Lesson - I

MARKETING MANAGEMENT : AN INTRODUCTION

OBJECTIVES

After studying this lesson, you should be able to :

- explain the meaning of Market and Marketing.
- differences between Marketing and Selling.
- functions of Marketing.
- definitions of Marketing.
- concepts of Marketing.

STRUCTURE

1.1 INTRODUCTION

Market provides a mechanism for the sale of goods. According to Prof. Philip Kotler market is an area or atmosphere for a potential exchange. Marketing includes all activities involved in the production and distribution of goods and services. Marketing concept refers to the philosophy of an organisation in relation to marketing of a product of service.

1.2 MEANING OF MARKET

The term market is derived from the Latin word 'Marcatus' which means merchandise, trade i.e. purchasing and seling of gods. It is a place where buyers and sellers meet together for the exchange of title to goods. i.e. it is a place where business is conducted. The market provides a mechanism for the sale of goods, but the actual delivery of goods may not take place in all the cases. However, for the students of marketing market refers to any region in which buyers and sellers are brought in contact with one another, and by means of which the prices of goods and services are finalised easily and quickly. According to Prof. Mitchel market is not a geographical meeting place but as any getting together of buyers and sellers, in person, by mail, telephone, telegraph and internet or any other means of communication. Prof. Philip Kotler expressed in his famous book 'Marketing Management', the term 'market' as area or atmosphere for a potential exchange.

Market is an arrangement that provides opportunity of exchanging goods and services for money or money's worth. Thus in market there are two groups of persons, one group holding the goods which they want to sell and another group of prospective buyers who want to pay for the goods they are going to buy. It means that three points are interlinked namely place, atmosphere, and demand. Place stands for a convenient place for the buyers and sellers to come together for the exchange of goods and sevices; atmosphere stands for the contact between the buyers and sellers; demand stands for the people with needs and wants to satisfy and purchasing power.

1.2.1. CLASSIFICATION OF MARKETS : Markets can be classfied in several ways from different approaches.

I. On Geographic or Area Basis : From the stand point of geographical area, markets are divided into (a) Local Markets, (b) National Market and (c) International Market.

- **a) Local Market :** These markets relate to a partiular locality. In the case of these markets, commodities sold within geographical limits. Such commodities are difficult to be sold outside local limits. Generally, commodities which are heavy and perishable have local markets. For example bricks, vegetables, fruits, milk etc have local markets.
- **b) National Market :** The growth of industries has widened the scope of market on national level. Wiht the growth of transporation and communication, most of the goods are marketed at national level.
- **c) International Market :** These are known as foreign markets where goods are sold beyond national boundaries. With the growth of transportation and communication systems, a number of products have acquired and international level.

II. On the Basis of Importance : On the basis of importance markets may be divided into

- (d) Primary Market.
- (e) Secondary Market.

(f) Terminal Market.

(a) Primary Markets : In primary markets, primary producers of agricultural products or manufactured goods sell to wholesalers, who assemble the goods from different sources of production. These markets are generally found in villages.

(b) Secondary Markets : In the secondary markets, wholesalers sell the goods to retailers for further selling. Semi - processed and Semi - manufactured goods are generally sold and purchased in secondary markets E.g. Yarn market.

(c) Terminal Market : It is the market where final products are sold to final consumers i.e. consumers purchase goods in the terminal markets from the retailers.

III. On The Basis Of Business : On the basis of volume of business, the market may be divided into

(a) Wholesale Market.

(b) Retail Market.

(a) Wholesale Market : In wholesale market goods are bought and sold in huge quantities. In these markets sellers are wholesalers and the buyers are retailers. Wholesalers purchase goods in bulk quantities and sell the same to retailers in small quantities.

(b) Retail Market : In this market retailers who puchase goods from wholesalers, sell to ultimate consumers in individual units i.e. very small quantities.

IV. On Economic Basis : In economics markets are classified into

(a) Perfect Market

(b) Imperfect Market.

(a) Perfect Market : In perfect market there will be perfect competition between buyers and sellers who have full knowledge of other buyers and sellers. Due to this only one price will prevail in the market for the commodity. The following are the essential features of perfect market.

(i) Group of buyers and sellers.

(ii) Effective competition between buyers and sellers.

(iii) One price for the commodity throughout the market.

(b) Imperfect Market : Imperfect market is a market which is not a perfect market. In this market we find some kind of maladjustment in demand and supply; buyers and sellers have no knowledge of other buyers and sellers.

V On Time Basis : On the basis of time markets may be classfied into

(a) Very Short Period Markets.

(b) Short Period Markets and

(c) Long Period Markets.

(a) Very Short Period Markets : It refers to markets which exist for a very short period normally a day. Such markets generally sell fruits, flowers, vegetables, milk etc.

(b) Short Period Markets : These markets include weekly markets held in villages. Fairs are also included in this category.

(c) Long Period Markets : Durable goods are purchased and sold in long period markets. In these markets goods may be held for a long period without any deterioration in quality.

VI On The Basis Of Nature Of Goods : On the basis of the nature of goods that are purchased and sold, markets may be divided into

(a) Commodity Markets.

(b) Capital Markets.

(c) Foreign Exchange Markets.

(a) Commodity Markets : These markets deal in different commodities. Consumer goods are purchased by ultimate consumers and industrial goods are purchased by manufacturers.

(b) Capital Markets : These include money markets, stock markets etc. In money markets borrowing and lending take place. In stock market shares, debentures, bonds etc are brought and sold.

(c) Foreign Exchange Markets : Foreign exchange markets deal in currencies of different foreign countries. These markets arrange foreign currencies to make payments for the imports from other countries. They convert home currency into currencies of foreign countries.

1.2.1. MEANING OF MARKETING : In the ordinary sense, marketing and selling are used in the same sense but strictly speaking they are not synonymous, they differ in their meaning. There is a line of demarcation between marketing and selling.

Meaning of Marketing : Marketing includes all activities involved in the production and distribution of goods and sevices desired by the consumers. Marketing occupies an important place in all business activities. According to modern marketing concept, marketing is essentially consumer oriented and it starts with product idea and ends with customer satisfaction. According to William Stanton "Marketing is a total system of interacting business activities designed to plan, price, promote and distribute want satisfying products and services to present and potential customers". Thus the main idea of modern marketing concept is customer - satisfaction.

1.2.3. MEANING OF SELLING : Selling is concerned with the transfer of goods and services to the consumers. It is mainly concerned with the plans to get the customers to exchage his money to goods and services. It is primarily concerned with the seller's interest.

1.2.4. DIFFERENCES BETWEEN MARKETING AND SELLING : The main difference between marketing and selling lies in their approach. Marketing is basically consumer - oriented. Selling on the other hand is product-oriented.

1. **Scope :** The scope of the term 'marketing' is much wider than that of the term "selling". Selling is one of the activities performed in marketing. Marketing includes all activities starting with the idea of producing a commodity in accordance with the needs of the customers and ending with the satisfaction of customers even after selling the commod-

ity. On the other hand selling refers to distribution of products already manufactured by the firm. Selling focuses on Sellers needs of converting his goods into cash.

2. **Object of Profit :** The object of marketing is to earn profits through satisfaction of customer's needs and desires. The profitability of a marketing oriented firm mainly depends on production of qualitative products to win the appreciation of consumers. Selling concentrates on earning profit on sale of more quantity of products.

3. **Orientation :** Marketing is consumer oriented and therefore it includes pre - production and post sale activities. Selling is basically production oriented and concentrates much on production.

4. **Emphasis :** Emphasis is given on product planning and development to match products with markets. It emphasises as introducing new technology. Whereas in selling, emphasis is placed on sale of goods already produced. It emphasizes on reducing cost of production with a view to maximize profits.

5. **Principle :** In marketing the principle of caveat vendor (let the seller beware) is followed, whereas in selling the principle of caveat emptor (let buyer beware) is followed.

6. **Importance :** The consumer occupies the prime of place in marketing process. He is given supreme importance by treating customer as a king. Product occupies pride of place in selling i.e. product enjoys supreme importance.

1.2.5. DEFINITIONS OF MARKETING :

- "Marketing includes all the activities involved in the creation of place, time and possession utilities" Professor Converses, Huegye and Mitchell.
- "Marketing is that phase of business activity through which human wants are satisfied by exchange of goods and services" - Pyle . J.F
- "Marketing is the business process by which products are matched with market and through which transfers of ownership are effected" - Prof. Cumdiff and Still.
- "Marketing is the process of getting the right goods to the right consumes at the right place and time and at the right price" - Prof. Benerjee.
- "Maketing in the creation and delivery of a standard of living" Malcom Menair.
- "Marketing is concerned with all the resources and acitvities involved in the flow of goods and services from producer to consumer" - Wheeler.

1.3. FUNCTIONS OF MARKETING

Prosperity of every business depends on the efficiency with which its products are marketed. To shift goods from a producer to an ultimate consumer a number of activities are performed which are called marketing functions. A marketing function is an act or operation or service by which the original producer and final sonsumer are linked together. If marketing functions are not properly carried out, the business unit may not be in a position to dispose off its products and all the efforts made for production may not bear fruits. The prime objective of marketing is to take the goods from the producer and perform all functions necessary to make them available to the ultimate consumers. In the process of marketing place, utility is created when goods and services are available at the places where they are needed, time utility when they are needed and possession utility when they are transferred to those people who need them.

All the marketing functions can be divided into two types viz (i) Concentration and (ii) Dispersion. The process of concentration is concerned with gathering raw materials, manufactured goods at a central place namely market. Dispersion means distribution of goods to final consumers. Concentration involves a number of marketing functions like (a) Buying (b) Trading (c) Storing (d) Grading (e) Financing etc.

The process of distribution may include the following.

(a) Selling (b) Transportation (c) Grading, (d) Risk bearing etc.

Another classfication of marketing functions is given by Professors Clark and Clark, which is widely accepted by one and all.

Marketing functions

Functions Exchange	Functions Physical Supply	Facilitating Functions
a. Buying and Assembling	a. Transportation	a. Financing
b. Selling	b. Storage and warehousing	b. Risk Trading
		c. Market information
		d. Standardization etc...

1.3.1. FUNCTIONS OF EXCHANGE : Exchange refers to transfer of goods and services form money's worth. This process can be divided into (a) Buying and assembling and (b) Selling.

A. Buying And Assembling : Buying is the first step in the ladder of marketing functions. A manufacturer has to buy raw materials for production, wholesaler has to buy finished goods for the purpose of sale to the retailers, a retailer has to buy goods for resale to the consumers. Efficient buying is essenttial for successful selling. Large sized business concerns maintain a separate department namely purchasing department for the purpose of buying.

Modes Of Buying : Goods may be purchased in any of the ways given below.

i) By inspection : Under this method goods are bought after examining the goods by the buyer in the seller's premises.

ii) By Sample : A purchase by sample is made after the buyer examines the sample of goods supplied by the seller.

iii) By Description : Some sellers issue catalogues containing description of goods offered for sale. The intending buyer places an order specifying a particular number mentioned in the catalogue.

iv) By Grading : This refers to standard quality of goods. Under this method purchase can be made by telegram, telephone, or mail.

Assembling begins after the goods have been purchased. It refers to gathering of goods already purchased form different places at one central place. Assembling facilitates transporatation and storage, It is significant in case of seasonal goods and agricultural products.

2. **Selling :** The ultimate aim of every business is to earn profits and in realising this aim selling plays an important role. Nothing really happens until somebody sells something. Selling enables a firm to satisfy the needs of consumers. It is the process through which ownership of goods is tranferred from the seller to the buyer. Sales are the source of income for the manfacturers, wholesalers and retailers.

   The importance of selling has increased significantly with an increase in the number of articles offered for sale by a large number of producers. When the production was on a small basis the producers had no problem to dispose off their products. But now, with the increase in the volume of production, selling has become a problem and the producer has to induce people to sell his products.

1.3.2. FUNCTIONS OF PHYSICAL SUPPLY : There are two important functions under this classification (a) Transpotation and (b) Storage and ware housing.

A. **Transportation :** Trasport means carrying of goods, materials and men from one place to another. It plays an important role in marketing. It creates place utility by moving goods from the place where they are available in plenty, to places where they are needed. Both assembling and distribution of goods are done by using transport. Transportation facilitates not only movement of goods from the places of production to the places of consumption but it also enables the consumers to go to marketing areas where there is wide choice of goods than in the places where they like. Transporatation is also useful in stabilizing the prices of various commodities by moving them from the areas where they are in surplus to the areas where they are scarce. Various types of transport are used for carrying goods like (a) Land transport, (b) Water transport and (c) Air transport.

B. **Storage And Ware Housing :** Storage is another function of marketing process and it involves the holding and preservation of goods from the time they are produced to the time they are consumed. Generally, there is a time gap between the production and consumption of goods. Therefore, there is need for storing so as to make the goods available to the consumers as and when they are required. By bridging the gap between production and consumption, storage creates time utility. It also creates place utility by holding goods at different places.

   The importance of storage can be studied as follows.

   (i) Generally, goods are produced in anticipation of demand of the product in future market. All the goods are not sold immediately after production. For the unsold stock of goods storage is indispensable.

   (ii) Some goods are produced throughout the year but demad for them is only in a particular season. For example rain coats, umbrellas, diwali crakers etc. These commodities are to be stored till the arrival of the season.

   (iii) Many commodities are produced during a particular season but they are used throughout the year. Such goods have to be stored so as to make them available throughout the year. For example agricultural products.

(iv) Certain products which can get higher prices in future market are stored for a longer period. For example, tobacco, liquor, rice, chillies etc.

Warehouse is a place for storage of goods. The function of storage can be carried successfully with the help of warehouses. Warehouses create time utility by storing the goods throughout the year and releasing them as and when they are needed. Several types of warehouses are used for storage of goods, which are as follows.

(i) Private Warehouses : Private warehouses are owned by big business units for the storage of their own goods. Only big business houses can afford to have such type of ware houses.

(ii) Public Warehouses : These are the business concerns which offer storage space on rent. These ware houses are licenced by the Govt. They are helpful to businessmen who cannot afford to maintain their own warehouses. These warehouses are generally located near railway lines and main roads.

(iii) Bonded Warehouses : These are located near the ports for the storage of imported goods. When the importer cannot pay customs duties immediately on the goods imported by him, he can store them in bonded houses. Importer can remove the goods in parts after paying import duty.

1.3.3 Facilitating Functions :

There are the functions which help or facilitate in the transfer of goods and services from the producer to the consumer. They are not directly connected with the transfer of goods. Under this category the following functions are included.

a. Financing : Finance is the life blood of every business. It is needed for marketing of goods and services. The goods produced or purchased cannot be sold immediately to the ultimate consumers and much time is involved in marketing process. Hence there is need for finance for the purchase of raw materials, meeting transportation, storage costs, insurance etc. Further, generally goods are passed on from manufacturer to wholesaler and from wholesaler to retailer on credit basis. Ultimate consumers also prefer to purchase goods on credit. Therefore, all agencies engaged in marketing have to make some arragement for finance. Prof J.F. Pile has rightly stated that "finance is the lubricant of marketing machinery".

There are three main sources of finance. They are as follows.

(i) Long - Term Finance : It is needed for puchasing fixed assets like land, building, Plant & machinery, furniture etc. The main sources of this finance are shares, debentures, financial institutions.

(ii) Medium - Term Finance : It is needed for raising working capital. The main sources are financial institutions and commercial banks.

(iii) Short - Term Finance : It is mainly required for meeting short term payment normally for less than one year. It can be raised from commercial banks and trade creditors.

b. Risk Bearing : Risk means the possibility of loss due to some unforeseen circumstances in future. Marketing process is confronted with risks of many kinds at every stage. Risk may arise due to changes in demand, a fall in price, bad debts, natural calamities like earthquakes, rains etc. The marketing risks may be classified under the following heads.

(i) **Time Risk :** Goods are bought by the business with a view to sell them at a profit out of anticipated rise in prices in future. During the time lag conditions might change and the price my fall. Thus time risk is involved in marketing.

(ii) **Place Risk :** Place risk arises when the prices of the same product are different in different places. The businessmen may purchase goods in market where prices are low with a view to sell them at other places where the prices are high. But the price in the other market may come down causing loss.

(iii) **Competition Risk :** Businessmen have to face risk arising from the forces of competition. The competing firms may introduce modern methods of production due to which quality may be improved or cost of production may be reduced. Under such circumstances, a firm may be forced to sell at a loss which is called risk of competition.

(iv) **Risk of Change in Demand :** The manufacturers produce goods on large scale in anticipation of demand in future. But, sometimes the demand of the product may not come to expectations resulting in losses.

(v) **Risk Arising from Natural Calamities :** Risks from natural causes are beyond human control. These include rains, earthquake, floods, heat and cold. These risks cause heavy loss.

(vi) **Human Risks :** These risks arise due to adverse behaviour of human beings like theft, strikes, lockouts, bad debts etc.

(vii) **Political Risks :** Political risks arise due to change in political factors such as changes of government / changes in government policies etc.

c. **Market Information :** According to Clark and Clark market information means "all the facts, estimates, opinions, and other information used in marketing of goods". The main object of any business is to create and maintain demand for the product produced. For this purpose market information is useful. On the basis of information the seller can know what type of goods are needed by the consumer, when and where they are needed and in what quantity.

d. **Standardisation :** Standardisation means establishment of certain standards based on intrinsic qualities of a commodity. The quality may be determined on the basis of various factors like size, colours, taste, appearance etc. It is helpful to the consumers as they can safely rely on the quality of the standardised products.

e. **Grading :** Grading means classification of standardised products in to certain well defined classes. In the words of Clark and Clark "It involves the division of products into classes made up of units possessing similar characteristics of size and quality". Grading is very important for agricultural products like Wheat, Cotton etc.

Grading is of two types, fixed and variable. Fixed grading refers to the grading of goods according to fixed standards whereas variable grading refers to the application of varying standards.

f. **Branding :** Branding means giving a name or symbol to a product in order to differentiate it from cmpetitive products. It helps the consumers in identifying their products. Branding may be done by selecting symbols and marks such as Charminar cigarettes, Camel inks, Binny textiles, or by using the name of manufactures such Ford cars, Godrej steel furnniture. A good brand should be brief, simple, easy to spell and remember.

g. **Packing :** Packing means wrapping and crating of goods before distribution. Goods are packed in packages or containers in order to protect them against breakage, leakage, spoilage and damage of any kind. It consists of placing the goods in boxes, tins, bottles, cans, bags, barrels of convenient size to the buyers.

1.4. MARKETING CONCEPT

'Concept' refers to philosophy, an idea, an attitude or a not on relating to any aspect. Marketing concept means the philosophy of an organisation in relation to marketing of a product or service. According to Prof. Robert F Hartley marketing concept is "an integration of marketing activites directed towards customer satisfaction". Prof Philip Kother defines it as "a customer orientation backed by integrated marketing aimed at - generating customer satisfaction, as the key to satisfying organisational goals".

The marketing concept greatly influences the management of marketing efforts. The management of an undertaking can adjust its ways of selling as per the marketing philosophy. The traditional objective of marketing is to make the goods available at the places where they are needed. This idea was later on changed by shifting the emphasis from 'exchange' to satisfaction of human wants.

1.4.1 EVOLUTION OF MARKETING CONCEPT : There are various stages in the evolution of marketing concept, which are as follows.

1) **Self - Sufficient stage :** In the olden days each family was a self - sufficient unit as far as production and consumption functions are concerned. They produced as per their requirements i.e, practically there was no surplus for exchange. Therefore, the concept of marketing was absent in this stage.

1.4.2. EXCHANGE ORIENTED STAGE : In this stage the families produced more than their requirements leaving some surplus. This necessitaited exchange of surplus products with others. For exchanges 'Barter System' came into existance. Under barter system goods are exchanged for goods. The greatest draw back of barter system is absence of double coincidence of wants. To over come this defect - goods are brought to a central location so that exchange will take place smoothly. Thus 'Markets' came into existance.

1.4.3. PRODUCTION - ORIENTED STAGE : Under production oriented stage there is no need of any marketing effort if the product is good and its price is reasonable. This marketing concept was built on "Good wine needs no bush". That is if the product is of good quality and the price in reasonable there is no need of any special marketing efforts. It implies for good products, customer response is bound to be favourable. It appears that producers gave more emphasis to production than consumption. Under this concept, production is the starting point.

1.4.4. SALES - ORIENTED STAGE : Industial revolution brought technological changes in industrial activites. Cosequently drastic changes were reflected in the buying patterns and behaviour of consumers. There were revolutionary changes in the growth of transport and communications. All these changes compelled the manufacturers to realise the importance of marketing.

According to this marketing concept mere making available the best product in not enough. High pressure salesmanship and heavy doses of advertising are essential to move the products in the market. Even the best product can not be sold out in the market with out the help of sales promotion and aggressive salesmanship. The essense of this concept is "Goods are not bought but sold". This concept states that goods are not bought but they have to be sold with the help of salesmanship, advertising and publicity. This philosophy has been prevailing since 1940. It is popular in selling all kinds of insurance policies, durable products, automobiles etc.

1.4.5. (5) CONSUMER ORIENTED STAGE : It is also called customer oriented stage. This philosophy was introduced after 1950. According to this the main task of any business unit is to study the needs, desires, wants of the consumers and produce goods accordingly. Here the starting point is consumer or customer than the product. All Business operations revolve around customer satisfaction and service. Marketing research provides information relating to wants, desires, aspirations etc of the consumers.

Two radical changes were brought about when this marketing concept was introduced.

(1) Move from production to market orientation.

(2) Gradual shift from caveat emptor (buyer beware) to caveat vendor (seller beware)

1.4.6. (6) SOCIAL ORIENTED STAGE : It is the broadest marketing concept. It takes into consideration not only consumer satisfaction but also social welfare. Social welfare speaks of pollution - free environment and quality of human life. Every organisation should adopt socially responsible marketing policies and plans in order to assure social welfare in addition to consumer welfare.

The socially responsible marketing concept is based on the following assumptions.

(1) The manufacturer is to produce, those goods which are wanted by the consumers.

