PGBA (S2) 02-1

MARKETING MANAGEMENT

2 Semester

MASTER IN BUSINESS ADMINISTRATION

Maniram Dewan School of Management
KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

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DETAILED SYLLABUS

UNIT 1: Introduction to Marketing Management

Introduction, Market and Marketing, the Exchange Process, Core Concepts of Marketing, Functions of Marketing, Importance of Marketing, Marketing Orientations

Unit 2: Marketing Environment

Introduction, Environmental Scanning, Analyzing the Organization's Micro Environment, Company's Macro Environment, Differences between Micro and Macro Environment, Techniques of Environment Scanning,

UNIT 3: Consumer Buying Behaviour

Introduction, Characteristics, Types of Buying Decision Behaviour, Consumer Buying Decision Process, Buyer Decision Process for New Products, Buying Motives, Buyer Behaviour Models

UNIT 4: Business Buying Behaviour

Introduction, Characteristics of Business Markets, Differences between Consumer and Business Buyer Behaviour, Buying Situations in Industrial/Business Market, Buying Roles in Industrial Marketing, Factors that Influence Business Buyers, Steps in Business Buying Process

UNIT 5: Segmentation, Targeting and Positioning

Introduction, Concept of Market Segmentation, Benefits of Market Segmentation, Requisites of Effective Market Segmentation, The Process of Market Segmentation, Bases for Segmenting Consumer Markets, Targeting (T), Market Positioning (P)

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

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

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

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

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

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

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

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

Unit 10 : Marketing Promotion I: Introduction, Define Promotion, Promotion Mix, Factors affecting Promotional Mix, Forms of Promotion: (i) Advertising

Unit 11 : Marketing Promotion II: Forms of Promotion: (ii) Sales Promotion, (iii)Personal Selling & (iv)Public Relation.

Unit 12: Customer Relationship Management: Introduction, Relationship Marketing Vs. Relationship Management, Definitions of Customer Relationship Management (CRM), Forms of Relationship Management, Managing Customer Loyalty and Development, Reasons Behind Losing Customers by Organisations, Significance of Customer Relationship Management,

Unit 13: Emerging trends in Marketing: Customer Relationship Management, E-commerce marketing, Green marketing, Social Marketing, Rural and Developmental Marketing,Services Marketing.

Unit 14: Case Study

COURSE INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The fourteenth unit is about case studies in marketing management.

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

UNIT: 1 INTRODUCTION TO MARKETING MANAGEMENT

UNIT STRUCTURE

1.1 Learning Objectives

1.2 Introduction

1.3 Market

1.4 Marketing Management

1.5 The Exchange Process

1.6 Core Concepts of Marketing

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

1.7 Functions of Marketing

1.8 Importance of Marketing

1.9 Marketing Orientations

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

1.10 Let Us Sum Up

1.11 Further Readings

1.12 Answer To Check Your Progress

1.13 Model Questions

1.1 LEARNING OBJECTIVES

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

- explain the concept of Market
- explain the concept of Marketing Management

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

1.2 INTRODUCTION

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

1.3 MARKET

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



However, as market is a congregation of group of sellers and buyers, market

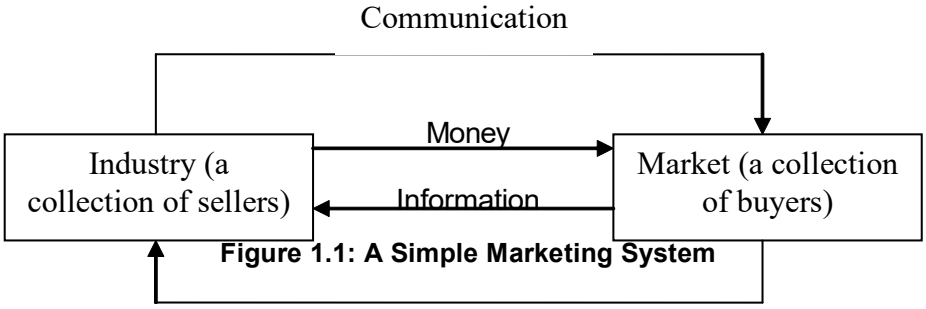


Figure 1.1: A Simple Marketing System

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

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

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

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

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

Global Markets: Several companies are selling goods and services in the global marketplace to sustain and increase their sales and profit. Globalization, rapid advances in information technology, and the efforts by WTO have diminished the regional boundaries thereby making business easier. However, companies face additional challenges too in serving a global market.

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

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

1.4 MARKETING

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

While answering this question which one have you thought?

Marketing is selling

or

Marketing is advertisement

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

The American Marketing Association formally defines marketing as "an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in a way that benefit the organization and its stakeholders". Philip Kotler defines marketing as "a social and managerial process by which individuals and groups obtain what they need and want

through creating, offering and freely exchanging products and services of value with others".

