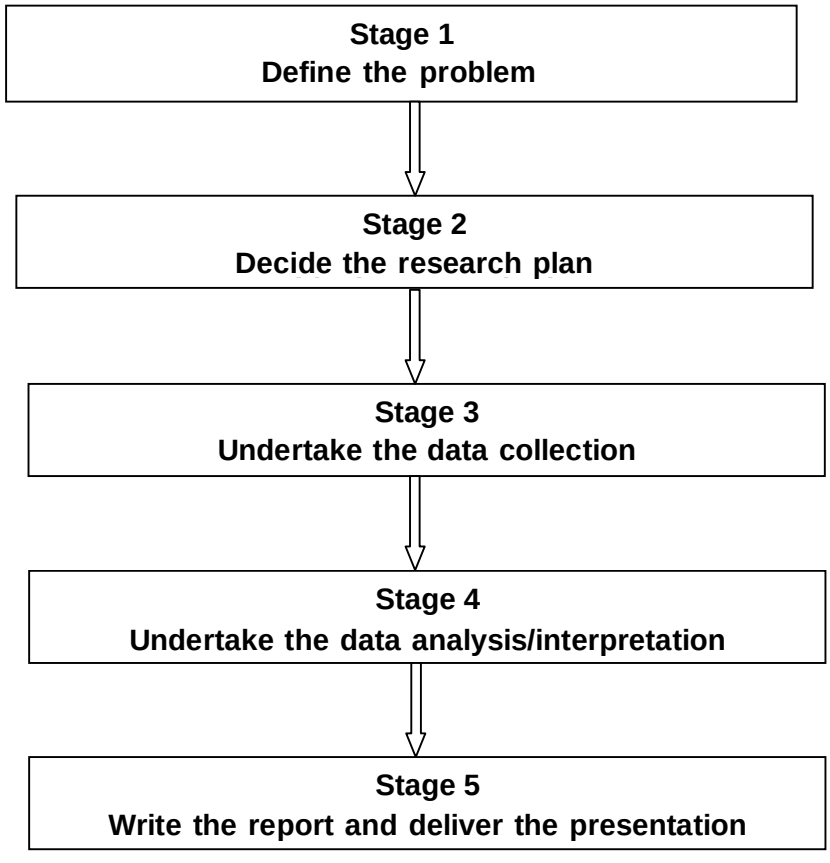
(b) The marketer has limited understanding of rural consumer; and

(c) The marketer who is urban oriented may find it useful to unlearn consumer response to decision variables in the urban market. This requires the use of research methodology that is sensitive to social processes in rural markets.

7.5 RURAL MARKET RESEARCH PROCESS

If we believe that marketing research is a systematic, objective collection and analysis of data, with regard to the marketing of products

and services, then obviously it must be carried out in a systematic and objective way. There are several basic steps in undertaking marketing research in the rural market, and these can be outlined under the headings shown in Fig. 7.1.



Source: Adapted from Baines and Chansarkar (2002).

Fig. 7.1: Marketing Research Process

Stage 1: Problem Definition

This is always the first step in any form of market investigation. This process occurs when an organization provides a marketing research brief defining the management problem. Defining the problem is always very difficult. A poorly defined problem will result in work being undertaken that will not provide the necessary information for the correct decisions to be made. Indeed, it may lead the organization in the wrong direction with possible adverse outcomes.

An example of problem definition might be the Big Bazaar hypermarket chain explaining that sales are not as strong as expected in one of their new stores in Guwahati, and wondering whether or not this is due to the emergence of a new competitor supermarket nearby.

Stage 2: Decide the Research Plan

At this stage, we decide whether or not to undertake primary or secondary research or both. Often, the researcher might have to undertake an initial phase of secondary research to see whether someone has considered the same research question he now encounters. In this section, we consider two main types of data, secondary and primary. Secondary data is data/ information that has previously been gathered/analyzed by someone else for another purpose rather than the current research project. This data/ information can be either internal or external. Primary data is data/ information that is gathered, analyzed and presented specifically for the current research project.

Stage 3: Data Collection and Preparation

Once a researcher has collected both the qualitative and quantitative data it must be analyzed. Raw data from any study is of little value until it is converted into a suitable form for analysis, interpretation and presentation. This stage involves the conduct of fieldwork and the collection of the required data. Once the sample of respondents has been selected it is necessary to obtain the data.

Stage 4: Data Analysis and Interpretation

Managers need information, not raw data. Researchers generate information by analyzing data after its collection. Once the research data has been analyzed it must be compiled into a clear and logical format. This must convey the research results, key indicators, recommendations with supporting evidence and conclusions. This stage of the market research process comprises data input, analysis, and interpretation.