(2) The manufacturer shall not offer a product to the consumer if it is not in the best interest of consumer.

(3) He should offer long - run public welfare.

(4) The firm should discharge its social resoponsibilities.

1.5. SUMMARY :

Market is a place where buyers and sellers meet together for the exchange title to goods.

Marketing includes all activities involved in the production and distribution of goods and services desired by the consumers. Marketing occupies an important place in all business activities.

The activities performed to shift goods from produce to ultimate consumers are called marketing functions.

Marketing concept refers to an idea or philosophy of an organisation in relation to marketing of a product or service.

According to consumer oriented stage of marketing concept, a business unit should sell those products which are actually neeeded by the consumers.

1.6. KEY WORDS

1. **Market :** Market refers to a place where goods are purchased and sold, e.g. Cotton market, Fruit market, cloth market etc. It is a place where buyers and sellers meet to effect purchases and sales.
2. **Marketing :** Marketing in a process which carries goods from orginal producer to ultimate consumer. It bridges gap between producer and consumer. Marketing is concerned with handling and transportation of goods from the point of production to the point of consumtion.
3. **Selling :** Selling refers to transfer fo goods services to the consumers. It is mainly concerned with the plans to get the customers to exchange their money to goods and services.
4. **Marketing Functions :** The activities or operations which are mainly concerned with taking the goods from producer to ultimate consumer are called marketing functions. These are necessary to make the goods and services available to the consumers.
5. **Marketing Concept :** It refers to an idea or philosophy or attitude of an organisation in relation to marketing of a product or service. It influences the management of marketing efforts.
6. **Self - Sufficient Stage :** Under this stage each family produces as per its requirements i.e. there cannot be any surplus for exchange.
7. **Exchange Oriented Stage :** In this stage the families produce more than requirements. There will be some surplus meant for exchange.
8. **Product Oriented Stage :** Here producers give more emphasis to production than consumption.
9. **Sales Oriented Stage :** Accoriding to this concept products cannot be sold automatically immediately after production. High pressure salesmanship and heavy doses of advertisement are essential to sell the goods in the market.
10. **Consumer Oriented Stage :** The main task of any business unit is to know the needs, wants, desires and fashions of the people and produce goods accordingly.
11. **Social Oriented Stage :** It is based on the assumption that a business unit should offer long run public welfare. It should discharge its social responsibilities.

1.7. SELF ASSESSMENT QUESTIONS

(1) What's 'market' and 'marketing' ?

(2) Define 'marketing' and distinguish from selling.

(3) Explain briefly various functions of marketing.

(4) What is 'marketing concept' ? Outline the evolution of 'marketing concept' from early days to date.

(5) Explain the importance of 'branding', 'grading' and packing as marketing functions.

(6) Write short notes on the following

(a) Market

(b) Branding

(c) Importance of transport in marketing

(d) Kinds of business risks

(e) National market

(f) Commodity markets

(g) Exchange markets

(h) Capital markets

(i) Perfect markets

(j) Time and Place utiilties.

1.8. FURTHER READINGS

(1)	Philip Kotler	:	Marketing Management Prentice Hall of India, New Delhi.
(2)	C.N. Sontakki	:	Marketing Management Kalyani publishers, New Delhi.
(3)	S.A. Sherlekar	:	Marketing Management Himalaya Publishing House, Bombay.
(4)	Stanton William . J	:	Fundamentals of Marketing. Mc Graw Hill, International Book Company,
(5)	Gandhi J. C	:	"Marketing - A Managerial Introduction". Tata Mc Graw Hill Publishing 10. New Delhi.
(6)	D.A Amar Chand B. Varadarajan	:	An Introduction To Marketing. Vikas Publishing House Pvt Ltd. New Delhi.
(7)	Dr. N. Rajan Nair Sanjith R. Nair	:	'Marketing' Sultan Chand & Sons, New Delhi.

Lesson - 2

MARKETING ENVIRONMENT

2.0 OBJECTIVE

The objectives of this lesson are to make you understand the

* concept of environment and the need for study of marketing environment
* influence of various types of environment on marketing decisions.
* importance of environmental analysis on marketing of various products and services.

STRUCTURE

2.1 Concept of Environment

2.2 Need for Environmental analysis

2.3 Marketing Environment - Classification

2.4 Influence of environment on marketing

2.5 Importance of environment analysis

2.6 Summary

2.7 Self Assessment Questions

2.8 Further Readings

2.1 CONCEPT OF ENVIRONMENT

Environment in general can be defined as "surroundings which influence a particular activity". The market is also influenced by a number of forces which are part of the marketing environment. Marketing Environment can be defined as the forces and actors that affect the ability of a company to develop and maintain successful relationships with its target customers. The organisations which are producing a number of products, services are influenced by a group of factors which are operating within and outside the organisation. The environment within which the organisations are operating is dynamic and uncertain. The different forces of environment provide a number of opportunities and threats to the organisations. Hence, a marketer must develop marketing mix decisions as per the changes in the marketing environment.

2.2 NEED FOR ENVIRONMENTAL ANALYSIS

Environmental analysis attempts to give an extensive insight as the current market conditions as well as of impact of external factors that are uncontrolled by marketers. These variables play an important role in convincing potential customers regarding changes in market trends, market conditions etc., For ex: Tamil Nadu is considered as a favourite place for the establishment of car projects as the Government provided a five year tax holiday for them. The changes in the Indian economy after 1991 resulted a drastic change in the Indian marketing environment. Electronics, Soft ware, Passenger Cars, Telecommunications etc., are the various sectors which are affected by the changes in the Indian economy.

In analysing the environment five important stages are indentified for the pupose of analysis.

1. Audit of Environment :

This involves vouching, checking and inspection of the various forces of environment. The various elements of marketing environment are to be identified and a clear examination of these elements is to be undertaken.

2. Assess Nature of Environment :

The assessment of the environment has to be undertaken with reference to identification of the nature in terms of micro, macro, controllable and uncontrollable etc.,

3. Key Environmental Factors :

The key environmental factors which will have a significant impact on marketing decisions are to be identified. Some of them are resources, men, technology etc.,

4. Identify opportunities and threats :

In view of the changes in the variables of environment, the various opportunities and threats are to be identified. The opportunities may come in the form of improved sales, markets, increased customer satisfaction etc.,

5. Strategic Decision making :

The decisions are to be taken in view of the analysis of the nature of variables of environment, and the potential opportunities and threats etc. The decisions are related to changes in the combinations of product line and mix, pricing, promotion and distribution etc.,

2.3 MARKETING ENVIRONMENT - CLASSIFICATION

The marketing environment may be classified as under :

1. Internal
2. External

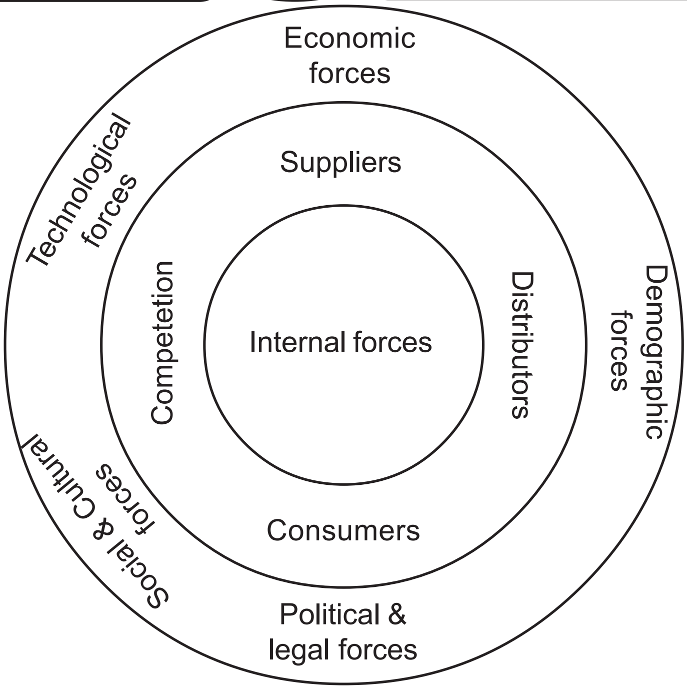
It can also be classified as

1. Micro
2. Macro

Further, another classification is as under :

1. Controllable forces
2. Uncontrollable forces

The various forces of marketing environment may be shown in the following diagram :



Source : Dr RL Varshney & Dr SL Gupta Marketing Management - An Indian Perspective p - 24

2.4 INFLUENCE OF ENVIRONMENT ON MARKETING

The influence of environmental factors on marketing can be discussed as under :

1. Micro Enviromnent :

The following are the components of micro environment :

a) Internal factors :

The organisations internal environment cosists of policies, financial and human resources, production technology, and capacity etc., The decisions related to product planning, branding, packing, pricing, promotional budgets etc., are influenced by the policies and attitude of top management. Any decision in relation to marketing is also based on the availability of financial and human resources. The adequate supply of capital, continuous flow of resources, availability of skilled, qualified and talented employees will influence the decisions in the field of marketing. The use of technology (traditional and modern) and the capacity installed and use of the plant and machinery will have a considerable influence on the marketing decisions. The marketing managers should take the appropriate decisions on the basis of over all objectives of the organisation and the objectives of marketing department.

b) Influence of other groups :

The influence of other groups as a component of micro environment can be analysed as under:

i) Suppliers :

The organisations require a variety of raw materials, inputs, finance for a continuous flow of their activities. The services of suppliers is of great significance as they affect the company's flow of production, delivery plans, production cost and marketing efforts. A co-operative environment is to be created between the suppliers and the organisation. The agencies which supply raw material, banks and other financial institutions which supply necessary flow of credit tothe orgnisation play a vital role in the marketing decisions of any organisation.

ii) Intermediaries :

Much of the marketing activity in being influenced by the intermediaries in the marketing. The intermediaries include firms and people involved in physical distribution of products and services (agents, distributors, stockists etc.,) who provide time, place and ownership utility for the products and services. The other types of intermediaries are wholesalers, retailers etc., who provide the necessary link between organisations and consumers. The marketing activities are also undertaken by transport firms, warehousing organisations. Transport firms include rail, road, air, water transport agencies which are owned by Government and private organisations. Other service organisations including advertising agencies, insurance companies etc., are also involved as intermediaries in marketing. These intermedianes provide qualitative service in an efficient and effective manner.

iii) Customers :

Another important group in the micro environment are customers. The customers constitute a very important aspect in the micro environment of an organisation as they are the central point for the marketing activity. The customers may be classified into final users or consumers, industrial users, Government, resellers etc., The needs, requirements and expectations of each of the groups is different and hence the organisations have to implement different marketing policies to satisfy these different groups. The marketing concept emphasises that consumer satisfaction is the key for the success of any marketing activity.

iv) Competetion :

The marketing decisions of any organisation are influenced by the competetion existing in the market. The competetion may be in the form of perfect competetion, monopolistic competetion etc., Today many of the organisatins force oligopolistic competetion. The features of this type of competition are no different in the case of products, services, same price for all products of same category. Advertising and sales promotion play an important role in influencing consumers. For ex: in case of tooth pastes, soaps, TV's, refrigerators, automobiles etc., the type of competetion existing is oligopoly. The competetion for attracting consumers money also exists between non-similar products and services.

v) Other Public Organisations:

The marketing decisions are also influenced by a number of public organisations. These include Government departments, consumer councils, stock exchanges, media, etc., These different groups always watch the decisions of the organisations and interpret them from the view point of providing societal welfare. The reports which appear in the newspapers and TV on the progress of each industry provide frame work for improving their functioning.

2) Macro Environment

The variables of Macro environment may be classified as

a) Economic Environment

b) Demographic Environment

c) Socio - Cultural Environment

d) Political & Legal Environment

e) Technological Environment

These can be analysed as under :

1. Economic Environment

Economic environment is the most significant component of the marketing environment. The economic factors can be subdivided into economic conditions prevailing in a country, industrial conditions and availability of resources for production.

a) Economic Conditions :

The economic conditions prevailing in a country are related to the different components like economic system, per capita income trends, pattern of income distribution, pattern of savings and expenditure price levels, employment trends, agricultural and industrial output trends, impact of Government policies etc.,

b) Industrial conditions :

The organisations have to understand the influence of industrial conditions which include market growth of the industry, demand patterns of the industry, and stage in product life cycle.

c) Availability of resources for production :

Supply of resources are required for production determine inputs which are available for production. The most important resources required for production are land, labour, capital, machinery and managers.

The economic environment describes the overall economic situation in a country and helps in analysing GNP per Capita, rate of economic growth, inflation rate, interest rates, unemployment etc., Therefore it is necessary to examine the economic environment carefully before taking any decision.

2) Demographic environment

This environment explains the pattern and changes in economy based on population, city size, nationality, age, sex, education, marital status, family size, religion, family life style etc., The variables of demographic environment is useful for market segmentations targeting and positioning. The environment also provides quantitative and qualitative aspects of the population. The demographic features of Indian environment can be presented as under : (2001 census)

a) Population - 102.70 crores

b) Male -53.1 crores; Female - 53.1 49.6 crores

c) The heavily populated the cities are Calcutta, Chennai, Mumbai, Hyderabad, Delhi, Chandigarh, Mahe, Howrah, Kanpur and Bangalore

d) Literacy rate - 65.38%

e) People living in urban - 25.7%, and rural areas 74.3%

f) The division of poulation according to education is on the basis of Primary, Seconday, College, Post-Graduation and Professional courses.

g) Religion wise India has many religions including Hinduism, Islam, Christianity, Buddhism, Jainism etc.,

h) Age wise, people belong to different age groups Viz., 0-4, 5-14, 15-59, 60 plus etc.,

The other variables like family size like people with one child, two children and more than two children etc., life style in terms of attitudes, interests, opinions etc., will also play a significant influence on marketing environment.

3. Socio - Cultural Environment :

The social environment of a country influences the value system of the country which affects the marketing of products. The social factors which influence the marketing environment are caste, customs, conventions, cultural heritage, etc. In the Indian social environment, the changes that took place are as under :

a) Break up of the joint family system
b) Women employment
c) Changes in the attitude towards physical fitness.
d) Increase in the attitude towards education.

The change in the quality of life of the people also brought about many changes in the purchase of goods and services. For Ex: The people are preferring various automobile products like Motor Cycle, Car etc., Products like washing machines have also become very popular products now - a - days.

The social environment has the following directions :

a) Change in life style of people

b) Increasing concern for social problems

c) Growth of consumerism.

The marketing decisions are based on recogniton of needs and wants of the customers. These help in understanding of lifestyles and behaviour patterns as they have grown in the society in which the individuals have been groomed. Each society contains sub-cultures, various groups with shared values emerging from their special life experience or circumstances. There are some core cultural values which are found in the society deep rooted and stable and hence change very little.

4. Political & Legal Environment

Marketing decisions are also affected by the forces of political and legal environment. The political changes may take the following forms :

a) Stability of tenure of Government
b) Political parties and their philosophies.

Political factors play a major role in in shaping the environment in which business organisations operate. Thus a marketer has to study and analyse risks and opportunities involved in political changes. The political factors which are to be considered are :

i) Role of public and private sector in the economy.

ii) Changes in Government policy

iii) Importance of small scale industry

iv) Growth of service sector int he economy

Marketing decisions are strongly influenced by laws relating to competetion, price, advertising etc., It is necessary for a marketer to understand the legal environment in the country. The following laws are important :

1. Essential Commodities Act 1955
2. Weights & Measures Act
3. Drugs & Cosmetics Act
4. Trade and Merchandise Marks Act 1958
5. Monopolies & Restrictive Trade Practices Act 1969
6. Environment Protection Act 1986
7. Consumer Protection Act 1986
8. Tax Laws (Direct and Indirect taxes Acts)
9. The water (Prevention and control of Pollution) 1974

The legislations and judicial rulings given by the courts influence the marketing environment of any organisation.

5 Technological Environment :

The technological environment provides on opportunity and a threat for the growth of the organisation. The factors to be considered in technological environment include:

a) Expenditure on research and Development

b) Concentration on product improvements

c) Unlimited innovations in technology

d) Emphasis on regulation of technological change.

The technological environment in India is influenced by the technology policy which is formed by the Government of India and updated from time to time. The new economic policy covers the following aspects :

a) Selecting the few areas where research is to be concentrated

b) Open systems are required to assimilate the advances achieved.

c) Technology is an area of planning initiatives that India cannot afford to neglect.

Advances in technology are however difficult to predict. However, the marketer should consider potential, technological developments determined from resources committed by major industries or the Government. Being in a market, that is rapidly changing due to technological development, will require the marketer to make careful short-term marketing decisions as well as being prepared with contigency plans given, any new technological developments that may affect product or services.

2.5 IMPORTANCE OF ENVIRONMENT ANALYSIS

The marketing manager needs to understand the challenges of environment and the following benefits will be obtained by environmental analysis :

1. It helps to create a general understanding about changes in the environment to face challenges.
2. It guides to better planning of strategies relating to Government and other departments.
3. It also suggests necessary changes in the allocation of scarce resources and to plan for necessary diversifications.
4. It also helps to identify various opportunities and threats which are posed by environment.
5. It provides a base for qualitative and objective information about the environment and helps to design necessary marketing strategies.
6. It provides a broad and general education for managers to implement necessary strategies.

The marketing management is concerned with matching of the requirements of the organisation with the factors of business environment. The environmental forces faced by the organisation vary in their complexity and reflect on the decisions of the orgnisation.

2.6 SUMMARY

The marketing environment is the sum total of internal and external factors which the organisation operates. Some of the factors of the environment are controllable and some of them are uncontrollable. The marketing manager must obtain deep and up-do-date knowledge of all these forces as his marketing strategy is influenced by these at every step. The four P's namely product, price, place and promotion are forced to change as per the changes in the environmental forces.

2.7 SELF ASSESSMENT QUESTIONS

1. Define marketing environment. Explain the need for understanding marketing environment.
2. What are the forces of economic, socio-cultural environment on the marketing decisions?
3. How do political, legal and technological environments affect the marketing decisions?

2.8 FURTHER READINGS

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Lesson -3

CONSUMER BEHAVIOUR

3.0 OBJECTIVE

After studying this lesson, you should be able to :

* understand the importance of consumer behaviour.
* identify the determinants of consumer behaviour.
* explain the relevance of models of consumer behaviour.
* describe the stages involved in consumer buying process.
* discuss the consumer adoption process.

STRUCTURE

3.1 CONSUMER BEHAVIOUR

We are all consumers. What we buy, how we buy, where and when we buy depends on our sociocultural and psychographic factors. The study of consumer behaviour enables the marketers to know how consumers make decisions to spend their available resources (time, money, effort) on products and services. For example, the marketers of a personal computer want to know what types of consumers buy personal computers. What features do they look for? What benefits do they seek? How likely are they to replace their old models when new models with added features become available? The answers to such questions can provide personal computer marketers with important input for formulating a suitable marketing strategy.

Consumer behaviour was a relatively new field of study. Marketing theorists borrowed heavily from concepts developed in other disciplines, such as psychology, sociology, social psychology, anthropology and economics to form the basis of this new discipline.

Consumer behaviour may be defined as the decision making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services. It is a complex, dynamic and multidimensional process. All marketing decisions are based on assumptions about consumer behaviour.

The term 'consumer' is used to describe two different types of consuming entities: the individual consumer and the organisational consumer. The individual consumer purchases goods and services for his or her own use (e.g., a two-wheeler), for the use of the family (a TV), or as a gift for a friend (a pen). In each of these contexts, the products are bought for final use by ultimate consumers. The second kind of consumer is the organisational consumer. The organisations buy products and services in order to run their organisations. This chapter will focus on the individual consumer whereas the next chapter is devoted to the organisational buyers.

3.2 DETERMINANTS OF CONSUMERS BEHAVIOUR

The determinants of consumer behaviour can be classified into internal determinants and external environmental determinants.

The internal or individual factors that influence consumer behaviour are :

- Motivation
- Personality
- Self-Concept
- Perception
- Learning
- Attitudes

The external environmental factors are :

- Culture
- Reference groups
- Family
- Social class

3.2.1. INTERNAL DETERMINANTS

Motivation : Motivation is the driving force within individuals that impels them to action. Motivation is the reason for behaviour. Consumer motivation can be described as a process through which wants are satisfied. Human behaviour is goal oriented. Goals are the sought after results of motivated behaviour. Goals are of two types : Generic goals and product-specific goals. A generic goal is a general category of goal that may satisfy a certain need. A product speciic goal is a specifically branded product that the consumer sees as a way to fulfill a need.

Every person has needs : Some are innate, others are acquired. Innate needs are physiologial (biogenic). They include the needs for food, water, clothing, shelter and sex. Acquired needs are those an individual develops after birth. They are primarily psychological (psychogenic) and they include love, acceptance, esteem and self-fulfillment. Maslow's hierarchy-of-needs theory prosposes five levels of human needs: physiological needs, safety needs, social needs, self-esteem and self-actualisation needs. Maslow's theory is a useful tool for understanding consumer motivation and is readily adaptable to marketing strategy.

Personality: The term 'Personality' can be defined as those inner psychological characteristics that determine and reflect how a person responds to his or her environment. The prominent theories of personality in the study of consumer beahvour are: Sigmund Freud's psychoanalytic theory, Neo-Freudian theory and trait theory. **Freud's theory** operates on the premise that human needs are largely *unconscious* in nature. Researchers, therefore, believe that consumers are primarily *unaware* of the true reasons for their buying behaviour. For example, a car can attract someone who seeks status. **Neo-Freudian theory** attempts to emphasise the role of social relationships in the formation and development of personality. For example, some marketers position their products or services as providing opportunity to be appreciated by others. **Trait theory** focuses on the measurement of personality in terms of specific psychological traits. Trait researchers have found that a consumer's personality is linked to the purchase of a broad product category rather than a specific brand. Products generally have personalities which help shape consumer preferences and loyalties.

Self-concept : Self-concept is related to personality. Marketers attempt to develop brand images that match the target customers' self-image. Consumers attempt to maintain, enhance or modify their self-images by purchasing products and shopping at stores they perceive as consistent with their perceived self-concepts.