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

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

   — Professor Glasser

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

   — H. L. Hansen

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

   — Edward W. Cundiff

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

   — William D. Perreault and E. Jerome McCarthy

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

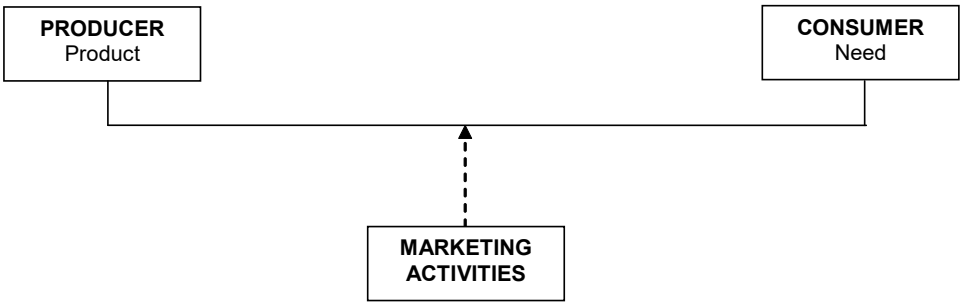


Figure 1.2: Marketing Activities

LET US KNOW



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



CHECK YOUR PROGRESS: 1

Choose the correct answer:

Q1: The term marketing refers to:

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

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

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

Q3: In order for exchange to occur:

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

Q4: Which of the following statement is correct

a. Marketing is the term used to refer only to the sales function within a firm

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

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

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

1.5 THE EXCHANGE PROCESS

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

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

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

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

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

1.6 CORE CONCEPTS OF MARKETING

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

1.6.1 Customer Needs, Wants and Demands

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

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

1.6.2 Product or Market Offerings

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

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

1.6.3 Customer Value and Satisfaction

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

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

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

1.6.4 Marketing Channels

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

1.6.5 Supply Chain

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

1.6.6 Competition

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

1.6.7 Marketing Environment

The marketing environment includes task environment and broad environment. Task environment includes the factors engaged in producing, distributing and promoting the offering. The broad environment consists of six components: demographic environment, economic environment, physical environment, technological

environment, political-legal environment, and social-cultural environment. Marketers must pay close attention to the trends and developments in these environments and make necessary adjustments in their marketing strategies.



LET US KNOW

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

1.7 FUNCTIONS OF MARKETING

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

1. **Gathering and analyzing market information:** One of the important functions of marketer is to gather and analyze market information to identify the needs of the customers and take various decisions for the successful marketing of the products and services. Market information not only provides the needs and desired of the customers but also helps the organization in determining its strengths and weaknesses and analyzing the opportunities and threats in the environment.
2. **Marketing planning:** Another important activity or area of work of a marketer is to develop marketing plans. This is necessary to achieve the marketing objectives of the organization.

3. **Product designing and development:** Another important function of marketing is product design and development. The design of the product makes it attractive, determines its performance and may become a source of competitive advantage. Sufficient time must be given in planning the design of the product.
4. **Standardization and grading:** Standardization refers to producing goods of predetermined specification and grading is the process of classification of products into different groups on the basis of certain important characteristics. Standardization is an important marketing function as it ensures that goods conform to predetermined standards of quality or price or packaging and grading ensures that goods belong to a particular quality and helps in realizing higher prices for higher quality products.
5. **Packaging and labelling:** Packaging and labelling has assumed significant importance in marketing. Packaging not only serves as protective tool but also serves as a promotional tool. Buyers most often judge the quality of the product from packaging and labelling.
6. **Branding:** Marketer of the products must also decide whether to market the product under the generic name or under a brand name. The brand name helps to distinguish the product from its competitors and helps in creating product differentiations.
7. **Customer support services:** A very important function of marketing is customer support services such as after sales service, technical services, customer grievance handling, maintenance services, and customer information. These services help develop brand loyalty and also prove effective in bringing repeat sales.
8. **Pricing of product:** Price is an important factor which affects the sales of the product. The marketers need to properly analyze the factors while determining the price of a product.
9. **Promotion:** Promotion of products and services involves informing the customers about the firm's product and persuading them to buy the product. A marketing manager has to take several crucial decisions regarding promotion mix, promotion budget and so on.

10. **Physical distribution:** Managing the distribution of the products is another important decision criterion for marketing managers. Mainly, two major decisions need to be taken: (a) decision regarding channel of distribution and (b) physical movement of the product from where it is produced to the place where it is consumed.
11. **Transportation:** As the producers and consumers are geographically separated it is necessary to move the products from one place to another. Organizations must analyze the transportation needs and take decisions with respect to mode of transportation, cost of transportation and other such related issues.
12. **Storage or warehousing:** In order to maintain smooth flow of product in the market, there is a need for proper storage of the products. Moreover, storage is also required to meet the demands of the customers in the market and therefore, it is an important function of marketing. The function of storage however, may be performed by different agencies such as the manufacturers, wholesalers, and retailers.