Stage 5: Report Preparation and Presentation

Finally, it is necessary to prepare a report and transmit the findings and recommendations to the manager for the intended purpose of decision making. The researcher adjusts the style and organization of the report

according to the target audience, the occasion, and the purpose of the research. Reports should be developed from the manager's or information user's perspective. The researcher must accurately assess the manager's needs throughout the research process and incorporate this understanding into the final product, the research report.

Most of the steps required for rural marketing research are identical to those followed in conventional or urban marketing. However, a major difference exists in the domain of data collection. The approach that is followed in the collection of data in the rural markets and the activities that have to be undertaken to collect data from the rural areas are quite different from the ones that are required for urban markets. Therefore, the focus of the researcher has to be on the data collection step of the marketing research process.

7.6 SOURCES AND METHODS OF DATA COLLECTION

Data collection is the heart of all marketing research. It is an elaborate process through which the researcher makes a planned search for all relevant data and gathers the entire data required for the assignment. Organizations have the option to use either primary or secondary sources for collecting the data about the rural markets. Primary sources comprise original information gathered for the first time by the researcher himself; secondary sources comprise information collected by the researcher from secondary sources, internal or external. The researcher first searches secondary data sources before commissioning any efforts for collecting any primary data. There are many advantages in searching for and analyzing secondary data before attempting the collection of primary data. In many cases, the secondary data itself may be sufficient to solve the problem.

7.7 DATA COLLECTION APPROACHES IN RURAL MARKETS

A considerable number of rural populations is not fully familiar with the concept of marketing research. Therefore, whenever a researcher or

investigator approached the rural people they become suspicious of their intentions. Although rural people are not that busy as compared to their urban counterparts, the investigator initially has to build rapport or relationship with them, persuade them the importance of the research undertaken by him and break the barrier of reluctance and reservation to participate in an activity that is new to them.

Once the researcher has developed a good rapport, then the researcher has cooperation of others. The investigators can employ the following approaches to successfully collect data from the rural areas:

(i) Ensuring the Support of Opinion Leader

To motivate the rural people to participate actively to the research exercise, the researcher needs to aware and educate the opinion leader, like the headman/sarpanch, school teacher, educated farmer or a respected elder about the potential and likely benefits of the research. Then, with the cooperation of these opinion leaders, the researcher would be in a position to get the people of that village to respond to the research.

(ii) Behaving so as to be liked by Rural People

It is important that the researcher in the rural market behaves in a manner that is liked by the rural people. He should dress, talk, act and behave in a manner that make the rural respondents relate to him, so that the respondents become willing to participate in the research endeavour. On the other hand, acting in an urbane manner and hurting the sensitivity of any person in the village can devoid the researcher of ant response from the whole village.

(iii) Being at the Right Places

The researcher can select places in villages which are more likely to be visited by a good number of people so that he can attain efficiency in the data collection process. These places could be:

(a) The Village Choupal is visited by people of all ages in large numbers in their free time.

(b) Retail outlets: The researcher can build relationship with the retailer by making a purchase from his shop. The retailer can influence the people visiting his shop to participate and respond to the questions of the researcher.

(c) Fairs: Through an interactive presence in fairs, companies can collect valuable primary data form the rural population.

(d) Haats: Haats are the places which are frequently visited by a good number of people. The researcher can interact with a large number of rural consumers from different villages and thereby can collect data very easily and efficiently.



CHECK YOUR PROGRESS:

Q.1: Define marketing research.

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Q.2: State any two reasons for conducting marketing research.

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7.8 LET US SUM UP

In this unit, we have discussed about marketing research. The research process used in urban markets may not always be appropriate in the rural markets. Selecting the appropriate research process, therefore, requires care in its application in the rural setting. Conducting research with the typical 5-point or 7-point scales used in the urban markets have been found ineffective in the rural context because they involve a complex understanding on the part of the rural consumer. So, before starting an all out effort in the rural market it is extremely important to know the rural market. With the availability of professional help, the corporate world is now in a better position to face the challenges of the rural market than before.



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7.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: The American Marketing Association (AMA) defines marketing research as: '*The systematic gathering, recording and analysing of data about problems related to marketing of goods and services*.'

Ans to Q No 2: The research process is very critical to rural marketing. There are two reasons for this:

(a) The marketer has limited understanding of rural consumer; and

(b) The marketer who is urban oriented may find it useful to unlearn consumer response to decision variables in the urban market. This requires the use of research methodology that is sensitive to social processes in rural markets.



7.11 MODEL QUESTIONS

1. Outline the several basic steps in undertaking marketing research in the rural market.
2. Identify the various sources of data collection in the rural market.
3. What are the different approaches for collecting data in the rural market?

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