Perception: Perception is the process by which an individual selects, organises and interprets information inputs to create a meaningful picture of the world. Perception has strategy implications for marketers. Consumers make decisions based on what they perceive. They generally evaluate the quality of a product or service on the basis of a variety of informational clues such as colour, size, price and store image. Products that are perceived positively have a much better chance of being purchased than products with negative images. Consumers often rely on price as an indicator of quality. How consumers perceive a price has a strong influence on purchase decisions.

Consumers often perceive risk in making purchase decisions. Consumers seek increased information and search for well-known brands in order to reduce their perceived risk. They also seek reassurance through money-back guarantees, laboratory test results and prepurchase trial.

Learning : Learning involves changes in a person's behaviour due to past experience. Learning is produced through the interplay of drives, stimuli, cues, responses and reinforcement. If a consumer's experience with a BPL colour television is rewarding, his response to other products of BPL will be positively reinforced. Some of the measures of consumer learning are: recall and recognition tests, attitudinal and behavioural measures of brand loyalty.

Attitudes : As consumers we have many number of attitudes toward products, services and advertisements. Attitudes are relatively consistent. But they are not necessarily permanent; they do change. Marketers are interested to understand how consumer attitudes are formed and how they are changed. *Attitude research* attempts to study a wide range of marketing questions such as whether consumers will accept a new product idea, or to know how the customers are likely to react to proposed change in the firm's pricing policy.

3.2.2. EXTERNAL DETERMINANTS :

Culture : Culture is the most fundamental determinant of a person's behaviour. Culture is acquired as part of social experience. In the context of consumer behaviour, culture is defined as the sum total of learned beliefs, values and customs that serve to regulate the behaviour of consumers of a particular society. The elements of culture are transmitted by three important social institutions: the family, the place of worship (e.g. church), and the school. A fourth social institution that plays a major role in the transmission of culture is the mass media, both through news and through advertising.

Each culture consists of smaller subcultures such as religions, castes and geographic regions. In India, regional cultures with their local variants stand out distinctly.

Reference Groups : From a marketing perspective, reference groups are groups that serve as *frames of reference* for individuals in their buying decisions. Customers interact with reference groups such as family, friends, neighbours, co-workers and religious and professional groups. The concept of consumer reference groups has been broadened to include groups with which consumers have no direct face-to-face contact such as celebrities and sports people. Marketers are interested to identify the reference groups of their target customers

Family : Family is a fundamental reference group for many consumers. In fact, it is the target market for most products. Marketers distinguish between two types of families in the customer's life. The *family of orientation* consists of one's parents and siblings. On the other hand, *family of procreation* namely, one's spouse and children will have a more direct influence on everyday buying behaviour. The research studies classify family consumption decisions as husband-dominated, wife-dominated, joint, or autonomic decisions. The concept of *family life cycle* (FLC) gives valuable insights into buying behaviour of a family. In recent times, the Indian marketers have seen the emergence of a new woman - one who is career-oriented, more assertive and is very much aware of herself and her family needs.

Social Class : Social classes are relatively homogeneous divisions in a society. Each social class exhibits similar product and brand preferences. Social classes reflect not only income but other indicators such as education, occupation and residential area. Social scientists divide the society into upper upper, lower upper, upper middle, lower middle, upper lower, and lower lower classes. For instance, upper middle class comprises of people who have attained reasonable heights in their careers. They believe in good things of life. Lower middle class comprises small businessmen and non-managerial workers. They generally buy bulk of mass marketed products.

3.3 MODELS OF CONSUMERS BEHAVIOUR

The models which help in the understanding of consumer behaviour are :

Marshallian Model

Freud's Model

Pavlovian Model

Howard-Sheth Model

Marshallian Model : This model is based on the assumption that consumers have complete knowledge of their wants and of all available means to satisfy them. This model is based on the law of diminishing marginal utility. This model states that expenditures vary directly with income (price effect); lesser the price of the substitute product, lesser will be the utility of the product first bought (substitution effect); and more quantity will be purchased when a person's income is increased (income effect). The main criticism of this model is that it assumes the homogeneity of the market and similarity of buyer behaviour. It ignores the aspects such as motivation, perception, learning, attitudes and sociocultural factors.

Freud's Model : This theory has been discussed earlier in brief. Based on his **psychoanalytic theory of personality**, Freud proposed that the human personality consists of three interacting systems: the **id**, the **superego** and the **ego**.

The *id* is conceptualised as primitive and impulsive drives such as thirst hunger and sex. The *super ego* is conceptualised as the individual's internal expression of society's moral ethical code of conduct. The *ego* attempts to balance the impulsive demands of the id and the sociocultural constraints of the super ego. Researchers who apply Freud's theory to the study of consumer personality that human drives are largely unconcious and the consumers are primarily unaware of their true reasons for their buying behaviour. In other words, they consider the consumer's appearance and possessions (e.g. clothing, jewelry, shoes and so forth) as reflections of the individual's personality.

Pavlovian Model : This model is named after the Russian physiologist Ivan Pavlov. In his experiments, Pavlov sounded a bell and then immediately applied a meat paste to the dogs' tongues, which caused them to salivate. The dogs associated the bell sound (the conditioned stimulus) with the meat paste (the unconditioned stimulus) and, after a number of pairings, gave the same unconditioned response (salivation) to the bell alone as they did to the meat paste. In a consumer behaviour context, an *unconditional stimulus* might consist of a well-known brand symbol (such as the Microsoft windows software programme) which implies technological superiority and trouble-free operation *(the unconditional response).*

Howard-Sheth Model : In this model four sets of variables are deemed to determine consumer behaviour. They are :

1. **Stimulus - Input variables** which are provided by three types of stimuli namely a) significative stimuli (e.g. physical tangible characteristics of a product) b) symbolic stimuli (e.g. a person's perception of product's characteristics) and c) social stimuli (Provided by family, friends, social groups etc.).
2. **Internal variables** that together show the state of the buyer (buyer's motives, attitudes, experiences, perceptions etc.)
3. **Exogenous variables** that affect the buyer indirectly (these include social class, culture, time pressure and financial status of the buyer).
4. **Response-output variables** in terms of buyer's behaviour based upon interaction of the first three sets of variables.

All the four variables are linked in a very systematic and logical manner. Much of consumer behaviour is repetitive. Consumers tend to store information in their memory, and establish a routine in their decision process.

3.4 CONSUMER BUYING PROCESS

This section focuses on how consumers make decisions Particularly, marketers must identify who makes the buying decisions.

BUYING ROLES : Men normally choose their shaving set and women choose their cosmetics. Marketers distinguish five roles people might play in a buying decisions.

Initiator : A person who first suggests the idea of buying the product or service.

Influencer : A person whose opinion influences the decision.

Decider : A person who decides whether to buy, what to buy, how to buy, or where to buy.

Buyer : A person who makes the actual purchase.

User : A person who actually uses the product or service.

THE PROCESS : The consumer passes through five stages of buying process : problem recognition, information search, evaluation of alternatives, purchase decision, and postpurchase behaviour.

Problem recognition : The need is aroused by internal or external stimuli. In the former case, one of the person's normal needs such as hunger, thirst or sex becomes a drive. In the latter case, a need is aroused by an external stimulus. A person passes a sweet shop and sees freshly made sweets that stimulates his hunger. The smart marketers can develop marketing strategies by identifying the most frequent stimuli that spark an interest in a product category.

Information search : Many consumer decisions are based on a combination of past experience (*internal sources*) and marketing and noncommercial information (*external sources*). Marketing information is provided by advertising, salespersons, middlemen and packaging. The sources of noncommercial information are: family, friends, neighbours and acquaintances. How much information a consumer will gather depends on various situational factors.

Evaluation of alternatives : There is no single evaluation process used by all consumers. Certain basic concepts will help us understand consumer evaluation process. First, the consumer is trying to satisfy a *need*. Second, the consumer is looking for certain *benefits* from the product solution. Third, the consumer perceives each product as a *bundle of attributes*. The attributes vary from product to product. For example, the attributes of a toothpaste include colour, effectiveness, germ-killing capacity, price and flavour. Consumers differ as to which product attributes they see as most relevant. They develop a set of *brand beliefs* about where each brand stands on each attribute. The set of beliefs about a brand make up the *brand image*.

Purchase decision : Consumers make three types of purchases : *trail purchases, repeat purhcases*, and *long-term commitment purchases*. Unlike trial, in which the consumer uses the product on a small scale and without any loyalty, a repeat purchase usually signifies that the product meets with the customer's acceptance and that he or she is willing to buy it again and again. However, trial is not always possible. For instance, in case of durable products (refrigerators, two-wheelers, or washing machines), a consumer normally moves directly from evaluation to purchase.

In executing a purchase intention, the consumer may make up to five purchase subdecisions: *a brand decision* (brand Titan), *Vendor decision* (Titan showroom), *Quantity decision* (one watch), *timing decision* (next *Sankranthi*) and *payment-method decision* (credit card).

Postpurchase behaviour : After using the product, the consumer will experience some level of satisfaction. If the product performance falls short of expectations, the customer is *dissatisfied;* if it meets expectations, the customer is *satisfied;* if it exceeds expectations, the customer is *delighted.* According to **cognitive dissonance theory**, dissonance or discomfort occurs when a consumer holds conflicting thoughts about a belief. When cognitive dissonance occurs after a purchase, it is known as **postpurchase dissonance.** There is a feeling of uncertainty about whether the right choice is being made. High-involvement, high-risk purchases (e.g., colour television, refrigerator or washing machine) are likely to result in postpurchase dissonance then low-involvement, low-risk purchases (e.g. soft drink, detergent cake or match box). Generally, low priced and frequently purchased items will not produce postpurchase dissonance.

One of the ways consumers seek to reduce dissonance is to reevaluate product alternatives. They may reduce dissonance by seeking additional information in order to reassure themselves of their product choice. Warranties, refund policies, in-store demonstrations, and after-sales service can serve to reduce dissonance. The marketers may seek to alter the customers' perceptions and attitudes through their promotional effort. Sales people can be particularly influential in reducing dissonance by providing information that diminishes the consumer's anxiety about a purchase.

3.5 CONSUMER ADOPTION PROCESS

Consumers normally move through five stages in arriving at a decision to purchase or reject a new product. They are: awareness, interest, evaluation, trial and adoption (or rejection). Table 6.1 explains the five stages in the adoption process.

Table 6.1: The Stages in the Adoption Process

Name of Stage	**What happens during this stage**
Awareness	Consumer is first exposed to the product innovation.
Interest	Consumer is interested in the product and searches for additional information.
Evaluation	Consumer decides whether this product or service will satisfy the need.
Trial	Consumer uses the product on a limited basis.
Adoption (Rejection)	If the trial is favourable, consumer decides to use the product on a regular basis - if unfavourable, the consumer rejects it.

Classification of Adopters : Rogers identified five adoption groups: innovators, early adopters, early majority, late majority and laggards. *Innovators* are venturesome; they are willing to try new ideas and products. *Early adopters* take a calculated risk before investing and using new innovations. They are opinion leaders in their community. The *early majority* adopt new ideas before the average person. The *late majority* are doubtful about the new products. They adopt an innovation only after a majority of people have tried it. Finally, *laggards* are more traditional and they adopt the innovations with great reluctance.

This classification suggests that an innovating marketing firm should research the demograpic, psychographic and media habits of innovators and early adopters. For instance, innovative farmers are likely to be better educated and more efficient.

Some customers adopt products more quickly than others. This has strategy implications. The customers maybe labelled ranging from "innovators" to "laggands" depending on how quickly the customers adopt a product (Figure 6.1). Marketing efforts must be directed to the innovators and early adopters, both to increase an early cash flow and to encourage a faster rate of diffusion into the majority of the market. Marketers should seek to understand common characterics for early purchasers in their product category. Marketing activity can be partially directed toward helping minimize misperceptions and enhancing strengths. According to Cravens, Hills and Woodruff, important perceived product charcteristics are:

Relative advantage: The extent to which potential customers perceive a new product as superior to existing substitutes.

Compatibility : The extent to which potential customers consider a new product to be consistent with their values, needs and behaviour.

Complexity : The degree to which an innovation is difficult to understand or use.

Trialability : The extent to which a new product is capable of being tried on a limited basis by customers.

Observability : The case with which a product's benefits can be seen by, imagined by, or described to potential consumers.

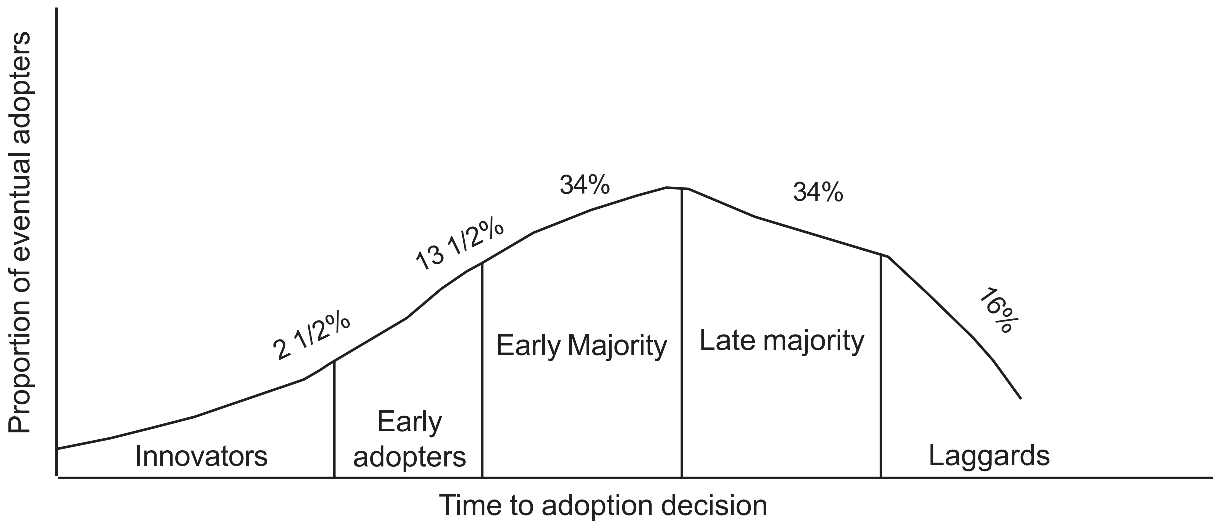

Figure 6.1 Types of Adopters by Adoption Time Required

3.6 SUMMARY

Consumer behaviour may be defined as the decision making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services. The internal factors that influence consumer behaviour are: motivation, personality, self-concept, perception, learning and attitudes. The external factors are; culture, reference groups, family and social class. The theories which help in the understanding of consumer behaviour are: economic model, Freud's model, Pavlovian model and Howard-Sheth model.

The consumer passes through five stages of buying process: problem recognition, information search, evaluation of alternatives, purchase decision and postpurchase behaviour. High-involvement, high-risk purchases are likely to result in postpurchase dissonance or discomfort than low-involvement, low-risk purchases.

Consumers normally move through five stages in arriving at a decision to purchase or reject a new product. They are: awareness, interest, evaluation, trial and adoption (or rejection). Rogers' classification of adopter groups suggests that an innovating marketing firm should research the demographic, psychographic and media habits of innovators and early adopters.

3.7 KEY WORDS

Cognitive Dissonance : The discomfort or dissonance that consumers experience as a result of conflicting information.

Consumer Behaviour : The decision making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services.

Learning : It involves changes in a person's behaviour due to past experience.

Motivation : The driving force within individuals that impels them to action.

Perception : The process by which an individual selects, organises and interprets information inputs to create a meaningful picture of the world.

Personality : Those inner psychological characteristics that determine and reflect how a person responds to his or her environment.

3.8 SELF ASSESSMENT QUESTIONS

1. What is consumer behaviour? Comment on the determinants of consumer behaviour.
2. Explain the models of consumer behaviour in brief.
3. Select a newspaper advertisement that attempts : (a) to provide the consumer with a decision strategy to follow in making a purchase decision or (b) to reduce the perceived risk associated with a purchase.
4. Identify a product or service that was recently adopted by you. What are the characteristics of people who adopted it first?
5. Using your understanding of buyer behaviour, evolve a marketing mix for a new mobile phone.
6. "High-involvement, high-risk purchases are likely to result in postpurchase dissonance than low-involvement, low-risk purchases." Comment with suitable examples.

3.9 FURTHER READINGS

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Lesson - 4

MARKET SEGMENTATION

4.0 OBJECTIVE

After going through this lesson, you should be able to :

* appreciate the need for segmentation.
* understand the bases for segmenting consumer markets.
* know how the firm can select one or more market segments to enter (market targeting)
* understand how to establish the product's key distinctive benefits in the market (market positioning).

STRUCTURE

4.1 INTRODUCTION

The decade of 1980 must have been a memorable one for Hindustan Levers Ltd., (HLL). For, in a typical David and Goliath war, the giant and an undisputed market leader in consumer non-durables in India suffered a humiliating defeat at the hands of a new and small firm, Nirma Chemicals. Nirma Washing Powder became a national brand soon after 1982, when the Indian television went commercial and started colour telecast. The product immediately caught the fancy of the middle-income customer; who was finding it difficult to make both ends meet with a limited monthly income. Nirma was the lowest priced branded washing powder available in the grocery and co-operative stores. The middle class housewife was more than satisfied, as she could now choose a lower priced washing powder rather than the high priced Surf detergent powder from HLL. Nirma also had an impact on upper middle income and higher income families who used it for washing their inexpensive clothes and linen. Initially, HLL responded by launching sales promotion campaign on Surf - by offering a bucket at subsidised price for every 1 kg of Surf, or by trading premium brands of toilet soap with every kilogram of Surf. These schemes, however, did not halt the decline of Surf. HLL then launched a head-on attack on Nirma. Without naming it (though it was obvious) they came up with an advertising commercial comparing 1 kg of Surf with 1 kg of low-priced yellow washing powder and showed that Surf washed more clothes than the low-priced yellow washing powder - and hence it was economical to buy Surf.

The commercial did not bring in any substantial results. It was at this time (around 1984). that HLL decided to take a fresh look at the market. Research was conducted throughout the country which revealed that different income groups of consumers, had varying expectations from detergents or washing powders. It also showed that different colours of washing or detergent powders were associated with different types of fabrics. For example, yellow coloured washing or detergent powder was mainly bought by middle and lower middle or lower income people. They washed all their fabrics and associated whiteness in clothes to a yellow coloured powder. Also, middle class families used the blue coloured Rin bar for washing their expensive clothes. The research further indicated that blue or white coloured detergent powders were bought by middle to higher income group people, and then colours were also associated with washing clothes clean. In fact, the housewife was known to add "blue" to her laundry to give that extra whiteness to the white clothes. Interestingly, green was also the colour that was perceived to clean extra - dirty clothes. Armed with this research on colour perceptions and income groups, HLL launched the Sunlight (yellow), Wheel (green), Rin (blue) and Surf Ultra (white) detergent powder for different market segments. This strategy of segmenting the markets, understanding its needs and thus evolving a marketing mix to suit segments' needs helped HLL win back part of its lost market. In fact, Nirma made all other consumer product companies sit up and take a fresh look at their markets. It announced, for many, a beginning of an era of low-priced products for a highly price sensitive Indian market, and, to others, an end of mass marketing era. The market was indeed changing, demanding new responses from companies. The latter part of 1980s or early 1990s has taught the firms a lesson - "One cannot be everything to everyone; but one can be everything to a select few." This is the basis of segmentation (Adopted from Rajan Saxena, *Marketing Management*, Tata McGraw-Hill, New Delhi, 1997).

From the above case discussion, it is clear that a company cannot serve all customers in a total market. The customers are different in terms of their buying requirements. The company has to identify the market segments that it can serve more effectively.

In **target marketing**, the company distinguishes the major market segments, target the most attractive segment(s), and develop products and marketing programmes tailored to each.

According to Philip Kotler, target marketing requires marketers to take three major steps:

- Identify and profile distinct groups of buyers who might require separate products or marketing mixes (market segmentation).
- Select one or more market segments to enter (market targeting).
- Establish and communicate the products' key distinctive benefits in the market (market positioning).

4.2 MARKET SEGMENTATION

The Concept : Mass marketing is the starting of any discussion on segmentation. In *mass marketing*, the firm engages in the mass production, mass distribution, and mass promotion of one product for all buyers. The sellers practising mass marketing assume that all buyers are alike. At the other extreme, *individual marketing* leads to 'customised marketing'. In individual marketing, the seller will customise the offer, logistics, communications, and pricing for each customer. New technologies such as computers, databases, internet and fax enabled the marketers to adopt customised marketing.

Market segmentation is an approach midway between mass marketing and individual marketing. The buyers of each segment are assumed to be similar in wants, purchasing power, geographical location, or buying attitudes. *Market segmentation* is the process of dividing a total, heterogeneous market into homogeneous segments. It offers several benefits over mass marketing. It is a customer - oriented philosopy. The firm's marketing programme is tailored to the specific needs of a segment. It helps matching of market opportunities to the company's resources. To be able to overcome a threat of competition, the marketers attempt to segment their markets, position themselves in a segment they perceive they will be able to defend against competitive attacks. As Michael Porter puts it, the competitive advantage of a firm lies in being everything to select few. To be everything to everyone is a sure recipe for a strategic failure.

Patterns of Market Segmentation : Market segments can be created in many ways. Philip Kotler suggested a way to identify *Preferences segment.* For instance, the buyers of shampoo may be asked as to how much they want of two attributes: foam and fragrance. Three different patterens of preferences can emerge as shown in Figure 5.1.

*** Homogeneous Preferences :** Figure 5.1 (a) exhibits a market where there are no natural segments. All the consumers have more or less the same preference with regard to foam and fragrance.