1.8 IMPORTANCE OF MARKETING

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

1. It enables firms to earn more profits- which is the primary interest of business organizations.
2. It acts as a basis for making decisions with respect to what firms offer in the market.
3. It acts as a source and channel of new ideas. Marketing helps gauge the changing needs of the consumers and accordingly craft new products and services.
4. It acts as an instrument to lift up the standard of living by ensuring a steady supply of goods and services in the economy. Although it is not the sole economic determinant of standard of living, however,

marketing is a means through which production and purchasing power are converted into consumption.

5. Marketing, via its several activities and functions, provides gainful employment opportunities to millions of people. Each marketing function is performed by different individuals or agencies thereby providing significant employment opportunities.
6. Marketing is the strong bridge between producers and consumers and forms a connecting link between the two wheels of the economic machinery of a nation. Marketing, by understanding what consumers want, maintains the stability of the economy.



CHECK YOUR PROGRESS

Choose the correct answer:

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

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

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

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

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

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

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

a. Competitive benefit

b. Customer value

c. Satisfaction

d. Profit margin

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

a. Needs

b. Attitudes

c. Demands

d. Channels

1.9 MARKETING ORIENTATIONS

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

1.9.1 The Production Concept

The production concept is one of the oldest concepts and the crux of the concept is based on the premise that, if the product is really good and the price is reasonable there is no need for marketing effort. Organizations operating under a production-oriented concept focus on achieving high production efficiency, low costs, and mass distribution.



Fig. 1.3: Production Concept

1.9.2 The Product Concept

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

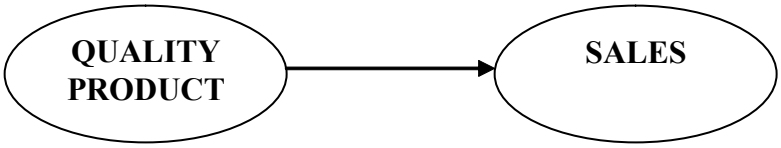


Fig. 1.4: Product Concept

1.9.3 The Selling Concept

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

Fig. 1.5: Selling Concept

1.9.4 The Marketing Concept

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



Fig. 1.6: Marketing Concept

1.9.5 THE HOLISTIC MARKETING CONCEPT

Organizations, over a period of time, have realized that the forces and trends are dynamic and there no single best way of approaching problems. Today's best marketers recognize the need to have a more complete, comprehensive and cohesive approach that goes beyond the traditional marketing concepts. Holistic marketing concept is based on development, design, and implementation of marketing programs, processes and activities. "Everything matters" in holistic marketing and a broad and integrated outlook is required to market goods and services.Fig. 1.7 Holistic Marketing Concept

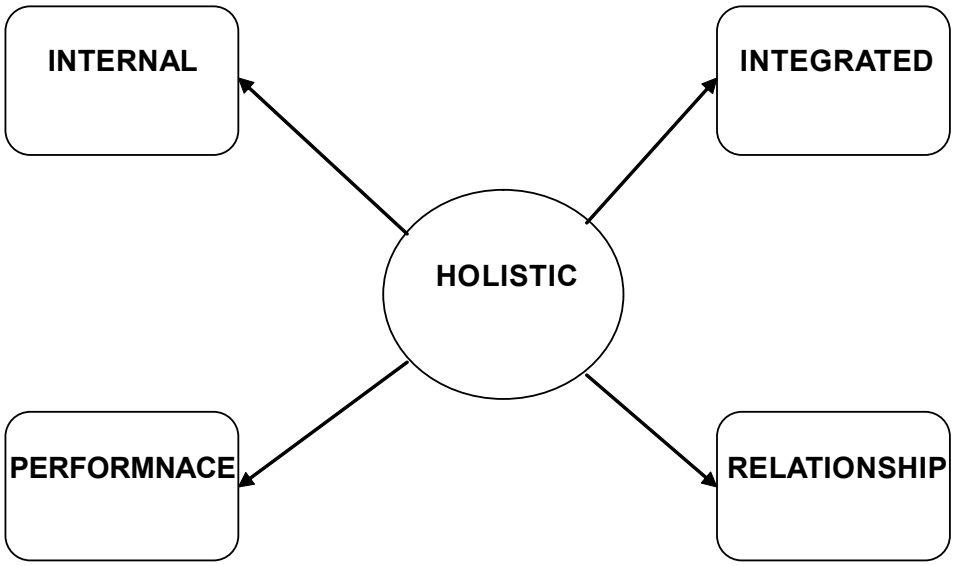


Fig. 1.7: Holistic Marketing Concept



1.10 LET US SUM UP

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

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



1.11 FURTHER READINGS

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



1.12 ANSWERS TO CHECK YOUR PROGRESS

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

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

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

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

Ans. to Q. No. 5 a) Latin

Ans. to Q. No. 6 c) Product

Ans. to Q. No. 7 a) Value

Ans. to Q. No. 8 d) Offering

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

Ans. to Q. No. 10 c) Demands



1.13 MODEL QUESTIONS

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

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UNIT: 2 MARKETING ENVIRONMENT