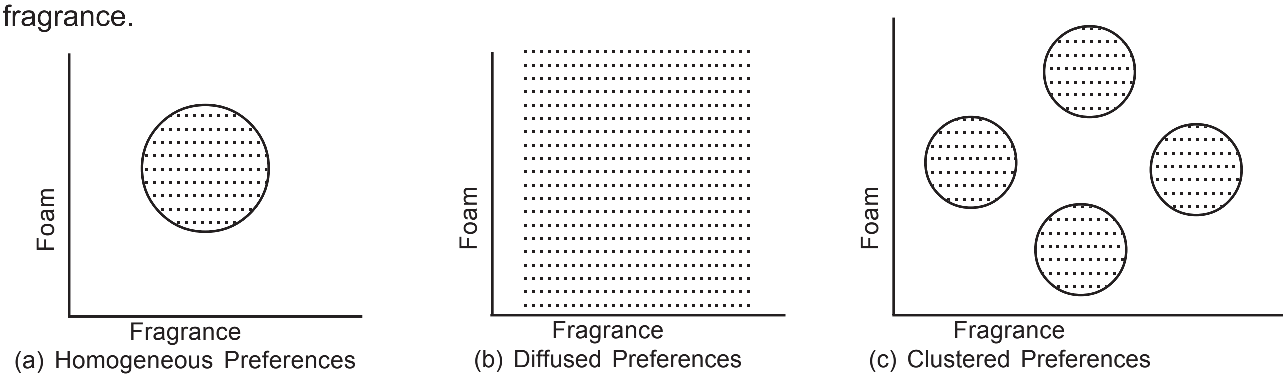


Figure 5.1 Basic Market - Preference patterns

*** Diffused Preferences :** This is the other extreme (Figure 5.1 [b]). Consumers differ greately in their preferences. A brand is likely to be positioned in the centre so that it may be able to appeal to the majority of the customers. A second competition could locate a corner to attract a customer segment that was not satisfied with the centre brand.

Clustered Preferences : Figure 5.1 (c) shows a market which reveals natural market segments. Three options are normally available to the first marketer. It might position itself in the centre with a view to appealing to all the customer groups *(Undifferentiated marketing)*. It might positon itself in the largest market segment *(Concentrated marketing)*. It might offer many brands, each positioned in a different segment *(Differentiated marketing)*.

4.3 BASES FOR SEGMENTING CONSUMER MARKETS

Marketers segment consumer markets by using two broad groups of variables. The market segments can be formed by looking at consumer characteristics, viz., geographic, demographic and psychographic. On the other hand, the marketers attempt to form segments by understanding consumer responses to the market offerings. For example, the marketers try to know whether customers who want "picture quality" versus "easy to use" in buying a camera differ in their geographic, demographic and psychographic makeup. The bases for segmenting the markets - geographic, demographic, psychographic and behavioural - are discussed hereunder:

Geographic Segmentation :

This involves dividing the market into different geographical areas such as nations, states, regions, cities, or villages. A very common base is the rural and urban divide. Geographic segmentation assumes that people in a particular geographic area have similar preferences and consumption behaviour.

Demographic Segmentation :

Demography is the study of population. Demographic variables are the most popular bases for segmenting consumer markets. Some of the demographic bases are: age, family size, family life cycle, gender, income, occupation, education, religion and social class.

Age : Based on age, one can have the (i) infants market (newly born -upto 1 year); (ii) child market (1 year - 12 years); (iii) teens market (13 years - 19 years); (iv) adolescent market (16 years - 19 years); (v) youth market (20 years - 35 years); (vi) middle aged market (36 years - 50 years); and (vii) elders market (50 years and above).

Family size and structure : With the spread of the family planning programmes, the average family size has been declining in India. Further, we can witness the splitting up of joint families. Nuclear families are on the rise. Marketers use family size and structure for evolving marketing programmes. For instance, a 360 litre refrigerator is normally meant for large families and a 165 litre refrigerator is suited for smaller families.

Gender : On the basis of gender, the consumer market may be classified into male market and a female market. A shoe company will have to take a decision whether it wants to offer shoes for men or women or for both.

Social class : Companion design their products and services for particular social classes. Broadly, there are three social classes - upper class, middle class and lower class. A person's social class depends on type of income, type of occupation and place of residence.

Psychographic Segmentation :

Many marketers are turning to psychographic variables to segment their markets. According to Philip Kotler, buyers are divided into different groups on the basis of lifestyle, personality and values.

Lifestyle: The products and services used by the customers exhibit their lifestyles. The marketers of textiles, cosmetics, cigarettes, beer and furniture generally attempt to segment their market on the basis of lifestyle. The Titan watch company has segmented its market for Timex and Titan watches on the basis of lifestyle.

Personality : Marketers try to develop brand personalities that match to consumer personalities. For example, Femina magazine earlier targetted at an older, more traditional and middle class woman. Later, the magazine is repositioned "for the woman of substance". Another women's magazine Savvy is targetted at the highly liberated, independent and strong woman.

Values : Companies that segment by core values try to appeal to people's inner selves in order to influence their outer selves - their purchase behaviour.

Behavioural Segmentation :

The customers can also be divided into certain segments on the basis of their knowledge, attitude, use, or response to a product. Such behavioural variables are discussed below.

Occasions : Marketers attempt to create certain occasions is order to make customers feel to buy a product or service. For instance, many people buy ornaments and clothes at the time of the marriage of a family member and on the festive occasions. Certain occasions such as Mother's Day, Friendship Day and Valentines Day were established partly to increase the sale of certain products.

Benefits sought : The customers can be divided into certain groups on the basis of the benefits sought from a product. For example, in case of toothpastes in India, Colgate and Close-up offers cosmetic benefit (i.e., white teeth stops bad breath); Forhans and Cibaca provides Therapeutic benefit (i.e. protects gums); and Vicco Vajradanti and Neem gives ayurvedic benefit (i.e. without side effects).

User Status : Buyers can be segmented into non-users, ex-users, potential users, first-time users and regular users of a product.

Usage rate : Marketers segment the market into light, medium and heavy user segments on the basis of usage rate. Marketers normally try to attract a few heavy users rather than many light users.

Loyalty Status : The marketers should examine the loyalty patterns of its customers in order to retain the loyal customers or to attract new customers. According to brand loyalty status, customers can be divided into:

Hard-core loyals : Buyers who buy one brand all the time.

Split loyals : Buyers who are loyal to two or three brands.

Shifting loyals : Buyers who shift from one brand to another.

Switchers : Buyer's who show no loyalty to any brand.

Buyer Readiness : Buyers are at different stages of readiness. There may be buyers who are unaware of the product, some are aware, some are informed, some are interested, some desire the product and some interested to buy.

Attitude: Marketers can classify the customers into five attitude groups, viz., enthusiastic, positive, indifferent, negative and hostile.

EFFECTIVE MARKET SEGMENTATION

To be effective, the size of market segments must be large enough. The requisites for successful market segmentation are :

1. Measurability : The segments must be measurable in terms of their size and purchasing power.

2. Accessibility : The market segments should be reached and served through suitable means of distribution and promotion.

3. Substantiality : The segments must be large and profitable enough. It may not be commercially viable to design cars exclusively for Indian women.

4. Differentiability : The segments must be clearly distinguishable. They must respond differently to different marketing programmes. If men and women react similarly to a brand of toilet soap, they do not constitute different segments.

5. Actionability : To be effective, marker of segmentation should be compatible with the manpower, financial and managerial resources.

4.4 MARKET TARGETING

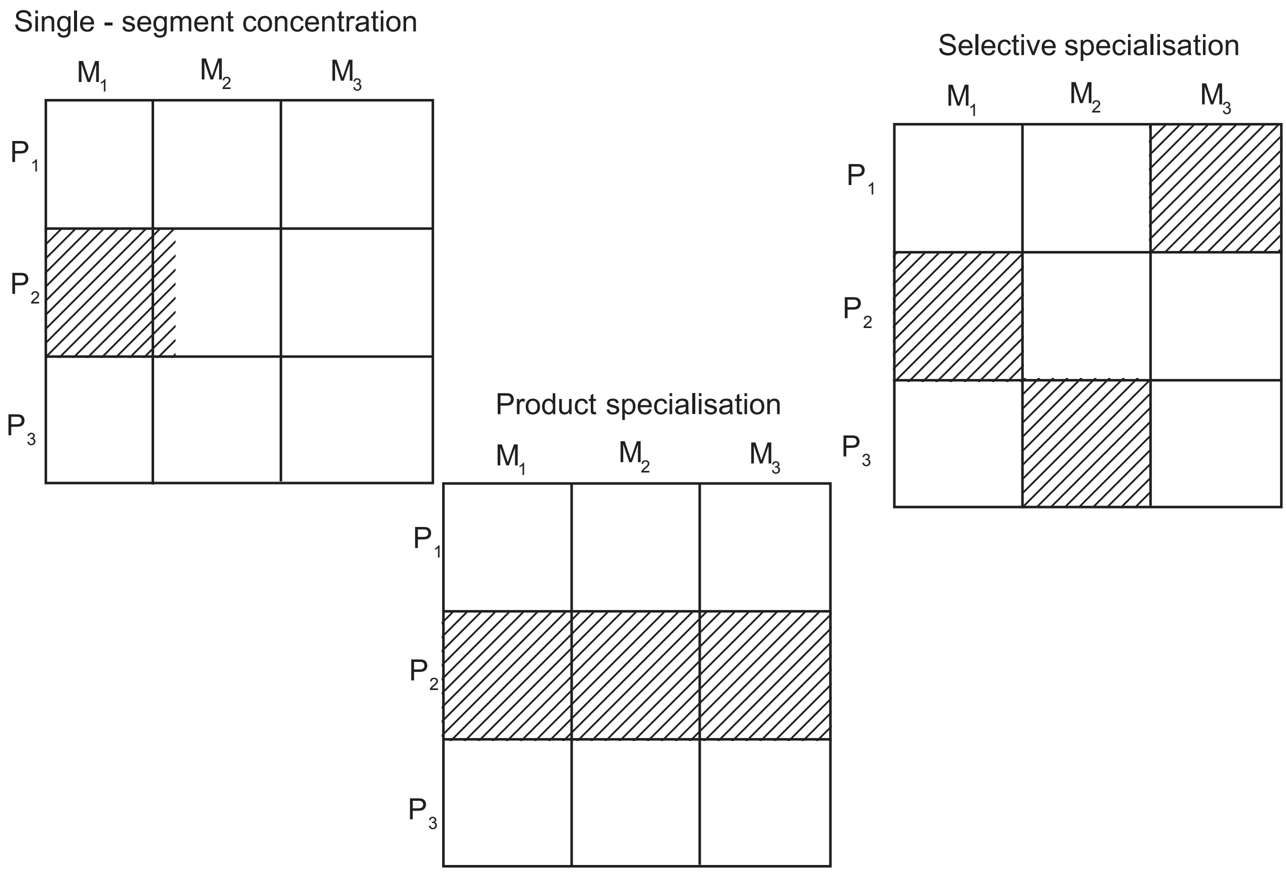
As observed earlier, target marketing requires marketers to take three major steps: market segmentation, market targeting, and market positioning. In market segmentation, the marketer identifies the distinct groups of buyers who might require separate marketing mixes. Having identified the market segments, the firm has to evaluate the attractiveness of each segment and decide how many of them to target.

EVALUATING THE SEGMENTS :

The selection of market segments depends on the segment's attractiveness and the firm's objectives and resources. The company should forecast the sales, growth, profitability and scale economies of each segment. Certain segments could be dismissed if the company lacks resources

SELECTING THE MARKET SEGMENTS :

Abell identified five patterns of target market selection. They are shown in figure 4.2.



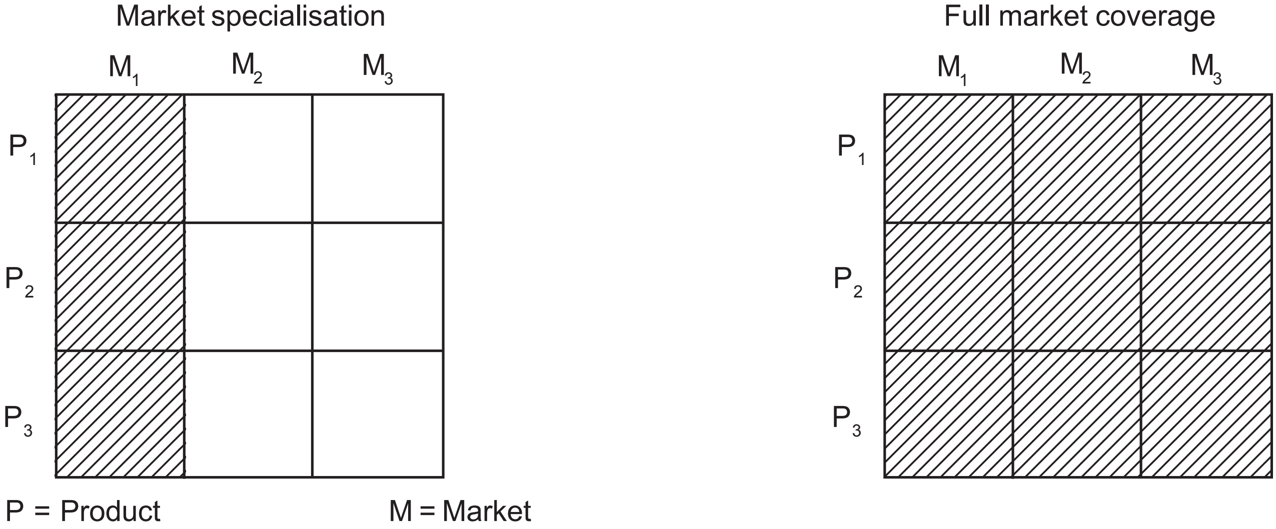


Figure 4.2 Five Patterns of Target Market Selection

Single-segment Concentration : Here the company selects a single segment. For example, Nirma Chemicals selected a price sensitive segment for its washing powder. Through concentrated marketing, the firm can derive operating economies in production, distribution and promotion.

Selective specialisation : The firm can select many attractive segments. This is also known as the multisegment coverage strategy. This strategy will enable the firm to deversify its risk.

Product specialisation : Here the firm specialises in offering its products to serveral segments. For example, a computer manufacturer can sell PCs to educational institutions, government offices and individual customers.

Market specialisation : The firm can specialise in serving many needs of a specific group of customers. For example, a software company can concentrate in developing suitable software required by banks.

Full market coverage : If the firm tries to serve all segments with different marketing mixes, it is called full market coverage strategy. This strategy is normally adopted by very big companies Marketers attempt to cover the market through undifferentiated marketing or differentiated marketing.

The firm, in **undifferentiated marketing,** ignores the differences among market segments and attempts to cover the whole market with one market offer. It minimises the costs of production, inventory, distribution and promotion. For instance, Hindustan Motors practised undifferentiated marketing, when it was marketing only one car (Ambassador) to suit all the consumers in one big market. When several firms attempt to practise undifferentiated marketing, it will lead to undersatisfaction of smaller segments. Appealing to the largest market results in what is known as 'majority fallacy'.

Under **differentiated marketing,** a firm operates in several segments and develops different marketing programmes for each segment. BPL offers many models of television sets for different segments. Similarly, Hindustan Lever Limited offers several toilet soaps for different customer groups. By adopting differentiated marketing, the firm hopes to attain higher sales within each market segment. Coca Cola and Pepsi, for instance, could increase the size of soft drinks market as they are being sold in different bottle sizes as well as in cans. However, differentiated marketing increases the costs of: product modification, production, administrative, inventory and promotion.

4.5 MARKET POSITIONING

Positioning is the third step required to be taken for target marketing. Al Ries and Jack Trout popularised the concept of positioning. They said, "Positioning starts with a product. A piece of merchandise, a service, a company, an institution, or even a person... But positioning is not what you do to a product. Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect.' According to Philip Kotler, "Positioning is the act of designing the company's offering and image to occupy a distinctive place in the target market's mind." In the words of David A. Aaker and Gary Shansby, "marketing programme positioning consists of integrating strategies for products, distribution price, and promotion. The terms 'position' designates how a company's marketing programme is perceived by the buyer in relation to the programmes of key competitors; in other words, how a firm's brand is positioned against its competition with respect to the product offering, distribution approach, prices, advertising, and personal selling. All elements of the marketing programme can potentially affect the position."

Target market and positioning strategies are like the two sides of a coin. They are inseprable; each depends upon the other. Aaker and Shansby identified several positioning approaches. They are:

Attribute : Use of one or more attributes, product features, or customer benefits associated with the firm's product. For example, Garden Varelli offers to the woman the benefit of looking pretty and fascinating the opposite sex ("You fascinate me").

Price/Quality: Various positions on the price/quality scale may be selected depending upon the positioning objective. Examples range from Surf Ultra at the high end and to Nirma at the low end.

Use or Application : This strategy positions the brand according to how the product is used or applied. For instance, Rasna, the soft drink concentrate, offers convenience (that is so simple to make that even a child can do it).

Product user : This type of positioning focusses on the person using the product. Bikes, textiles and watches are positioned in accordance with the lifestyle of target customers.

Product class : This positioning approach involves association with a product-class, such as mobile phone compared to land line phone.

Competitior : This strategy explicitly positions a firm's brand against the competition. For instance, Hindustan Lever's Wheel detergent powder took a head on position with Nirma and claimed that it was better as it washed whiter and was gentle on the hands, a claim which Nirma fights by showing the user using a spoon to take the washing powder from the bag.

Philip Kotler says that a firm must avoid few major positioning errors:

1. **Under positioning:** This occurs when buyers know much less about the brand or do not know anything special about the brand.
2. **Over positioning:** When buyers have too narrow a view of the brand, e.g., buyers may perceive Titan watches as high priced products, when in reality the company now offers affordable watches standing at Rs.400.
3. **Confussed positioning :** Buyers may have a confused image of the brand due to frequent changes in positioning statement.
4. **Doubtful positioning :** This occurs when buyers doubt the credibility of the claims made by the firm.

HOW TO POSITION THE BRAND

To position their brands, marketers use a technique called **perceptual mapping.** It involves understanding the customer perceptions of the competitive brands and identifying vacant slots. To be more specific, perceptual mapping involves:

1. Studying the ideal product perception: The marketer has to identify both tangible and intangible attributes that a customer looks for in a product. The tangible product features include size, colour and packaging. Examples for intangible attributes are: service, quality and manufacturer's prestige.
2. Get the customers' to rank these attributes in order of importance to them.
3. Customers knowledge of the competitors' brands.
4. How do the competitive brands fare on the ideal product map? The customers will assess how close the brands are on each attribute to the ideal product.
5. Marketers identify vacant slots based on the customer's assessment of competitive brands on the ideal product map. Figure 5.3 exhibits the perceptual map of a beer market.

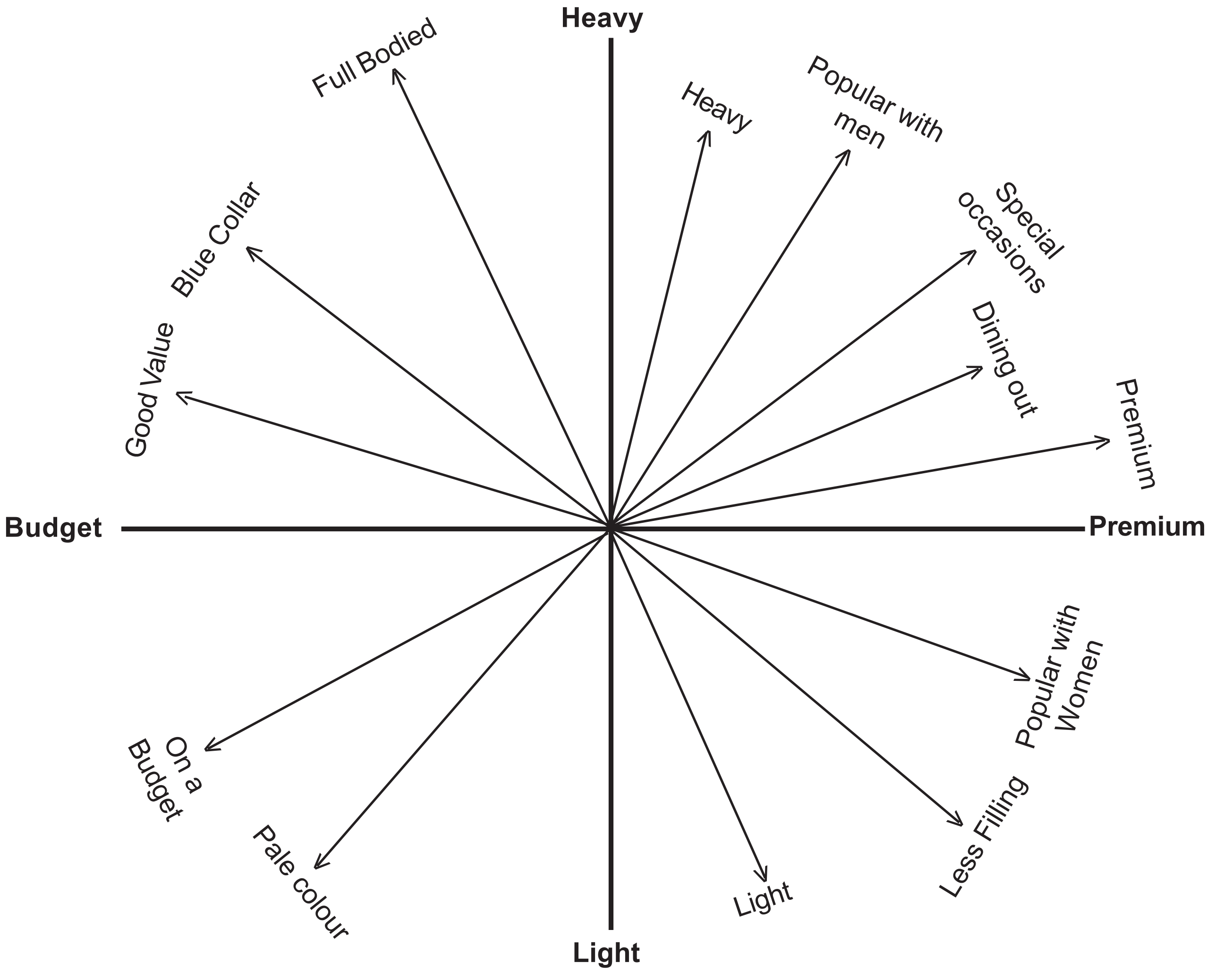


Figure 4.3 Perceptual Map of Beer Market.