UNIT STRUCTURE

2.1 Learning Objectives

2.2 Introduction

2.3 Environmental Scanning

2.4 Micro Environment

2.5 Macro Environment

2.6 Differences between Micro and Macro Environment

2.7 Techniques of Environmental Scanning

2.8 Let us Sum up

2.9 Further Readings

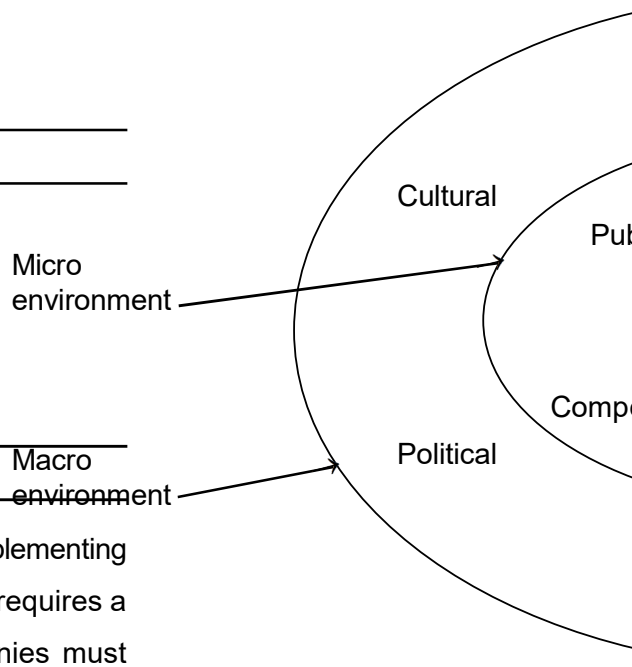
2.10 Answers to Check Your Progress

2.11 Model Question

2.1 LEARNING OBJECTIVES

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

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



2.2 INTRODUCTION

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

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

2.3 ENVIRONMENTAL SCANNING

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

- Micro-environment
- Macro-environment

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

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

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

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

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

2.4 MICRO ENVIRONMENT

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

These micro-environment entities are described below:

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

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

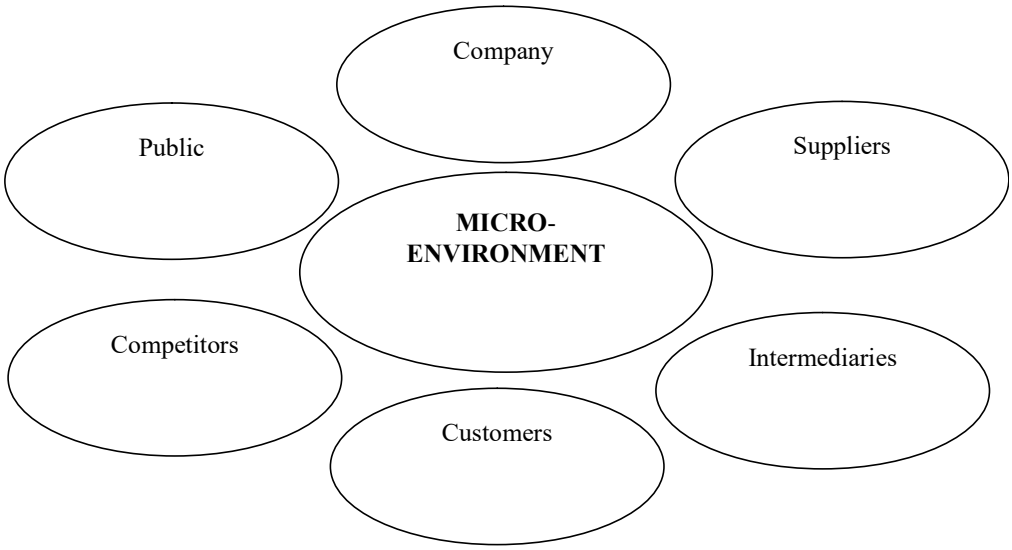


Figure 2.2: The Marketing Micro-Environment

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

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

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

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

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



CHECK YOUR PROGRESS

Choose the correct answer:

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

a. Micro and Macro environment

b. Micro and Mini Environment

c. Macro environment and Mini Environment

d. Major and Minor Environment

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

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

Q3: Company's microenvironment does not include:

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

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

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

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

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

2.5 MACRO-ENVIRONMENT

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

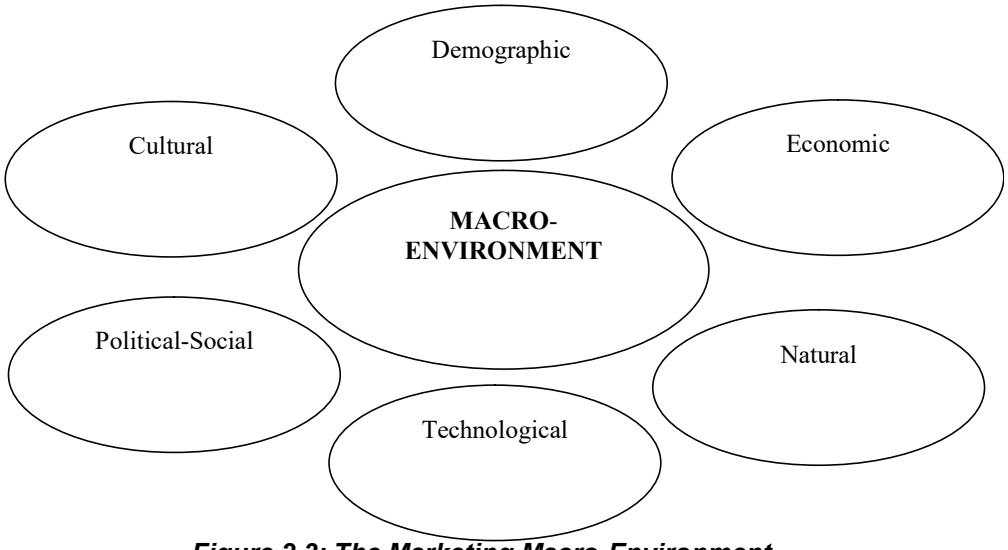


Figure 2.3: The Marketing Macro-Environment

The macro-environment entities are described below:

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

Marketers must increasingly consider the special needs of these non-traditional households, because they are now growing more rapidly than the traditional households.

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

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

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

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

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

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

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

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

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

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

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

2.6 DIFFERENCE BETWEEN MICRO AND MACRO ENVIRONMENT

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

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

Table2.1: Differences between Micro and Macro environment

2.7 TECHNIQUES OF ENVIRONMENTAL SCANNING

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 2.2: SWOT analysis

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

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

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

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

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

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

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

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

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

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

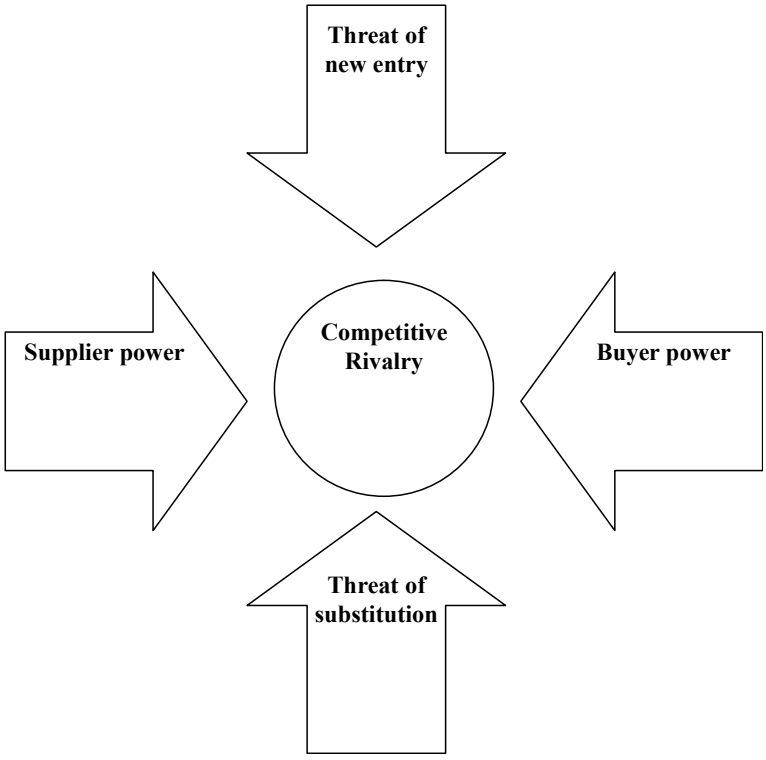


Figure 2.4: Porter's Five Forces Model

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



CHECK YOUR PROGRESS

Choose the correct answer:

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

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

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

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

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

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

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

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

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

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



2.8 LET US SUM UP

In this unit we have discussed the following:

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

  Internal Records and Marketing Intelligence
  Needs and trends
  SWOT analysis
  PEST analysis
  Porter's five forces model



2.9 FURTHER READINGS

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



2.10 ANSWERS TO CHECK YOUR PROGRESS

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

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

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

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

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

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

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

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

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

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



2.11 MODEL QUESTIONS

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

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

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UNIT 3: CONSUMER BUYING BEHAVIOUR

UNIT STRUCTURE

3.1 Learning Objectives
3.2 Introduction
3.3 Characteristics of Common Behaviour
3.4 Types of Buying Decision Behaviour
3.5 Consumer Buying Decision Process
3.6 Buyer Decision Process for New Products
3.7 Buying Motives
3.8 Buyers Behaviour Models
3.9 Let Us Sum Up
3.10 Answers to Check Your Progress
3.11 Further Readings
3.12 Model Questions

3.1 LEARNING OBJECTIVES

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

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

3.2 INTRODUCTION

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

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

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

3.3 CHARACTERISTICS OF CONSUMER BEHAVIOUR

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

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

- ***Consumer behaviour is dynamic***: A consumer's behaviour is always changing in nature. The taste and preference of the people vary. According to that consumers behave differently. As the modern world changes, the consumer's behaving pattern also changes.