Source: Adopted from Rajan Saxena, Marketing Management, Tata McGraw - Hill, New Delhi - p. 202.

4.6 SUMMARY

Target marketing requires marketers to take three major steps: market segmentation, market targeting, and market positioning. Market segmentation is the process of dividing a total, heterogeneous market into homogeneous segments. It offers several benefits over mass marketing. The consumer markets can be broadly segmented on the bases of geographic, demographic, psychographic and behavioural variables.

Having identified the market segments, the firm has to evaluate the attractiveness of each segment and decide how many of them to target. There are five patterns of target market selection: Single-segment concentration, selective specialisation, product specialisation, market specialisation, and full market coverage.

Positioning is the third step required to be taken for target marketing. It is the act of designing the company's offering and image to occupy a distinctive place in the target customer's mind. To position their brands, marketers use a technique called perceptual mapping. It involves understanding the customer perceptions of the competitive brands and identifying vacant slots.

4.7 KEY WORDS

Differentiated marketing : In differentiated marketing, a firm operates in several segments and develops different marketing programmes for each segment.

Market positioning : It is the act of designing the company's offering and image to occupy a distinctive place in the target market's mind.

Market segmentation : It is the process of dividing a total, heterogeneous market into homogeneous segments.

Market targeting: It involves selecting one or more market segments to enter.

Mass marketing : In mass marketing, the firm engages in the mass production, mass distribution, and mass promotion of one product for all buyers.

Perceptual mapping : It involves understanding the customer perceptions of the competitive brands and identifying vacant slots.

Target marketing : In target marketing, the company distinguishes the major market segments, target the most attractive segment(s), and develop products and marketing programmes tailored to each.

Undifferentiated marketing : In undifferentiated marketing, the firm ignores the differences among market segments and attempts to cover the whole market with one market offer.

4.8 SELF ASSESSMENT QUESTIONS

1. What is market segmentation? Explain the bases for segmenting consumer markets.
2. Critically evaluate Hindustan Levers' segmentation strategy with regard to their toilet soaps.
3. What are the different patterns of target market selection? Distinguish between undifferentiated marketing and differentiated marketing.

4. Explain the concept of positioning. What are different positioning approaches? Give suitable examples.

4.9 FURTHER READINGS

1. David W. Cravens, Strategic Marketing, Richard D. Irviwn, Illinois, 1987
2. Philip Kotler, Marketing Management Prentice-Hall of India, New Delhi, 1999
3. Rajan Saxena, Marketing Management Tata McGraw-Hill, New Delhi, 1997
4. S.A. Sherlekar and V.S. Sherlekar, Global Marketing Management, Himalaya Publishing, Mumbai, 2000.

Lesson - 5

PRODUCT CONCEPT AND STRATEGY

5.0 OBJECTIVE

After studying this lesson you should be able to :

* To understand the meaning of product and levels of product
* To know the various product-mix strategy dimensions
* To study product line decisions
* To define a product life cycle, and describe the appropriate marketing strategies at each stage of the product life cycle
* To study the stages of new product development and understanding the problems involved in it.

STRUCTURE

5.1 Introduction
5.2 Meaning of product and levels of Product
5.3 Product Mix - Dimensions
5.4 Product Line Decisions
5.5 Product Life Cycle
5.6 Introducing New Products
5.7 Summary
5.8 Key words
5.9 Self assessment questions
5.10 Further readings

5.1 INTRODUCTION

Once a company has carefully segmented the market, chosen its target customer groups, and determined the desired market positioning, it is ready to launch appropriate products. Product is the first and most important element of the marketing mix. Other elements of marketing mix are price, promotion and place. Marketers have recognized the need for differentiation of products and services. To the buyer, a product is a complex cluster of value satisfactions. One must enhance value of the offer to be successful in this competitive market situation.

5.2 MEANING OF PRODUCT AND LEVELS OF PRODUCT

A **product** is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. Products include more than just tangible goods. Broadly defined, products include physical objects, services, experiences, events, persons, places, properties, organisations, information, and ideas, or mixes of these entities.

Services:

Because of their importance in the world economy, we should understand services. **Services** are a form of product that consist of activities, benefits, or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything. Examples are banking, tax preparation, hotel, travel and tourism, hospital, house repair services.

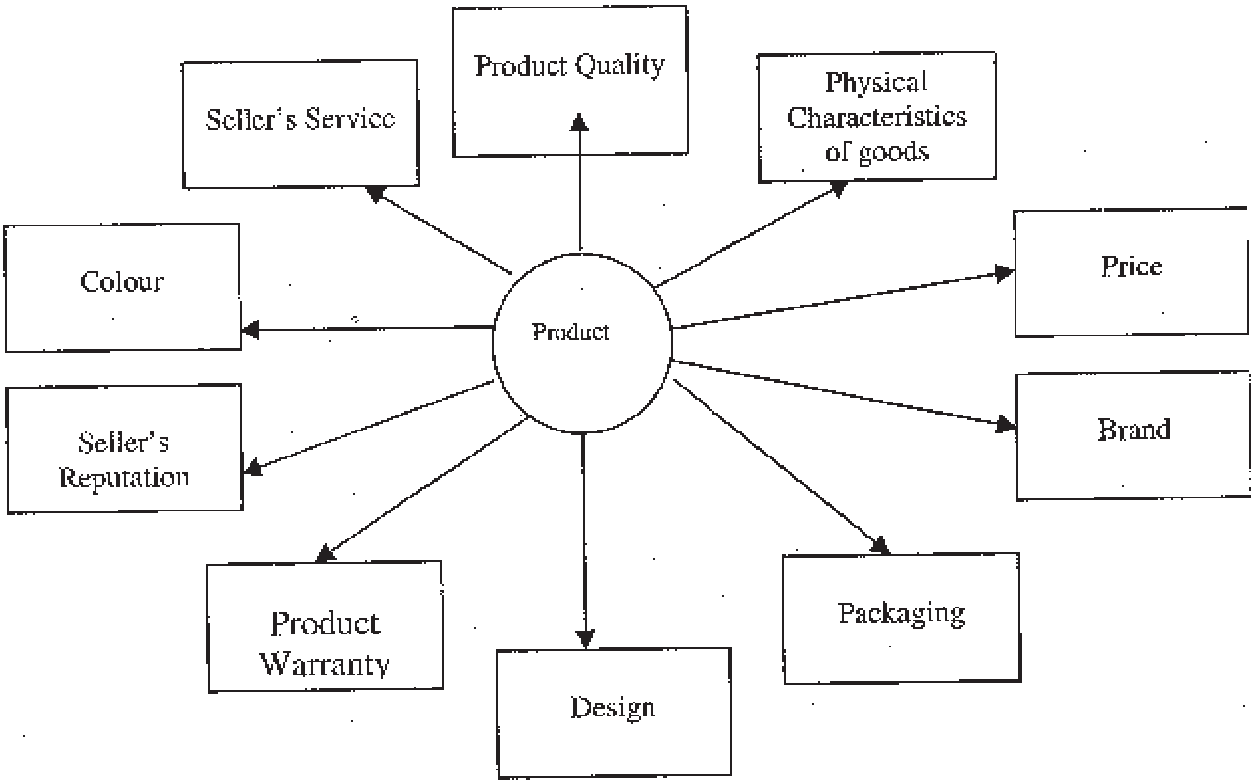


Figure 5.1 A product is more than just a product.

5.2.1 Levels of Product :

According to Theodore Levitt the new competition is not between what companies produce in their factories, but between what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangements, warehousing, and other things that people value.

Product planners need to think about products and services on three levels. The most basic level is the core product, which addresses the question: What is the buyer really buying? As illustrated in **Figure 8.2,** the core product stands at the center of the total product. It consists of the core, problem-solving benefits that consumers seek when they buy a product or service. A woman buying a lipstick buys more than a lip colour. When designing products, marketers must first define the important benefits the product will provide to customers.

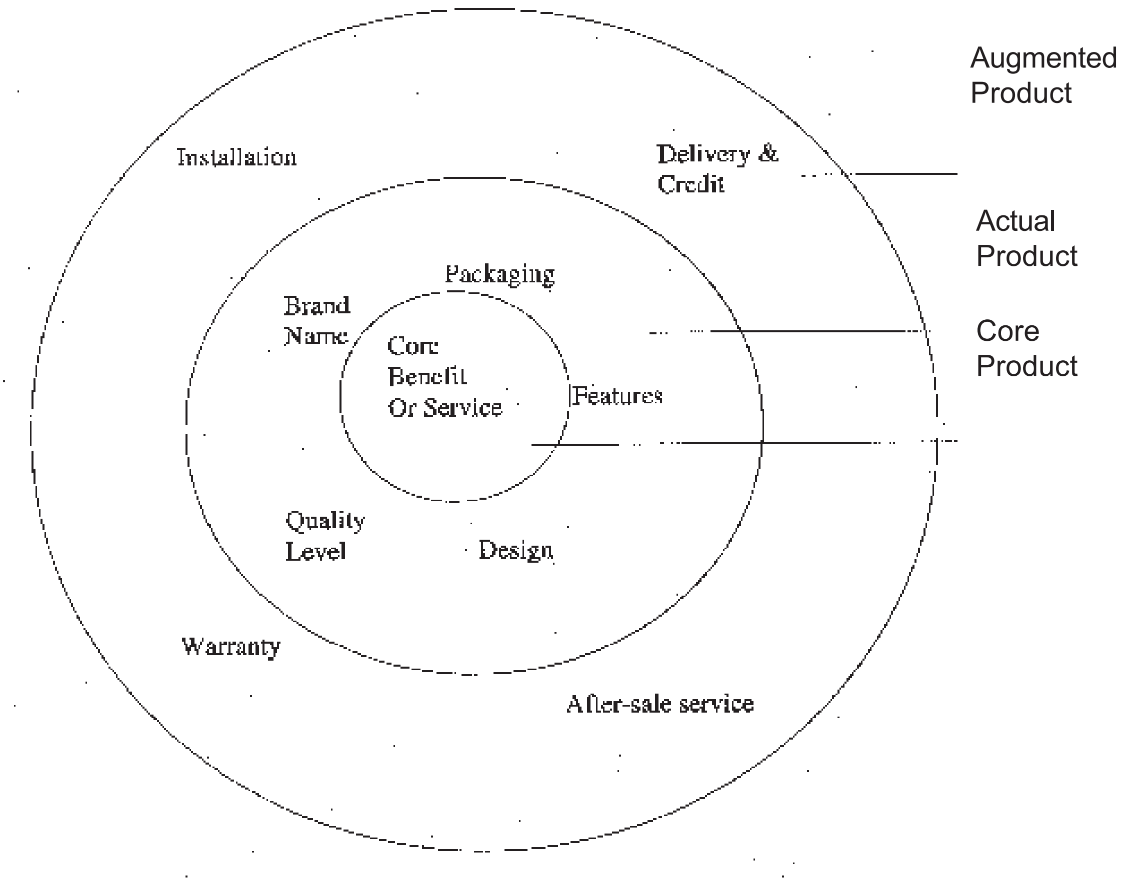


Figure 5.2 Levels of Product

The product planner must next build an actual product around the core product. Actual products may have characteristics like quality, features, design, a brand name, and packaging. For example, Sony television is an actual product. Its name, parts, styling, features, packaging and other attributes have all been combined carefully to deliver the core benefit - a convenient, high quality entertainment.

Finally, the product planners must build an augmented product around the core and actual products by offering additional consumer services and benefits. Sony must offer more than a television. It must provide consumers with complete solutions to their television viewing. Thus, when consumers buy a Sony product, Sony and its dealers also might give buyers a warranty on parts and workmanship, instructions on how to use the product, quick repair services when needed.

Therefore, a product is more than a simple set of tangible features. Consumers look to see products as complex bundles of benefits that satisfy their needs. Consumers want solutions not simply products. When developing products, marketers first must identify the core consumer needs the product will satisfy. They must design the actual product and find ways to augment it in order to create the bundle of benefits that will best satisfy consumers.

5.3 PRODUCT MIX - DIMENSIONS

Product Mix: A product mix (or product assortment) is the set of all products and items that a particular seller offers for sale to buyers.

Product-mix Dimensions:

A company's product mix has a certain width, length, depth, and consistency.

- The **width** of a product mix refers to how many different product lines the company carries.
- The **length** of a product mix refers to the total number of items in the mix.
- The **depth** of a product mix refers to how many variants are offered of each product in the line.
- The **consistency** of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way.

These four product-mix dimensions permit the company to expand its business in four ways. It can add new product lines, thus widening its product mix. It can lengthen each product line. It can add more product variants to each product and deepen its product mix. At the end, a company can pursue more product-line consistency.

5.4 PRODUCT LINE DECISION

A product mix consists of various product lines. Product-line managers need to know the sales and profits of each item in their line in order to determine which items to build, maintain, harvest, or divest. Some products contribute more to the entire product line's sales and profits. Every company's product portfolio contains products with different margins. The company management has to make a decision whether a product has to be continued or deleted from the product line.

They also need to understand each product line's market profile. The product-line manager must review how the line is positioned against competitors' lines. The management can use techniques like product mapping, which shows how competitors' products are competing against company products. This product mapping also identifies market segments. After performing product-line analysis, the product-line manager has to consider decisions on product-line length, line modernization, line featuring, and line pruning.

Product-line length:

A product line is too short if adding some more items can increase profits; and one can consider the line is too long if dropping some of the items can increase the profits. Company objectives influence product-line length. One objective is to create a product line to induce customers to go for higher end models. Fox example Hyundai company introduces Santro Zing a higher version compared to Santro Zip model. A different objective is to create a product line that facilitates cross selling, for example Hewlett-Packard sells printers as well as computers. Another objective is to create a product line that protects against Economic ups and downs.

Companies seeking high market share and market growth will generally carry longer product lines. Companies that emphasize high profitability will carry shorter lines consisting of carefully chosen items. Product lines tend to lengthen over time. Excess manufacturing capacity puts pressure on the product-line manager to develop new items. The sales people and distributors also pressure the company for a more complete product line to satisfy customers.

A company lengthens its product line in two ways: by line stretching and line filling.

1) **Line Stretching:** Every company's product line covers a certain part of the total possible range. Line stretching takes place when a company lengthens its product line beyond its current range. The company can stretch its line downmarket, upmarket, or both ways.

   A company positioned in the middle market may want to introduce a lower-priced line for different reasons such as the company may notice strong growth potential as mass-retailer, where customers want more value for money products. To counter attack the competitors who are in lower-end of the market for otherwise they may move Upmarket, or if the middle market is stagnant or declining. This is known as Downmarket stretch.

   Companies may wish to enter the high end of the market for more growth, higher margins, or simply to position themselves as full-line manufacturers. This is known as Upmarket stretch. Sometimes companies serving in the middle market might decide to stretch their line in both directions, which is known as Two-Way Stretch.

2) **Line Filling:** A product line can also be lengthened by adding more items within the present range. The reasons for line filling are:

   - Reaching for incremental profits
   - Trying to utilize excess capacity
   - Trying to be the leading full-line company
   - Trying to plug holes to keep out the competitors
   - To satisfy dealers who complain about missing items in the line

   Line filling is overdone if it is results in self-cannibalization and customer confusion. Introducing more and more products in the line may lead to killing their other items. The company needs to differentiate each item in the customer's mind. Each item should possess a just-noticeable difference.

   Other important product-line decisions are line modernization, featuring and line pruning.

a) **Line Modernization**: Product lines are to be modernized. The managers have to take decision whether to overhaul the line piecemeal or all at once. In rapidly, changing product markets, modernization is carried on continuously.

b) **Line Featuring**: The product-line managers typically select one or a few items in the line to feature. For example, Videocon will announce a special low-priced washing machine to attract customers. At other times, managers will feature a high-end item to lend prestige to product line. Some special emphasis will be made on some items to prop up their sales, these items are called featured items.

c) **Line Pruning:** Product-line managers must periodically review the line for finding slow items, considered as deadwood, which are affecting profits. The weak items can be identified though sales and cost analysis. Pruning is also done when the company is short of production capacity. Companies normally shorten their lines in periods of high demand and lengthen their lines in periods of slow demand.

5.5 PRODUCT LIFE CYCLE

A product passes through certain distinct stages during its life, and this is called the Product Life Cycle (PLC). A Company's positioning and differentiation strategy must change as the product, market, and competitors change over time. The PLC concept is used to understand the market behaviour at different stages of life cycle and to apply different marketing strategies to get better results.

To believe that a product has a life cycle one has to assume the following things:

1. Products have a limited life.
2. Product sales pass through distinct stages, each posing different challenges, opportunities, and problems to the seller.
3. Profits rise and fall at different stages of the product life cycle.
4. Products require different marketing, financial, manufacturing, purchasing, and human resource strategies in each life-cycle stage.

The PLC is normally presented as a sales curve representing the product's journey from introduction to exit as shown in **Figure 5.3.** Most product life-cycle curves are portrayed as bell-shaped. This curve is typically divided into four stages: introduction, growth, maturity, and decline.

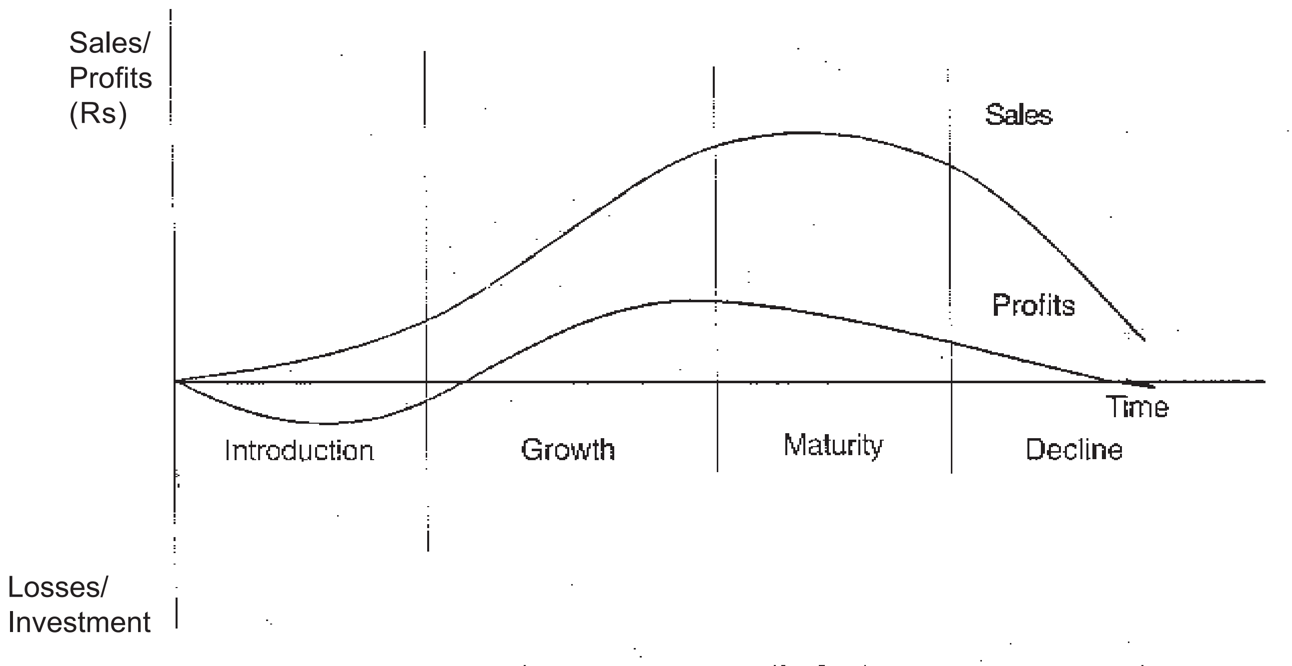


Figure 5.3 Stages in Product Life Cycle

1. **Introduction:** A period of slow sales growth as the product is introduced in the market. Profits are nonexistent because of the heavy expenses incurred with product introduction.

2. **Growth:** A period of rapid market acceptance and substantial profit improvement.
3. **Maturity:** A period of slowdown in a sales growth because the product has achieved acceptance by most potential buyers. Profits stabilize or decline because of increased competition.
4. **Decline:** The period when sales show a downward drift and profits erode.

Table 5.1
Summary of product Life-Cycle Characteristics, Objectives, and Strategies

	Introduction	**Growth**	**Maturity**	**Decline**
Characteristics				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing Number	Stable number beginning to decline	Declining number
Marketing objectives				
	Create product awareness and trail	Maximize market Share	Maximize profit while defending market share	Reduce expenditure and milk the brand
Strategies				
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brand and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or best competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase out unprofitable outlets
Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain hard-core loyals
Sales Promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

(Adapted from Philip Kotler, Marketing Management: Analysis, Planning, Implementation, and Control, 8th ed., Prentice Hall of India, New Delhi, 1988).

5.6 INTRODUCING NEW PRODUCTS

Every company must develop new products. New-product development determines the company's future. For higher level of growth, a firm has to look beyond its existing products. Customers want new products, and competitors will do their best to supply them. In the year 2000, consumer product firms developed 31,000 new products including line extensions and new brands. Today a big supermarket in United States stocks 40,000 items.

New products become necessary from the profit angle too. It is necessary for the business firms to bring in new products to replace old, declining and losing products. New products become part and parcel of the growth requirements of the firm and in many cases, new profits come only through new products.

A company can add new products through acquisition or development. The acquisition route can take three forms. The company can buy other companies, it can acquire patents from other companies, or it can buy a license or franchise from another company.

The development route can take two forms. The company can develop new products in its own laboratories, or it can contract with independent researches or new-product development firms to develop specific new product.