- ***Consumer behaviour is influenced by psychological, social and physical factors****:* A consumer may be influenced by his or her attitudes, perception, beliefs, intentions and the like. A consumer may be also loyal with a product due to its status values in a society. Another may stick with a product due to its economy in price. Understanding the psychological, social and physical factor factors by a marketer is crucial before placing the product to the consumers.

- ***Study of consumer behaviour is crucial for marketers****:* Before producing a product or launching a product, a marketer has to go through a clear analysis of the consumer behaviour. If the people or prospects reject the product, he has to modify it. It is a continuous process as it involves the process which starts before the buying and continuing after purchasing. Before buying there may be high confusions and expectations about the product. After buying it, if the buyer is satisfied with the product he shows a positive behaviour and if he or she is not satisfied, the product or service may not be consumed in future again.

3.4 TYPES OF BUYING DECISION BEHAVIOUR

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

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

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

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

2. Dissonance-Reducing Buying Behaviour:

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

3. Habitual Buying Behaviour:

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

4. Variety-Seeking Buying Behaviour:

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

3.5 CONSUMER BUYING DECISION PROCESS

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

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

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

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

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

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

3.6 BUYER DECISION PROCESS FOR NEW PRODUCTS

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

new product. The stages in the adoption process have been described as follows:

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

3.7 BUYING MOTIVES

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

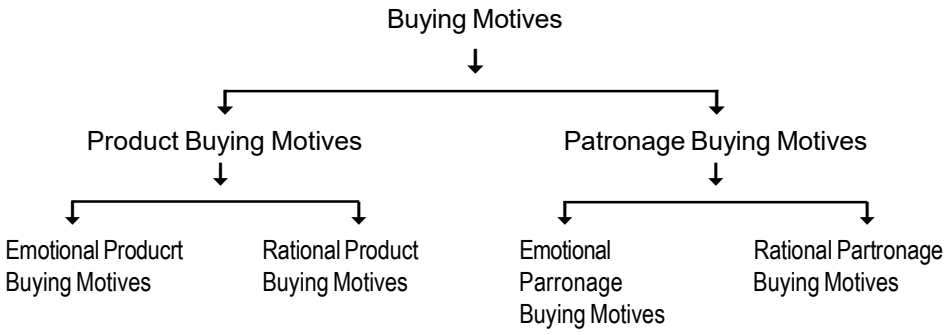


Figure 3.1: Classification of Buying Motives

Product Buying Motives:

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

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

A. Emotional Product Buying Motives:

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

B. Rational Product Buying Motives:

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

Patronage Buying Motives:

Patronage buying motives refer to those considerations or reasons, which prompt a buyer to buy the product wanted by him from a particular shop in preference to other shops. In other words, they are those

considerations or reasons, which make a buyer, patronise a particular shop in preference to other shops while buying a product. Patronage buying motives also may be sub-divided into two groups' viz. a) Emotional patronage buying motives and b) Rational patronage buying motives.

A. Emotional Patronage Buying Motives:

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

B. Rational Patronage Buying Motives:

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

3.8 BUYERS BEHAVIOUR MODELS

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

1. The Economic Model:

According to economic model, buyer is a rational man and his buying decisions are fully governed by the concept of utility, if the buyer has purchasing power of choosing a set of services to meet his need. He will allocate this amount over the set of services in a very rational manner with the intention of maximizing the utility or benefits. People are limited by their skills, habits, reflexes, knowledge etc. Buyers operate in an imperfect world in which they do not maximize their decisions in terms of economic considerations such as price-quantity relationships, marginal utility or

indifference curve. The buyer is usually unwilling to engage in extensive decision-making activities and is satisfied with utility or benefits of a product.

2. The Learning Model:

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

3. The Psycho-Analytical model:

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

4. The Nicosia Model:

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

5. Howard and Sheth Model:

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

6. Engle-Blackwell-Miniard Model:

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

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



CHECK YOUR PROGRESS

Q1. Define Consumer behaviour.

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Q2. State two types of buying decision behaviour.

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……

Q3. What is buying motive?

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……



3.9 LET US SUM UP

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

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

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

Behaviour (iii) Habitual Buying Behaviour (iv) Variety-Seeking Buying Behaviour.

There are five steps in the Consumer Buying Decision Process. They are (i) Problem recognition

(ii) Information search (iii) Evaluation (iv) Purchase (v) Post-purchase evaluation.

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

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

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

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

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



3.10 FURTHER READINGS

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

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

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



3.11 ANSWERS TO CHECK YOUR PROGRESS

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

Ans to Q No. 2. :

i. Complex buying behavior

ii. Habitual buying behavior

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



3.12 MODEL QUESTIONS

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

*** ***** ***

UNIT 4: BUSINESS BUYING BEHAVIOUR

UNIT STRUCTURE

4.1 Learning Objectives
4.2 Introduction
4.3 Characteristics of Business Markets
4.4 Differences between Consumer and Business Buyer Behaviour
4.5 Buying Situations in Business Market
4.6 Buying Roles in Business Marketing
4.7 Factors that Influence Business Buyers
4.8 Steps in Business Buying Process
4.9 Let Us Sum Up
4.10 Further Readings
4.11 Answers to Check Your Progress
4.12 Model Questions

4.1 LEARNING OBJECTIVES

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

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

4.2 INTRODUCTION

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

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

4.3 CHARACTERISTICS OF BUSINESS MARKETS

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

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

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



CHECK YOUR PROGRESS

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

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Q.2: What is derived demand?