5.6.1 Categories of New Products:

1. **New-to-the world products**: New products that created an entirely new market.
2. **New Product Lines:** New Products that allow a company to enter an established market for the first time.
3. **Additions to existing product lines:** New products that supplement a company's established product lines (package sizes, flavours, and so on).
4. **Improvements and revisions of existing products:** New products that provide improved performance or greater perceived value and replace existing products.
5. **Repositioning :** Existing products that are targeted to new markets or market segments.
6. **Cost Reductions:** New products that provide similar performance at lower cost.

Less than 10 percent of all new products are truly innovative and new to the world. These products involve the greatest cost and risk because they are new to both the company and the market place. Most new product activity is devoted to improving existing products.

5.6.2 Why do products fail?

Success requires many factors. Even one reason is good enough for a product failure. The following points give some idea regarding why products fail to get support from the customers.

1) **Market size overestimated**: The product idea is good, but the market size is overestimated. Many of the multinational companies overestimated the size of the market in India in the early stages of liberalisation programme and were not able to get enough support.
2) **Poor product design:** If the product is not well designed it may not attract the customers. Some designs that are appealing to customers in one country may not be appealing in another country.
3) **Top management exuberance:** A high-level executive pushes a favourite idea through in spite of negative market research findings.
4) **Marketing Mix:** The company is unable to strike the right marketing mix to reach the target customers. The product is in correctly positioned in the market, not advertised effectively, or over priced.

5) **Insufficient distribution:** The product fails to gain sufficient distribution coverage or support from channel members. Customers want to buy the product but it is not available because distribution coverage is inadequate.

6) **High product development costs:** Development costs are higher than expected. This requires lot of financial support for introducing the product. For example, in pharmaceuticals industry huge amounts have to be invested to develop products.

7) **Competition:** Markets are highly competitive nowadays. Competitors fight back harder than expected. If the products of the competitor are delivering better value to the customers, naturally customers support those products.

5.6.3. Factors affecting growth of new product development:

1) **Shortage of important ideas in certain areas:** There may be few ways left to improve some basic products.
2) **Fragmented markets:** Companies have to aim their new products at smaller market segments, and this can mean lower sales and profits for each product.
3) **Social and governmental constraints:** New products have to satisfy consumer safety and environmental concerns.
4) **Cost of development:** A company typically has to generate many ideas to find just one worthy of development, and often faces high R&D, manufacturing and market costs.
5) **Capital shortages:** Some companies with good ideas cannot raise the funds needed to research and launch them.
6) **Faster required development time:** Companies must learn how to compress development time by using new techniques, strategic partners, early concept tests, and advanced marketing planning.
7) **Shorter product life cycles:** When a new product is successful, rivals are quick to copy it.

New-Product Development Process:

By new products we mean original products, product improvements, product modifications, and new brands that the firm develops through its own research and development efforts. Many of the new products fail, companies are very anxious to learn to reduce the failure rate. A new product success depends on whether it offers higher value than the existing products. It should be a unique superior product, one with higher quality, new features, and higher value in use. Prior to the development of a new product a company should carefully define and assesses the target market, the product requirements, and the benefits. In all, to create successful new products, a company must understands its consumers, markets, and competitors and develop products that deliver superior value to consumers.

The following steps are involved in development of a new product:

1. **Idea Generation:** New-product development starts with idea generation. This is nothing but the systematic search for new-product ideas. A company has to develop as many ideas as possible to find few good ones. Many new-product ideas come from internal sources within the company. The company can find new ideas through formal research and development. Companies get ideas from employees, customers, sales people, competitors, distributors and suppliers.

2. **Idea Screening**: The ideas generated through the above step are to be screened to identify the good ones and drop poor ones as soon as possible. Companies want to proceed with only the product ideas that are most likely to turn into profitable products.

3. **Concept Development and testing:** An attractive idea must be developed into a product concept. A product concept is a detailed version of the idea stated in meaningful consumer terms. Concept testing is testing new-product concepts with a group of target consumers to find out if the concepts have strong consumer appeal.

4. **Marketing Strategy:** Marketing strategy development involves designing an initial marketing strategy for a new product based on the product concept.

5. **Business Analysis:** Business analysis involves a review of the sales, costs, and profit projections for a new product to find out whether they satisfy the company's objectives. If they are in line with the company objectives, the product can move to the product development stage. To estimate sales, the company might look at the sales history of similar products and conduct surveys of market opinion.

6. **Product Development**: Developing the product concept into a physical product in order to assure that the product idea can be turned into a workable product. Here, R&D or engineering develops the product concept into a physical product. In this product development stage company has to invest large amount of money. The R&D department will develop and test one or more physical versions of the product concept.

7. **Test Marketing:** The stage of new-product development in which the product and marketing program are tested in more realistic market settings. Test marketing gives the company the experience with marketing of the product before going to launch fully. The amount of test marketing needed varies from one product to the other. If the new product development costs are low and if they are confined to simple line extensions or copies of successful competitor products, the companies do little test marketing.

8. **Commercialization:** Test marketing gives management the information needed to make a final decision about to launch the new product. If the company goes ahead with commercialization - introducing the new product into the market - it will face high costs.

Out of eight stages at any stage the idea of launching a new-product may be dropped.

5.7 SUMMARY

A product is more than just product. Product is the first of the four P's of marketing mix. A product means something more than a physical commodity. Products have an identity or a personality of their own. The starting point of successful marketing is a satisfactory product. The set of all products offered for sale by a company is called a product mix. A broad group of products intended for essentially similar uses and having similar physical characteristics constitute a product line.

Products have life cycles that require different marketing strategies. The sales history of many products follows an S-shaped curve consisting of four stages: Introduction, Growth, and Maturity, Decline. Companies are recognizing the necessity and advantages of regularly developing new products and services. The new-product development process consists of eight stages: idea generation, idea screening, concept development and testing, marketing-strategy development, business analysis, product development, market testing, and commercialization. The purpose of each stage is to decide whether the idea should be further developed or dropped.

5.8 KEY WORDS

Product is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need.

Services are a form of product that consists of activities, benefits, or satisfactions offered for sales that are essentially intangible and do not result in the ownership of anything.

Product Mix is the set of all products and items that a particular seller offers for sale to buyers.

Product Line refers to group of products, which are closely related as satisfying a class of need.

5.9 SELF ASSESSMENT QUESTIONS

1. "People do not buy a product. They buy benefits" Explain the statement.
2. What is product mix? Explain the dimensions of product mix.
3. What are the important product-line decisions?
4. Discuss the stages in the product life cycle. What is the significance of product life cycle in the marketing mix and in product planning and development?
5. What is a new product? Outline the various stages in new product development.
6. What factors contribute to the success or failure of a new product?

5.10 FURTHER READINGS

1) Philip Kotler, Marketing Management (New Delhi: Prentice-Hall India, 2002);

2) V S Ramaswamy, S Namakumari. Marketing Management Planning, Implementation & Control (New Delhi: Macmillan India Ltd, Third edition, 2002);

3) S A Chunawalla, Marketing Principles and Practice (Mumbai: Himalaya Publishing House, 1997);

Lesson - 6

PACKAGING - BRANDING

6.0 OBJECTIVE

After studying this lesson, you should be able to :

* know the importance of product planning process
* know how to manage existing products
* understand the importance of branding
* explore the implications of branding related decisions
* understand the importance of packaging and its functions

STRUCTURE

6.1 INTRODUCTION

Markets are dynamic in nature. Customers needs and wants are changing over time. Product life cycles are becoming shorter in duration. It has therefore become necessary for firms to review their product mix on a continuous basis. Customers' awareness levels are high. Technology is also changing very fast and companies, which are more adaptive for change, are surviving in this cutthroat competition.

Companies must be focused and should deliver better value to the customers. In product management branding is becoming a key strategic tool. Majority of the products sold in the market place are branded. Branding decisions are very critical for the success of products. Building global brands is becoming necessary for survival of companies. Revolution in packaging technology has a greater influence on the product strategy. With the developments in packaging companies are offering the products in small quantities thereby reaching larger group of customers. The companies are able to target new segments in the market. One has to consider other elements in marketing mix like price, promotion, and placement while formulating product strategy.

6.2 PRODUCT PLANNING PROCESS

Product planning is important and is one of the most critical issues of a company's product management function. In designing such strategies companies should have accurate information on the existing products and as well as anticipated performance of its existing products. The product portfolio approach is one of the tools used for product planning. This growth-share matrix popularly known as Boston Consulting Group (BCG) concept explained earlier helps the companies to form the basis for product planning. Market growth rate of the business of which the product belongs and relative market share of the firm in that product category gives idea regarding whether the business is to be continued or discontinued. This analysis helps the product manager to decide about the optimum product mix. Always companies want to have a balanced product portfolio.

Ansoff has proposed a useful framework for detecting new growth opportunities for companies called a 'product-market expansion grid'. The company first considers whether it could gain more market share with its current products in their current markets known as market-penetration strategy. Here with current products the company wants to penetrate more into current markets. Next it considers whether it can find or develop new markets for its current products known as market-development strategy. This is searching for new markets and developing them with the existing products.

Then it considers whether it can develop new products of potential interest to its current markets known as product-development strategy. With new products the current markets should be concentrated. Later it will also review opportunities to develop new products for new markets known as diversification strategy. Product mix decision, product modification / modernization decision, product line pruning / product elimination decision, new product decision, and branding and packaging decision are the important decisions in overall product strategy.

6.3 MANAGING EXISTING PRODUCTS

Once the product is introduced to the market, the product is going to experience various stages. During a product's life, a company will normally reformulate its marketing strategies. Not only products have life cycles but also markets have life cycles. This demands the companies to reformulate their marketing strategies over time. The company must go with stage specific marketing strategies to maintain the sustainability of the existing product in the market place. The various stages include introduction, growth, maturity and decline.

I. Introduction Stage:

In introduction stage sales growth is slow. Delays in expansion of production capacity, technical problems, delays in obtaining adequate distribution through retail outlets, and customers reluctance to change established behaviour are the reasons for slow growth in the introduction stage. In this stage profits are also very low or negative because of the low sales and more promotion and distribution expenses. Promotion expenditures are high in relation with sales, as high level of promotional effort is required inform potential consumers of the new and unknown product. Prices are also on high side because costs are high due to relatively low output rates, technology problems may not be fully rectified, and high margins are required to support the promotional expenditure which is necessary to achieve growth. While launching product, organizations can emphasize more on any one of the marketing variables, such as product, price, promotion, and distribution. Considering price and promotion, firms can pursue one of the four strategies shown in the Figure 6.1.

Strategies in the introductory stage:

* **Rapid skimming strategy:** Introducing the product at a high price and a high promotion level. The firm charges a high price in order to recover as much gross profit per unit as possible. A firm spends large amounts on promotion to convince the market even at the high price. This high spending on promotion speeds up the rate of market penetration.

* **Slow skimming strategy:** Introducing the product at a high price and low promotion. The high price makes firm to realise high gross profit per unit, and low level of promotion keeps firms' marketing expenditure down. When the market size and potential competition is low, this particular strategy works.

* **Rapid penetration strategy:** Launching the product at low price spending high amount on promotion. This strategy brings us fastest market share and market penetration. This strategy is suitable for large markets particularly when buyers are price sensitive, when there is a strong potential competition, and the market is unaware of the product.

		Promotion High	**Promotion** Low
Price	High	Rapid Skimming Strategy	Slow Skimming Strategy
Price	Low	Rapid Penetration Strategy	Slow Penetration Strategy

Figure 6.1 Introductory Marketing Strategies

* **Slow penetration strategy:** Launching a product at low price and low level of promotion. Low price may encourage high product acceptance, and low level of promotion helps firms to realize more net profit. This approach is suitable for large markets, price sensitive and with some potential competition.

  The pioneer, who introduces the product in the market, must choose a launch strategy that is consistent with its intended product positioning. This is the first step in a grand plan of life-cycle marketing.

II. Growth Stage:

The growth stage in which a product's sales start climbing quickly. The early buyers who have shown interest in product will continue to buy, and the new buyers also support the product especially if they hear favourable news about the product. Here word of mouth communication plays an important role. At this stage new competitors will enter into market. Profits starts increasing with sales raise. With experience gained in production procedure, cost of manufacturing falls. Promotional expenditure is distributed over more number of units. However the growth rate may not be sustained forever, companies must watch the downtrend in this growth rate to prepare for the new strategies.

Strategies in the growth stage: Following steps are going to help the firm to sustain market growth as long as possible.

1. **Improve product quality:** Companies has to focus on improving product quality to sustain in the market.
2. **Adding new product features:** New features for the existing products should be added to make the product more appealing and contemporary to attract and retain customers.
3. **Adding new models:** New models must be added continuously to make the existing product portfolio look attractive. This will make company to occupy more shelf space at retailer's outlet.
4. **Entering new market segments:** As the product fared well in one particular market segment, to sustain its growth, companies have to enter into new markets.
5. **Decreasing price to attract lower segment:** The price of the product is to be decreased to attract lower class segment. In this segment majority of the customers are price sensitive. This helps the company to enter into new markets.
6. **Distribution channels:** Company has to increase distribution coverage and look for new distribution channels to make the product easily available to its target customers.

III. Maturity Stage:

The stage in the product life cycle in which sales growth slows or levels off and the product will enter a maturity stage. This stage normally stays longer than the previous stage and it throws serious challenge to marketing management. The company seeks innovative strategies to renew sales growth including market, product, and marketing mix modification.

Strategies in the maturity stage:

1. **Market modification:** The company has to increase sales volume for their matured brands by expanding the number of brand users as well as usage rate per user. The company has to convert nonuser into user, enter new market segments, and winning competitors' customers. Making the current customers to increase their annual usage of the brand can also increase sales. The company can try to make customers to use the product more frequently, more usage per occasion, and identify the new uses for the product and convince the customer to use the product in more varied ways.
2. **Product modifications:** By modifying the product's characteristics marketers try to increase the sales. Improving product quality aims at increasing the functional performance of the product like its durability, reliability, and taste. This makes buyers to accept the new and improved version of the product and they might be ready to pay more prices for it. Feature improvement of the product for example, size, weight and other accessories also make product more attractive. Style improvement of the product makes it more aesthetic and novel.
3. **Marketing mix modification:** Product managers might also try to stimulate sales by changing one or more marketing-mix elements. Change in the composition of the marketing mix may help company to reach the target customers. However, these changes are easily imitated by the

competitors. For instance, if a company decrease the price of the product, the competitors may also propose for price decrease. This leads to price war among the companies and none of them will get any benefit out of this situation.

IV. Decline stage

It's a stage in which a product sales decline. The sales decline might be slow. Sales decline for a number of reasons. When a product enters into a decline stage in which little can be done to stop the deterioration of sales and profits. The company has to identify the weak products, develop for each one a strategy of continuation, focussing, milking, and finally phase out weak products in a way that minimizes the problems for the company as a whole.

Strategies during decline stage:

1. **Identifying the weak products:** The company has to identify the weak products and if possible company should try to modify them if not discontinue them. Appointing product review committee with representatives from marketing, R&D, manufacturing, and finance. This committee has to identify weak products with the help of data regarding market size, market share, prices, costs, and profits. The review committee examines this information and makes recommendation for each doubtful product whether to continue it, change marketing strategy, or drop it.
2. **Determining Marketing Strategies:** In declining markets some firms withdraw their products earlier than other. There are some exit barriers which make the product withdrawal a little difficult. If there are few exit barriers, it is easy for the firms to leave the market. The remaining firms in the market try to attract the customers of the withdrawing firms. Harrigan distinguished five decline strategies available to firm:
   * increasing the firm's investment to strengthen its competitive position,
   * maintaining the firm's investment level until the uncertainties about the industry are resolved,
   * decreasing the firm's investment level selectively,
   * harvesting the firm's investment to recover cash quickly, and
   * divesting the business quickly by disposing of its assets as advantageously as possible.
3. **Product withdrawal:** When a company decides to drop a product, it has to take several other decisions. If the product has residual goodwill and strong distribution, the company can sell it to a smaller firm. If the company can't find buyers, it must decide whether to liquidate the brand slowly or quickly. It also should take a decision how to service the past customers, how much stock of spare parts to be maintained to support the past customers.

6.4 IMPORTANCE OF BRANDING

In marketing the term, branding occupies a significant role. A brand is defined as 'a name, term, sign, symbol, or design or a combination of these intended to identify the goods or services of one seller or groups of sellers and to differentiate them from those of competitors'. The skill of the marketer will be revealed through the ability to create, maintain, and protect brands of their products and services.

Branding helps both consumers and sellers. Consumers get confidence that the branded goods and services are high in quality. Majority of the products sold in the market are branded products.

Even water, salt, rice, fruits, vegetables, poultry products are branded nowadays. Customers feel some sense of security when they buy branded products. They feel that the entire company is backing the branded products. Companies' plan their promotional strategy around the brand name and customers can easily identify the products. Branding gives the product some respectability in the market place.

Brand Equity:

Brand equity is the value of a brand, based on the extent to which it has high brand loyalty, name awareness, perceived quality, strong brand associations, and other assets such as patents, trademarks, and channel relationships. A brand with high brand equity is an asset to the company. The valuation of brand equity is difficult but companies are respected if they have powerful brands.

6.5 BRANDING DECISIONS

Branding decisions are very important and they are challenging in nature. The branding decisions include brand name selection, brand sponsor, and brand strategy.

I. Brand Name Selection: The company has to select suitable brand name and it should protect it. One has consider cultural, social, and religious factors before fixing a brand name. The brand name should consist of the qualities like distinctiveness, product benefits and most importantly easy to pronounce, recognize, and remember. When the product is associated with brand names, psychologically customers attribute value to their purchase. For example, Raymond, Godrej, Zodiac etc. If brand name is easy to spell, with words in common use brand remembering is easy. For example, Sony, Usha, Vimal, Nirma are very easy to remember. Brands describe about the product and its characteristic features. For example, Fair & Lovely, Glucose, Protinex, Fair Glow, Fair Ever. The brand name when translated into a foreign language, should not give a wrong meaning. For example, the brand name Nova goes well with Indian car buyers but not with Spanish customers because meaning of the word Nova in Spanish language is 'it doesn't go'. Brand name should not infringe with the existing brands.

II. Brand Sponsor: The product may be introduced as manufacturers brand, private brand, licensed brand, and co brand. The company's name itself acts as a brand name, for example, Godrej, BPL, Tata. A brand created and owned by distributors or retailers is known as private brand. For example, Spencer's at Chennai, Nilgiris at Bangalore have become popular private brands in south India. The practice of using the established brand name of two different companies on the same product is known as co-branding. For example, Thomas Cook- Master Card International, ECIL-BDPS, Indian Oil Corporation-Citi Bank International. In co-branding both the brands will get the benefit of each other.

III. Brand Strategy: There are four different brand strategies. They are Line Extension, Brand Extension, Multi brands, and New brands.

* **Line Extension:** When a company introduces additional items in a related product category with the same brand name it is called line extension. Products with new flavours, sizes, colours, shapes, ingredients in the same category with the same brand name will be introduced.
* **Brand Extensions:** A brand extension is using a successful brand name to launch new or modified products in a new category. Here the brand name is same but the product category is new. A brand extension gives a new product immediate recognition and faster acceptance. As the brand awareness is already there, the costs of advertising to build a new brand can be

saved. However the brand extension is risky when the failure of a new product will dilute the image of an existing brand.

* **Multibrands:** This strategy is about introducing additional brands in the same category. P&G, HLL, Godrej follows multibranding strategy in soaps and detergents category. It helps companies to occupy more shelf space at retail level. The same company may launch separate brands in different countries. P&G dominates in US detergent market with Tide brand and it leads in other countries with Ariel brand. This multibranding strategy is costly because each brand has to be promoted by the firm separately. Each brand might obtain only a small market share.

* **New Brands:** A company may go in for a new brand when it enters a new product category for which none of the company's current brand names are suitable. If a company wants to enter into a new product category and the existing brands may not be suitable, then the company has to go in for a new brand. Sometimes the company may acquire new brands through acquisitions.

6.6 IMPORTANCE OF PACKAGING - PACKAGING DECISIONS

Packaging is another important element in product strategy. Packaging involves designing and producing the container or wrapper for a product. It provides basically the convenience and adds value to the product. The main function of package is to contain and protect the product. It will enhance the sales appeal of the product. Packaging is becoming a powerful promotional tool in this competitive marketing environment.

In the last decade, India is witnessing the packaging revolution in the form of sachets, pouch packaging, it has changed the market dynamics. More over than this the customers are looking at decent packaging with aesthetic appeal. Due to the media explosion, changing life styles, attitudes, tastes, and needs packaging occupied a prominent role. For that matter Froot's, success can be attributed to packaging. It was the first of its kind in India to introduce tetra pack technology. Even today Frooti is enjoying its exclusivity value and is the market leader. Packaging provides handling convenience to the customers and provides operational flexibility to the company.

With proper packaging the firm achieves the following functions:

1. **Creating customer satisfaction:** A good packaging provides the customer convenience and in turn it leads to customer satisfaction. For example, edible oil offered in poly packs provides greater convenience to customers to carry the product.
2. **Protecting the contents:** Packaging protects the product and enhances its longevity. It prevents contamination of products like medicines, cosmetics, and other food products.
3. **Knowing about the product attributes and ingredients:** It provides product information, advantages, instructions, contents, and statutory warnings.
4. **Promoting the product:** Packaging can be effectively used by the marketers to promote the products. Labeling will provide an opportunity to the seller to influence the buyer.
5. **Provides differentiation:** Marketers can use the packaging to differentiate their product. Novel packaging designs, styles create perceptual differentiation in the mind of the customers.
6. **Building image:** Quality packaging enhances the product's image to position it as premium product. In the process, the firm can charge high prices.

Labeling:

Labeling, the printed information appearing on or with the package is also part of packaging. Label provides the information regarding place of manufacture, date of manufacture, contents, producer's name, and instructions on usage and warnings. Labels may vary from simple tags to complex designs. Labels can be designed with attractive colours and different typographical styles.

Other Product Related Strategies:

A) Product Positioning:

According to Al Ries and Jack Trout marketing is the battle of perceptions not products. They popularized the concept of positioning. A product's position is the way the product is defined by consumers on important attributes - the place the product occupies in consumers' minds is relative to competitor products. Well-known Products generally hold a distinctive position in consumer's minds. It is difficult for the competitors to occupy the same space in the mind of the customer.