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4.4 DIFFERENCES BETWEEN CONSUMER AND BUSINESS BUYER BEHAVIOUR

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

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

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

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

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

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

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

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

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

- ***Product Importance***

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

- **Stronger Customer-Centric Focus**

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

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

- **Expert Buyers & Multiple Decision Makers**

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

- **Customers' Product Knowledge**

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



CHECK YOUR PROGRESS

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

.....

.....

4.5 BUYING SITUATIONS IN INDUSTRIAL/BUSINESS MARKET

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

(i) Straight Re-purchase

It is a business buying situation where a buyer orders things without any changes or modification. A straight rebuy is a situation in which a purchaser buys the same product in the same quantities from the same vendor. Nothing changes, in other words. Post purchase evaluations are often skipped, unless the buyer notices an unexpected change in the offering such as a deterioration of its quality or delivery time.

(ii) Modified Re-purchase

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

(iii) New Task (new-buy)

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



CHECK YOUR PROGRESS

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

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4.6 BUYING ROLES IN INDUSTRIAL/BUSINESS MARKETING

In a business organization, there are different situations of purchase and different personnel are involved in the process of taking decisions. Before identifying the individuals and groups involved in the buying decision process, a marketer must understand the roles of buying centre members. Understanding the buying centre roles helps industrial marketers to develop an effective promotion strategy. Within any organisation, the buying centre will vary in the number and type of participants for different classes of products. But on an average a buying center of an organisation has the following seven members or a group of members who play these roles:

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

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

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

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

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

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

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

4.7 FACTORS THAT INFLUENCE BUSINESS BUYERS

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

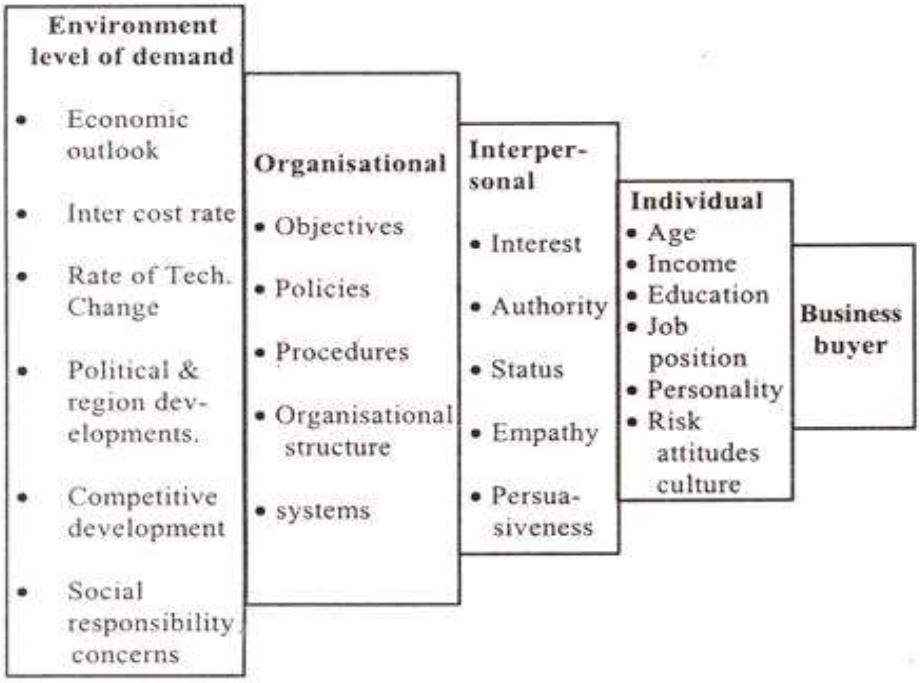


Figure 4.1: Factors influencing Business Buyers

- **External Environmental Factors**

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

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

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

- **Internal Organizational Factors**

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

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

Interpersonal and Individual Factors

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

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

Situational Factors

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

- ***Time Factor*:** Sometimes, organizations don't have all the time to follow the detailed buying procedure. If the organization needs a replacement for equipment that broke down suddenly, it may decide to place its order with some existing supplier or a supplier that is at close proximity.
- ***Current Financial Situation*:** If the organization is crunched for cash, it may decide to place its order with one of its existing supplier who offers extended credit. Also, if the organization cannot spare out enough money for a certain purchase, it may opt for a readily available cheaper version that fits into its budget.
- ***Availability*:** Some buying decisions can wait while others cannot, thus if the supplier cannot make available the exact product by the desired date,

the organizational buyers may shift to a new supplier or to a more readily available alternative.

- ***Special Offers:*** Special offers being given by a supplier may also be one of the situational factors affecting the buying decision.

4.8 STEPS IN BUSINESS BUYING PROCESS

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

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

it can be customized or returned, and even the product's disposal, in some cases. Good sales and marketing professionals do more than just provide basic information to potential buyers in RFPs. They focus on the buyer's problems and how to adapt their offers to solve those problems.

- ***The proposals are evaluated and supplier(s) selected:*** During this stage, the RFPs are reviewed and the vendor or vendors are selected. RFPs are best evaluated if the members agree on the criteria being evaluated and the importance of each. Different organizations will weigh different parts of a proposal differently, depending on their goals and the products they purchase. Reliability of supply is extremely important because delays in the supply chain can shut down a company's production of goods and services and cost the firm its customers and reputation.
- ***An order routine is established:*** This is the stage in which the actual order is put together. The order includes the agreed-upon price, quantities, and the expected time of delivery, return policies, warranties, and any other terms of negotiation.
- ***A post purchase evaluation is conducted and the feedback provided to the vendor*:** Just as consumers go through an evaluation period after they purchase goods and services, so do businesses. The buying unit might survey users of the product to see how satisfied they were with it.



4.9 LET US SUM UP

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

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

There are some differences between consumer and business buyer behaviour. The source of these differences is the complex and interdependent relationships between business buyers and sellers and their

relative positions in the supply chain. We have also discussed about the buying situations. There are three types of buying situations. They are (i) Straight Re-purchase (ii) Modified Re-purchase (iii) New Task

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

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



4.10 FURTHER READINGS

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

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

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



4.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No. 1 : Purchases of products like helicopters are risky for companies. The buyers are concerned about many factors, such as the safety, reliability, and efficiency of the planes. They also generally

want the helicopters to be customized. Consequently, a lot of time and effort is needed to close these deals.

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

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

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



4.12 MODEL QUESTIONS

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

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UNIT5: MARKET SEGMENTATION

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 Concept of Market Segmentation

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

5.4 Bases for Market Segmentation

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

5.5 Market Targeting

- 5.5.1 Evaluating Market Segments and Target Market Selection

5.6 Market Positioning

- 5.6.1 Definitions
- 5.6.2 Positioning Strategies

5.7 Let Us Sum Up

5.8 Further Readings

5.9 Answers To Check Your Progress

5.10 Model Questions

5.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

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

5.2 INTRODUCTION

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

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

5.3 CONCEPT OF MARKET SEGMENTATION

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

5.3.1 Definition of Market Segmentation

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

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

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

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

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

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

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

5.3.2 Importance of Market Segmentation

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

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

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

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

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

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

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

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

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

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

5.4 BASIS FOR MARKET SEGMENTATION

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

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

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

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

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

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

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

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

5.4.1 Segmentation of Consumer Markets

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

Table 5.1 : Market Segmentation

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

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

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

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

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

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

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

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

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

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

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

Let us explain some of the psychographic factors of segmentation.

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

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

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

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

Behavioral Segmentation

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

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

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

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

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

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

5.4.2 Segmentation of Organisation Markets

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

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

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

(i) Agriculture, Forestry and Fisheries,

(ii) Construction

(iii) Finance, Insurance and Real estate.

(iv) Mining

(v) Manufacturing

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

(vii) Transportation and communication.

(viii) Services

(ix) Government and

(x) All others.

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

(b) Size of customers or size of users :

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

(c) Type of buying situations :

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

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

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



CHECK YOUR PROGRESS:

Q.1: Define market segmentation.

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

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

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5.5 MARKET TARGETING

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

5.5.1 Evaluating Market Segments and Target Market Selection

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

(a) Relative attractiveness of the market segments.

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

(c) Relative attractiveness of the market segments.

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

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

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

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

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

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

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

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

5.6 MARKET POSITIONING

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

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

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

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

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

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

5.6.1 Definitions

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

5.6.2 Positioning Strategies

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

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

to make side by-side comparisons of its personal computers with that of IBM's. It attempted to position the product as easier to use and more versatile.

6. **Positioning away from competitions :** A product may also be positioned away from competitors. 5-up became the number three coal drinks when it was positioned as the "Un-Cola", the fresh and thirst alternative to Coke and Pepsi.
7. **Positioning as to different product classes :** The product can also be positioned with respect to different product classes, for example Mediker shampoo is positioned with lice clear means rather than with shampoo.

Criteria for successful positioning:

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



CHECK YOUR PROGRESS:

Q.4: What is market targeting?

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Q.6: What is market positioning?

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Q.7: State two positioning strategies.

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



5.7 LET US SUM UP

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

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

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

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

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



5.8 FURTHER READING

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

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

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



5.9 ANSWERS TO CHECK YOUR PROGRESS

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

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

A. Demographic B. Geographic C. Psychographic

D. Behavioural

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

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

develop products and marketing programmes tailored to each selected segments.

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

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

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

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



5.10 MODEL QUESTIONS

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

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