Companies have to strengthen their own position in the consumer's mind rather than trying to occupy the competitor's space. Companies can try to occupy the unoccupied space. Sometimes the companies may try to re-position the competitor products by their promotional efforts. Positioning is done through communication. Here advertising plays an important role in positioning the product. The tangible aspects of product, place, price, and promotion should support the positioning strategy of the firm.

Michael Treacy and Fred Wiersema, proposed a positioning model known as value disciplines. According to them, a firm could aspire to be the product leader, operationally excellent firm, or the customer intimate firm. A firm should become best at one of the three value disciplines and should achieve an adequate performance level in the other two disciplines. Generally companies must promote only one central benefit of the product to the customer through positioning strategy. According to Rooser Reeves a company should develop a unique selling proposition for each brand and promote it continuously on that count.

B) Product differentiation:

The process of adding a set of meaningful and valued differences to distinguish the company's product from competitors' product. Product differentiation helps the company to gain competitive advantage. A market offering can be differentiated in the following ways:

a) **Product differentiation:** The product differentiation can be offered by the seller by changing parameters including form, features, performance quality, durability, reliability, repairability, style, and design.

b) **Service differentiation:** When the physical product cannot easily be differentiated, companies look towards service differentiation. The main service differentiators are ordering ease, delivery, installation, customer training, customer consulting, and maintenance and repair.

c) **Personnel differentiation:** Companies gain advantage through having better-trained people who have the skills like competence, courtesy, reliability, responsiveness, and communication.

d) **Channel differentiation:** By designing their distribution channels in a better way companies want to achieve competitive advantage. Channel members can add value to the product.

e) **Image differentiation:** Image is the way the public perceives the company or its products. A company can build its brand image through creating or sponsoring various events. The seller's space with its ambience and good-looking atmosphere also creates some image.

6.7 SUMMARY

Product is the first and most important element of the marketing mix. Product strategy calls for making coordinated decisions on product mixes, product lines, brands, and packaging and labelling. Product life cycles are becoming shorter in duration. It has therefore become necessary for firms to review their product strategy on a continuous basis. Product planning is important and is one of the most critical elements of a company's product management function. In designing such strategies companies should have accurate information on the existing products, as well as anticipated performance of its existing products. During a product's life, a company will normally reformulate its marketing strategies. Not only do products have life cycles, but markets also have life cycles. This demands the companies to reformulate their marketing strategies over time. The company must go with stage specific marketing strategies to maintain the sustainability of the existing product in the market place.

6.8 KEY WORDS

Brand A name, term, sign, symbol, or design or a combination of these intended to identify the goods or services of one seller or groups of sellers and to differentiate them from those of competitors.

Co-branding The practice of using the established brand name of two different companies on the same product is known as co-branding.

Packaging involves designing and producing the container or wrapper for a product.

Labeling the printed information appearing on or with the package. It is also part of packaging.

6.9 SELF ASSESSMENT QUESTIONS

1. Explain in detail the stage specific marketing strategies to maintain the sustainability of the existing product in the market place.

2. What is brand equity? Discuss various branding strategies.

3. Discuss the importance of packaging as a tool of market cultivation.

4. Briefly explain the following concepts.

   a)Product positioning b) Product differentiation

6.10 FURTHER READINGS

a) Philip Kotler, Marketing Management (New Delhi: Prentice-Hall India, 2002);

b) V S Ramaswamy, S Namakumari. Marketing Management Planning, Implementation & Control (New Delhi: Macmillan India Ltd, Third edition, 2002);

c) S A Chunawalla, Marketing Principles and Practice (Mumbai: Himalaya Publishing House, 1997);

d) R S N Pillai, Bagavathi, Modern Marketing Principles and Practices (New Delhi: S.Chand & Company Ltd, 1998);

Lesson - 7

THE PRICE MIX

7.0 OBJECTIVE

After studying this lesson, you should be able to :

* explain the meaning and significance of pricing in marketing decisions.
* identify the pricing objectives of different firms.
* analyse the factors influencing pricing decision.
* understand different pricing policies and strategies adopted by marketers.
* learn the concepts of price Vs non-price competition and resale price maintenance.

STRUCTURE

7.1 Introduction

7.2 Factors Influencing Pricing

7.3 Pricing Policies and Strategies

7.4 Price Vs Non-price Competition

7.5 Changing Prices and Responding to Competitions

7.6 Resale Price Maintenance

7.7 Summary

7.8 Key words

7.9 Self Assessment Questions

7.10 Further Readings

7.1 INTRODUCTION

Pricing constitutes one of the four Ps of marketing. The marketing process cannot be consummated without the mechanism of pricing. The right pricing strategy can optimise the revenue and thus maximise the profits. Pricing is the only element in marketing mix that generates revenue. Other elements namely, product, distribution and promotion are cost factors.

Till now, many firms had no problem in getting their products accepted at their price levels. It is because they were in protected market and the customers had no choice except to buy from very limited number of sellers. But in the post liberalisation era, most firms find themselves caught in a price war. The marketing war between Hindustan Lever and Nirma also brings to the fore dilemmas that marketers confront in pricing their products.

Economists define price as the exchange value of a product or service expressed in money. From the customer's point of view, it represents sacrifice and hence it is the perceived value of the product. From the marketer's view point, price is the amount charged for the product including any guarantees, delivery, discounts, services or other items that are part of the conditions of sale and are not paid separately.

Unlike product and distribution decisions, the pricing decisions can be changed quickly. According to Philip Kotler, "..... price competition is the number-one problem facing companies. Yet many companies do not handle pricing well. The most common mistakes are these; Pricing is too cost oriented; price is not revised often enough to capitalise on market changes; price is set independent of the rest of the marketing mix rather than as an intrinsic element of market-positioning strategy; and price is not varied enough for different product items, market segments, and purchase occasions."

7.2 FACTORS INFLUENCING PRICING

The marketer has to consider many factors in setting the pricing policy. Philip Kotler described it as a six-step procedure consisting of the following steps (Figure 7.1) :

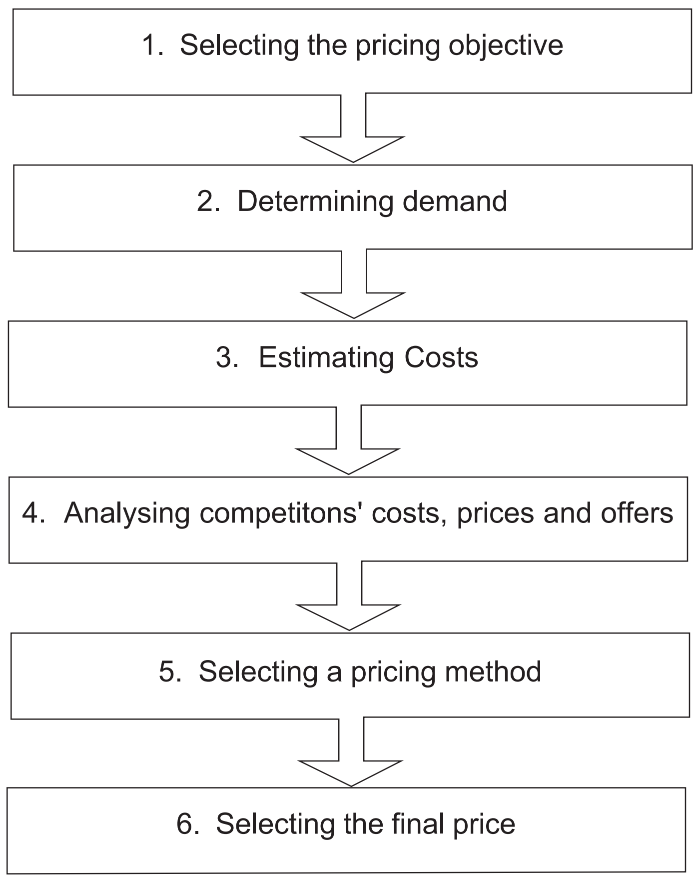


Figure 7.1 Factors Influencing Pricing

1. selecting the pricing objective;
2. determining demand;
3. estimating costs;
4. analysing competitiors' costs, prices, and offers;
5. selecting a pricing method; and
6. selecting the final price.

Selecting the Pricing Objective

Some of the objectives are long-run, while others are short-run. In fact, pricing strategies emanate from the pricing objectives. A firm can pursue any of the five major objectives through pricing; survival, maximum current profit, maximum market share, maximum market skimming, or product-quality leadership.

But no firm can remain satisfied with a single objective in pricing. V. S. Ramaswamy and S. Namakumari listed the following objectives which the firms sought to achieve through pricing:

* Profit maximisation in the short term,
* Profit optimisation in the long term,
* A minimum return on investment,
* A minimum return on sales turnover,
* Target sales volume,
* Target market share,
* Deeper penetration of the market and finding new markets,
* Target profit on the entire product line irrespective of profit level in individual products,
* Keeping competition out, or keeping it under check,
* Keeping parity with competition,
* Fast turn around and early cash recovery,
* Stabilising prices and margins in the market,
* Providing the commodities at prices affordable by weaker sections,
* Providing the commodities/services at prices that will stimulate economic development in the country,

Determining Demand

The marketer has to estimate demand at different price levels. For some products the demand is inelastic to price changes. For example, food and other essential commodities belong to this product group. But, for most of the branded products, the demand is elastic. The marketer has to examine what affects price sensitivity. Nagle has idetified nine factors that contribute to price sensitivity. They are:

Unique Value Effect: More unique the product, lower is the price sensitivity.

Substitute Awareness Effect : Buyers' price sensitivity will be high, if they are aware of substitutes.

Difficult Comparison Effect : Price sensitivity will be low if the buyer has difficulty comparing two alternatives.

Total Expenditure Effect: If the expenditure on the product represents a low proportion of the consumer income, then the price sensitivity will be less visible for such a product.

End-Benefit Effect : Buyers are less price sensitive where the expenditure on the product is low compared to the total cost of the end product.

Shared Cost Effect : If the cost of the product is shared by another party, the buyer will be less prone to price sensitivity.

Sunk Investment Effect : Price sensitivity is low in products which are used along with assets previously bought.

Price Quality Effect : Higher the perceived quality of the product, lower the price sensitivity.

Inventory Effect: If the product cannot be stored, the buyer will be less price sensitive.

Estimating Costs

It is important to estimate the costs of manufacturing and marketing the product. Different firms, within the same industry, operate at different levels of efficiency reflecting their cost structure. More the quantity produced, lower is the cost. The firm can pass this benefit to the customers in the form of lower prices. Many market leaders use this strategy.

Some costs do not change over the production volumes (e.g. rents, salaries, depreciation, R & D cost). These costs are called fixed costs. Certain costs vary directly in proportion to the volume of the product produced. These are raw material and wages. Such costs are called variable costs.

Analysing Competitors' Costs, Prices, and Offers

Competition affects price decisions. The firm has to examine competitors' costs, prices and competitive reactions to a price change.

Philip Kotler summarises the three Cs - the customers' demand schedule, the cost function, and competitors' prices in the form of three Cs model for price setting. Costs set a floor to the price. Competitors' prices and the price of substitutes provide an orienting point. Customers' assessment of unique product features establishes the ceiling price. (Figure 10.2)

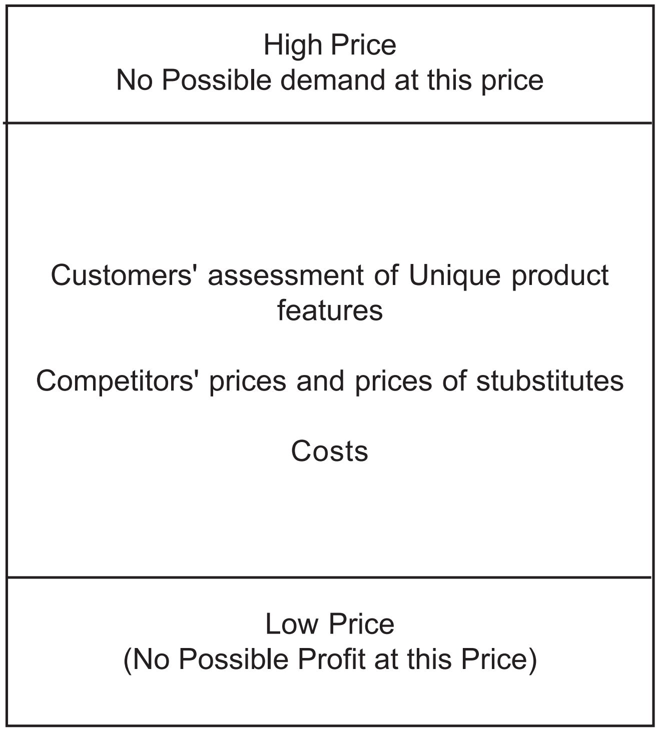


Figure 7.2. The three Cs Model for Price Setting.

Selecting a Pricing Method

Marketing managers follow certain techniques of setting price. We will examine these techniques in brief :

Full Cost or Mark Up Pricing : The marketer estimates the total cost of producing the product and then adds to it a mark up that the firm wants. This is the most elementary pricing method. This method ensures the firm to make a profit. But, it does not consider the value perception of the customer and the competitors' reaction.

Marginal Cost Pricing : In this method, the company works on the premise of recovering its marginal cost and getting a contribution towards its overheads. As long as the firm is able to recover this cost and get a contribution towards its overheads, it is an acceptable pricing method.

Going-Rate Pricing : This method is competition-oriented. This method is generally used in an oligopolistic market. Despite its advantage of preventing price wars, the method suffers from certain limitations. It is not always true that a decision taken in collective wisdom is the best.

Sealed - Bid Pricing : This is another form of competitive-oriented pricing. Here, the suppliers are asked to submit their quotations, as a part of a tender.

Perceived-value Pricing : Many marketers price their offerings on the basis of customers' perception of their value. This method takes into account the overall marketing strategy and the positioning strategy. Marketing research will play an important role here.

SELECTING THE FINAL PRICE

While selecting the price, the marketer must consider the following additional factors :

- The final price is influenced by other marketing mix variables such as quality of the product, product features (e.g., packaging, size, guarantee, service), promotion effort, distribution channels used and margins offered to distributors.
- The product's price must be consistent with the pricing policies of the firm.
- The company should also consider the reactions of certain groups such as distributors, suppliers, salesmen, competitors and government to the contemplated price.

7.3 PRICING POLICIES AND STRATEGIES

Having considered the factors affecting the pricing decisions, let us now examine different pricing policies and strategies adopted by the marketers.

Skimming Pricing

This involves setting up of high initial price for the new product. In other words, it is a premium price strategy. This pricing delivers results under the following situations:

i) When the target market associates quality of the product with its price;

ii) When the product is intended for high-income customer group;

iii) When the product is a really innovative one for which competition is weak.

Here, the firm's objective is to achieve an early break even point.

Penetration Pricing

As the name suggests, penetration pricing seeks to achieve greater market penetration through relatively low prices. This is an effective pricing strategy:

i) When the product is an imitative one for which there is a strong competition.

ii) When the market is very price sensitive,

iii) When the size of the market is large and a growing one.

Nirma Chemicals adopted penetration pricing stragegy in the case of its washing powder. Of late, Anchor toothpaste employed this strategy as an entry strategy.

Skimming Vs penetration pricing strategies are often known as new product pricing strategies.

Geographical Pricing

Here, the company has to decide how to price its products to different customers in different locations. For instance, should the company charge higher prices to distant customers to cover the additional transportation costs. In geographic pricing, a firm may charge a premium in one market and penetration price in another. Pricing policies may be evolved whereby the buyer pays all the freight, the seller bears the entire costs, or the two parties share the expense.

Discounts

Discount is an allowance made to the buyers. Discount can be of three types: trade, quantity and cash. The purpose of trade discount is to compensate the distributors for their services rendered. A quantity discount is a price reduction to those buyers who buy large volumes. A cash discount is a price reduction to buyers who pay their bills promptly.

Jack Trout provided the following directives to the marketers known as commandments of discounting:

* You should not offer discounts because everyone else does.
* You should be creative with your discounting
* You should use discounts to clear stocks or generate extra business.
* You should put time limits on the deal.
* You should make sure the ultimate customer gets the deal
* You should discount only to survive in a mature market.
* You should stop discounting as soon as you can.

Product -Line Pricing

A multi-product company can evolve a set of pricing strategies in order to manage its product line effectively. They are :

Price Bundling : This strategy is used by a firm to even out the demand for its product or service. For example, stereo music equipment like the disc player, equaliser, speakers and amplifiers may be sold at different prices individually which taken together may amount more than what a customer has to pay if he were to buy it as a composite music system.

Optional -Feature Pricing: Certain companies offer optional products and services along with the main products. For example, a car company has to decide which items to include in the price and which to offer as options.

Captive-Product Pricing : Marketers of razors and cameras normally offer them at a low price and set high markups on razor blades and film. For instance, Gillette offered two twin blades free with its razor to make the buyer purchases its blades. Similarly Kodak offered a film roll free to all buyers who bought its camera.

Two - Part Pricing : Here, the product can be divided into two distinct parts. Telephone companies charge a minimum monthly fee and charge for calls beyond a certain limit.

7.4 PRICE Vs NON-PRICE COMPETITION

The marketer has to decide whether to engage in price competition or in non-price competition. Companies initiate price cuts to meet or prevent competition. Of late, many English newspapers in India reduced their cover price in order to boost up their circulations. But according to Philip Kotler, price cuts involve possible traps:

* Low-quality trap: Consumers will assume that the quality is low.
* Fragile-market-share trap: A low price buys market share but not market loyalty.
* Shallow-pockets trap:The higher-priced competitors may cut their prices and may have longer staying power because of deeper cash reserves.

In non-price competition, marketers maintain stable prices. But they attempt to compete by highlighting non-pricing elements of thir marketing-mix. Promotion and product differentiation are two principal methods of non-price competition.

7.5 CHANGING PRICES AND RESPONDING TO COMPETITIONS

When competitors make price changes, there is often little time for careful research on competitors actions or on likely customer responses. Knowing why the competitor made the price change is more critical in determining the most appropriate response. Other questions are :

How will customers interpret and respond to the price change? The marketer has to understand the price elasticity in a particular market. Just as the marketer can misperceive a pricing move by competitors, so can customers. This can be to a firm's advantage or disadvantage. How will other competitors respond to the price change? An extreme response is "following the leader." Other responses include no change, a limited change, or a move to match or exceed the change made by the competitor sometimes, the price response may be combined with nonprice factors, such as an increase in advertising or improving product quality and features. How will customers and competitors respond to our response? The marketers must assess the impact of price changes on customers and competitors. Will a price increase benefit the industry? If the demand is high and buyers are not price sensitive, a hike in prices may be beneficial to all producers.

7.6 RESALE PRICE MAINTENANCE

The discussion on pricing would be incomplete without reference to the concept of resale price maintenance. It is the policy of establishing the minimum resale price below which the middlemen may not sell the products. The purpose of resale price maintenance is to prevent excessive price reduction by wholesalers and retailers.

Resale price maintenance will enable the firm to gain the co-operation and merchandising support of the retailers. The consumers are protected against over-charges by the retailers. However, the arguments against resale price maintenance are: i) it creates higher prices; ii) It protects inefficient retailers; iii) it retards the much warranted free competition.

Generally, resale price maintenance is practised in case of products such as drugs, liquor, cosmetics, cigarettes and books. The legal position of resale price maintenance is totally different. The MRTP Act of 1969 has declared the contracts of RPM as void, subject to certain exceptions. As it subsidises inefficiency, its abolition is justified on economic and social grounds in the Indian context.

7.7 SUMMARY

Pricing is the only element in marketing mix that generates revenue. Other elements are cost factors. In the post liberalisation era, most firms find themselves caught in a price war. Price-setting as a six-step procedure consists of the following steps: selecting the pricing objective; determining demand; estimating costs; analysing competitors' costs, prices and offers; selecting a pricing method; and selecting the final price.

Some of the pricing policies and strategies adopted by the marketers are: Skimming pricing; penetration pricing; geographical pricing; discounts; and product-line pricing. The marketer has to decide whether to engage in price competiton or in non-price competition. Companies initiate price cuts to meet or prevent competition. In non-price competition, the marketers attempt to compete by highlighting non-pricing elements of their marketing mix.

Resale price maintanance is the policy of establishing the minimum resale price below which the middlemen may not sell the products. The MRTP Act of 1969 has declared the contracts of RPM as void, subject to certain exceptions.

7.8 KEY WORDS

Discount: Discount is an allowance made to the buyers.

Fixed Costs: These costs do not change over the production volumes (e.g., rents, salaries, depreciation, R & D cost).

Non-Price Competition: Here, the marketers maintain stable prices and attempt to compete by highlighting non-pricing elements of their marketing-mix.

Penetration pricing : It seeks to achieve greater market penetration through relatively low prices.

Price: It is the exchange value of a product or service expressed in money.

Resale price maintenance : It is the policy of establishing the minimum resale price below which the middlemen may not sell the products.

Skimming pricing: This involves setting-up of high initial price for the new product.

Variable Costs : These costs vary directly is proportion to the volume of the product produced (e.g. raw material costs and wages).

7.9 SELF ASSESSMENT QUESTIONS

1. "Pricing is the only element in marketing mix that generates revenue. Other elements are cost factors." Elucidate the statement. Briefly discuss the pricing objectives.
2. What are the factors that should be considered while making pricing decisions? Would these change in the case of a new product? Why?
3. Distinguish between skimming pricing and penetration pricing with suitable examples.
4. Discuss various pricing policies and strategies.

7.10 FURTHER READINGS

Philip Kotler, *Marketing Management,* Prentice-Hall, India, New Delhi, 1999.

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Lesson - 8

THE PROMOTION MIX

8.0 OBJECTIVE

After studying this lesson, you are able to :

* understand the role of distribution channel in the overall marketing of products and services
* understand the channel behaviour and channel designs
* discuss the nature and importance of physical distribution
* understand the role and functions of intermediaries in the distribution channel
* observe the potential channel conflict areas and methods to reduce them

STRUCTURE

8.1 INTRODUCTION

A marketing channel performs the work of moving goods from producers to consumers. It overcomes the time, place, and possession gaps that separate goods and services from those who would use them. The goal of marketing is the matching of segments of supply and demand. Most of the products are not sold directly to the customers by the firms. Between the company and the final user there are different market intermediaries performing a variety of functions and bearing a variety of names. Wholesalers, retailers, agents, and distributors are some of them. Each channel member generates a different level of sales and costs. Marketing-channel decisions are very important decisions and influence all other marketing decisions. Company's channel decisions often involve long-term commitments to other firms. Once the distribution channels are established then it very difficult to change them. We have to examine both the management of marketing channels and the management of physical supplies.

8.2 NATURE AND IMPORTANCE OF CHANNELS

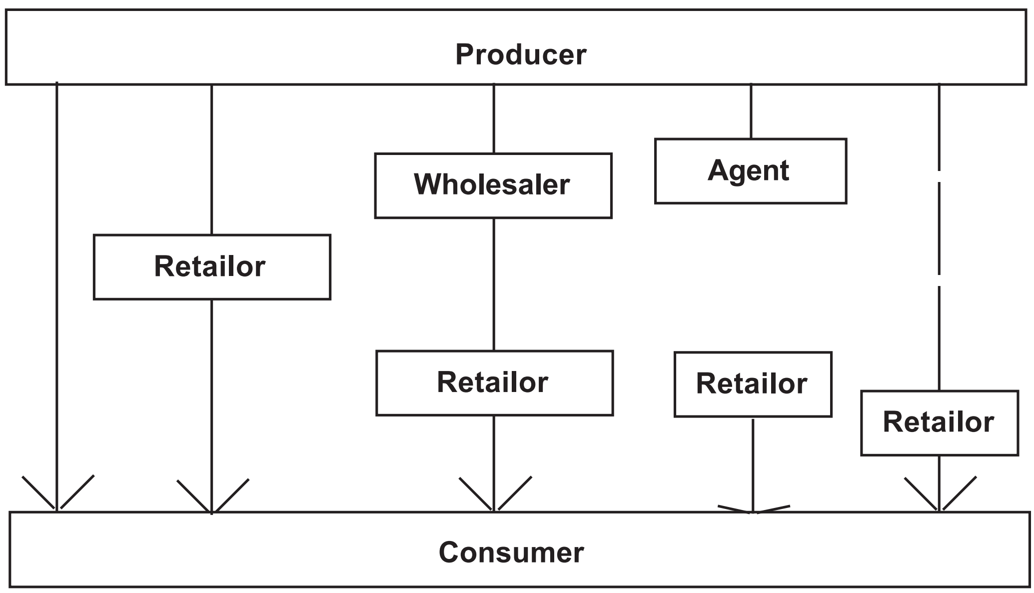
According to American Marketing Association, "A channel of distribution, or marketing channel, is the structure of intra-company organisation units and extra-company agents and dealers, wholesale and retail through which a commodity, product or service is marketed. A product or service must reach the end user. Most of the companies develop distribution channel to bring their products to the market.

We came to understand that distribution channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business use. The intermediaries will reduce the amount of work for both the producers and customers. The intermediaries will add some value to the distribution function with their contacts, experience, specialization, and scale of operation.

Producers produce fewer products in large quantities and customers want more products in smaller quantities. The intermediaries buy large quantities from different producers and break them into smaller quantities and broader assortments wanted by the customers.

Distribution channel consists of different levels. Each level of marketing intermediaries is representing a channel level. Channel level is a layer of intermediaries that performs some work in bringing the product and its ownership closer to the final buyer. The number of levels determine the length of the channel; the more the levels, the longer is the channel. A marketing channel that has no intermediary levels is known as direct marketing channel. For example, Eureka Forbes, uses direct marketing channel method. A channel containing one or more intermediary levels is known as indirect marketing channel.

Figure 8.1
Distribution Channels



A. Consumer marketing channels

B. Industrial Goods Marketing Channels

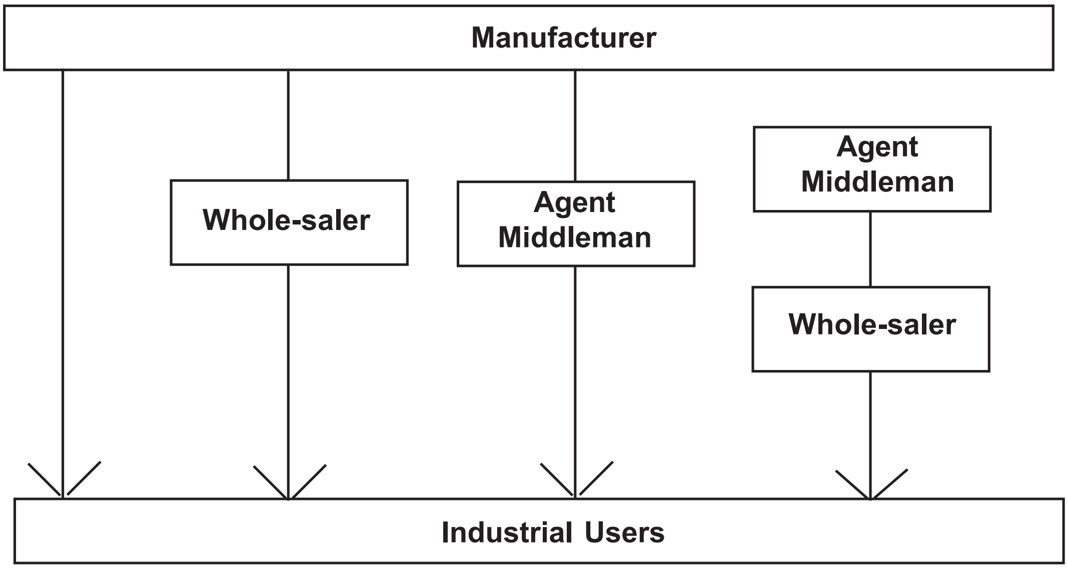


Figure 8.1 depicts some of the possible channels in distributing consumer goods as well as industrial goods. If the goods are distributed directly by the produce to the customer, that channel has no intermediary levels. But channels with middlemen are considered to be having intermediary levels.

8.3 DISTRIBUTION CHANNEL FUNCTIONS

Distribution channel moves the goods and services from producers to consumers. It will create time and place utility for the products and services. The channel members perform many important functions. They are listed below.

1. **Information:** The channel members provide information about customers, competitors, and other parties in the marketing environment. They collect and disseminate market information, which is of great importance.
2. **Promotion:** The intermediaries almost work like company sales people and promote the products and services offered by the company to the customers. They spread favourable communication about the product and service.
3. **Contact:** Finding and communicating with prospective buyers.
4. **Matching:** Shaping and fitting the offer to the buyer's needs including activities such as assembling, grading, and packaging.
5. **Negotiation:** They negotiate with both company and buyers to reach final agreement on price and other conditions so that transfer of ownership or possession can takes place.
6. **Ordering:** They provide backward communication regarding the intentions of the buyers and their orders to the manufacturer.

7. **Financing:** The channel members acquire and use funds to cover the costs of distribution.

8. **Risk Taking:** The channel members take the risks of carrying the distribution work.

9. **Physical Flow:** The successive storage and movement of physical products from raw materials to the final customers.

10. **Title:** The actual transfer of ownership from one organization or person to another.

These are the main functions involved in distribution. In allocating these functions to channel members one has to see the costs involved and the level of service which will be performed by these members to the consumers. By and large each channel member should add value to the process of distribution, otherwise there is no use of employing that channel member. Some of the functions like physical, title, promotion constitute a forward flow of activity from the company to the customer; functions like ordering and payment constitute a backward flow from customers to the company. Still other functions like information, negotiation, finance and risk taking occurs in both directions. Generally there are five types of flows that takes place through a distribution channel. They are physical flow, title flow, payment flow, information flow, and promotion flow.

8.4 NEW DEVELOPMENTS IN DISTRIBUTION SYSTEMS

Recently there are some new developments that have taken place in channel management. They are:

* Vertical Marketing Systems
* Horizontal Marketing System
* Hybrid Marketing Systems

a) **Vertical Marketing System:** Vertical marketing systems have emerged in place of conventional distribution channels. In conventional distribution channel producers, wholesalers, and retailers act independently and want to increase their individual profits at the cost of overall channel. No member has control over the other member. There is no proper established mechanism for resolving channel conflicts. Vertical marketing system consists of producers, wholesalers, and retailers acting as one unit. Anyone of the members can dominate the system and act like a leader. The main member owns the other members. This VMS is becoming popular as it can solve channel conflict and control channel behaviour.

b) **Horizontal Marketing Systems:** In horizontal marketing systems, two or more companies at one level join together to follow a new market opportunity. The benefits of working together results in the form of using common production facilities combined marketing efforts, and common distribution systems. For example, India Today magazine is distributed through Eenadu marketing network. BPCL gives facility to Coca-Cola Company to sell their products in their petrol stations.

c) **Hybrid Marketing System:** Hybrid marketing channel is a multichannel distribution system in which a single firm maintains two or more marketing channels to reach one or more customer segments. In addition to its sales force, IBM sells through distributors, telemarketing, large retailers and its website. In large and complex markets one distribution is not suitable for every segment of the market. For example, tyres can be sold directly by the producer to the original equipment manufacturers (OEMs) and through retailers to retail customers.

Disintermediation:

Disintermediation is the elimination of layer of middlemen from a marketing channel or the displacement of traditional resellers by radically new types of intermediaries. Technology also to some extent facilitated this disntermediation. Growth in direct and online marketing like B2C is having great impact on the design of marketing channel. Consumers can buy books, videos, CDs, and other products from Amazon.com, flowers from 1-800-Flowers.com. HCL-Info Systems selling computers directly to consumers, eliminating middlemen.

8.5 CHANNEL DESIGN DECISIONS

Companies have to take channel decisions by considering practical situations in the market. As the conditions in the market changes dynamically one has to review the channel decision accordingly. Selecting the suitable channel and involving the channel members to work towards the common goal is important. If the company is small and having limited capital and confined to local market may consider selling directly to the customers. In smaller markets, the firm might sell directly through retailers, in larger markets it appoints distributors. According to market conditions channel decision is to be made. In some parts of the market it may sell through franchises, and in other parts it may sell in all available outlets.

The following points are to be considered while designing the channel:

* Understanding consumer service Requirements
* Framing channel objectives
* Identifying Alternatives
* Evaluating alternatives

A) Understanding Consumer Service Requirements:

The consumer is interested in different services from the company and the channel must deliver value to the customer. The targeted consumer needs must be identified and the channel must be designed to satisfy this targeted group. Consumer convenience, the mode of delivery, credit, service, installation, the place of purchase, type of product assortment all these factors are to be considered in designing the suitable channel. Cost to the company to provide these services and price to the customers is also to be considered.

B) Framing Channel objectives:

The company should set the channel objectives by considering the level of service delivery offered to the target customers. While setting the channel objectives the company should consider the nature of the company, product characteristics, type of channel members, competitors, and the prevailing business environment. Legal conditions and macro economic situation of the country should also be considered while framing objectives and design. Smart companies change their marketing channels over the product life cycle.

C) Identifying Alternatives:

After setting the channel objectives the company should identify channel alternatives in terms of types of intermediaries, number of intermediaries, and the responsibilities of each channel member.

Types of intermediaries:

a) **Company sales force:** By employing company's direct sales force, firms want to reach the prospective customers.

b) **Manufacturing Agency:** An independent firm may be appointed as manufacturer's agent, whose sales force handles related products from many companies.

c) **Industrial distributor:** Appointing exclusive distributors in different regions by giving them good margins, promotional support, and training.

Supermarkets, Exclusive show rooms, Chain stores, Co-operative net work, Public Distribution System (PDS) , Mail order, Vending machine, Home selling are the different alternatives.

Number of Marketing Intermediaries:

At each level in the channel the company must decide the number of channel members. The strategies are:

* Intensive distribution
* Exclusive Distribution
* Selective Distribution

a) **Intensive Distribution:** Stocking the products in as many outlets as possible. Tooth paste, shampoos, and chocolates and other consumer goods available in many outlets. This will increase the convenience for the consumer and exposure to the brand.

b) **Exclusive Distribution:** Producers giving a limited number of dealers the exclusive right to distribute the company's products in their territories. For example, exclusive distribution rights will be offered in automobile, readymade garments industries. Exclusive dealerships provide greater control for the companies and value-added services from these distributors.

c) **Selective Distribution:** The use of more than one, but fewer than all, of the intermediaries who are willing to carry the company's products. Television, appliances, and furniture brands are distributed in this manner.

D) Evaluating the alternatives:

The company must select the best channel alternative, which will suit its long-term objectives. The company must consider the factors like profitability, share of control, and adaptive nature of each of the channel alternatives. As we said earlier each channel alternative will produce a different level of sales and costs.

Generally the cost per transaction is low for direct marketing channels like internet and telemarketing. At the same time the value addition is also low. With direct sales channels like company sales force the cost per transaction is high and the value addition is also high. Indirect channels like use of retailers, distributors the cost per transaction is moderate and the value addition is also moderate. Using intermediaries means giving them some control over the marketing of the product. The company generally wants to retain as much control as possible. The company wants to maintain long-term relation with the channel and the channel must be flexible enough to suit the changing market conditions.

8.6 CHANNEL CONFLICT

The success of individual member depends on overall channel success. Each channel member is dependent on the others. All channel members should work together smoothly. They should understand their roles and responsibilities. But channel members are more concerned with their own short-run goals. They often disagree on the roles they should play and this behaviour results in channel conflict.

* **Horizontal channel conflict** occurs among firms at the same level of the channel. Different dealers of the company in same city may complain among themselves because some of them may undersell to attract more sale or selling outside their assigned sales territory.
* **Vertical channel conflict** is conflict between different levels of the same distribution channel. Dealers may have conflict with the company itself if the company insists them with some extra stipulations to comply with. Hindustan Lever Ltd came into conflict with distributors in Kerala regarding commission.
* **Multichannel conflict** is the type of conflict that exists when the manufacturer has established two or more channels that sell to the same market. If the company starts selling through internet the existing dealers may have conflict with the company.

The channel conflict arises because of non-congruence of objectives of the manufacturer, the wholesaler and retailer. It also occurs because of role ambiguity and differences in perceptions of the market. Conflict among some channel members may sometimes lead to healthy competition. But sometimes conflict can damage the channel.

The channel as a whole to perform well, each member's role must be specified and channel conflict must be managed. Cooperation among channel members must be developed. Improving customer satisfaction by adding value to the delivery process should be the objective of each and every channel member.

8.7 SUMMARY

Distribution is one of the key elements in marketing mix. A company's channel decisions directly affect every other marketing decision. Each channel system will have different levels of intermediaries and generate different levels of revenues and costs and reach different segment of target consumers. The role of market intermediaries is to provide market information, maintains price stability, promote the company's product, part finance the manufacturing operations and take title to the goods and services. The distribution decision is influenced by factors like market characteristics, product characteristics, consumer profile, middlemen characteristics and intensity of the competition in the industry. Each firm identifies alternative ways to reach its market. Direct selling is where a company directly selling to customer without any intermediaries and indirect selling involves one or more intermediaries to reach customers.

Marketing logistics involves coordinating the activities of the entire supply chain to deliver maximum value to the customers. The integrated logistics concept recognizes that improved logistics requires teamwork in the form of close working relationships across functional teams inside the company and across various organizations in the supply chain. The channel conflict arises because of non-congruence of objectives of the manufacturer, the wholesaler and retailer. It also occurs because of role ambiguity and differences in perceptions of the market.

8.8 KEY WORDS

Direct Marketing Channel: A marketing channel that has no intermediary levels.

Indirect marketing channel: A channel containing one or more intermediary levels is known as indirect marketing channel.

Vertical Marketing System (VMS): A distribution channel structure in which producers, whole salers, and retailers act as a unified system.

Hybrid Channels: Multichannel distribution system in which a single firm maintains two or more marketing channels to reach one or more customer segments.

Intermodal Transportation: Combining two or more modes of transportation.

SCM: Supply Chain Management

8.9 SELF ASSESSMENT QUESTIONS

1. "One of the major assets of a firm is its channel of distribution" Discuss.
2. List and briefly discuss the functions of distribution channel.
3. Discuss the future of vertical and horizontal marketing systems in India.
4. Discuss the distribution alternatives available to a firm. Where and how will you use each of these alternatives?
5. Highlight the role of Integrated Logistics Management in competitive business world?
6. How physical can distribution contribute to the creation of time, place, and possession utilities?

8.10 FURTHER READINGS

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2. V S Ramaswamy, S Namakumari. Marketing Management Planning, Implementation & Control (New Delhi: MacMillan India Ltd, Third edition, 2002);
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Lesson - 9

SALE PROMOTION - ADVERTISING

9.0 OBJECTIVE

After studying this lesson, you are able to :

* understanding meaning, and importance of advertising
* knowing the specific objectives of advertising
* learn different methods of setting advertising budget
* describing the important decisions related with message and media
* observing the various parameters for measuring advertising effectiveness

STRUCTURE

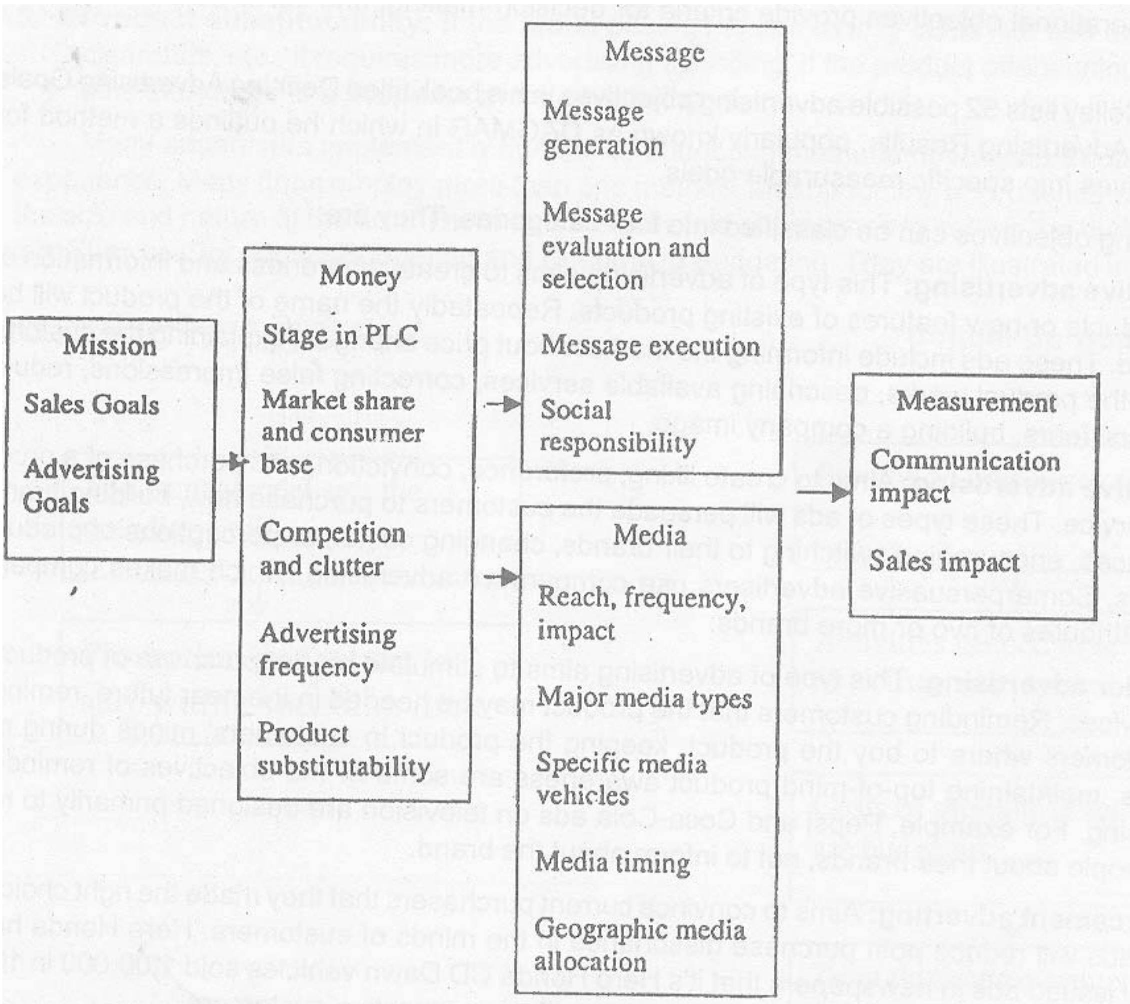
9.1 INTRODUCTION

Advertising and other elements of promotion are an integral part of the marketing process in most organizations. Promotion is best viewed as the communication function of marketing. It is accomplished through a promotional mix that includes advertising, personal selling, publicity, public relations, sales promotion, direct marketing, and interactive marketing. Over the years, the promotional function in most companies was dominated by mass-media advertising. However, more and more companies are recognizing the importance of integrated marketing communications, coordinating the various marketing and promotional elements to achieve more efficient and effective communication programs.

9.2 MEANING AND IMPORTANCE OF ADVERTISING

Advertising is defined as any paid form of non personal presentation and promotion of ideas, goods, or services by an identified sponsor. Business firms, charitable organisations, and government agencies use advertising to promote their products, services, ideas, and concepts. The types of advertising includes, brand, retail, political, business - to - business (B2B), institutional, public service, interactive, etc.,. Advertising plays four different roles in business and in society. They are Marketing, Communication, Economic and Societal in nature.

Figure 9. 1 Major Advertising Decisions



The important decisions to be made in developing an advertising program are depicted in the Figure 9.1 and described in the following sections. The major advertising decisions are:

1. Setting advertising objectives (Mission)
2. Setting advertising budgets (Money)

3. Message decisions (Message)
4. Media decisions (Media)
5. Evaluating advertising campaigns (Measurement)

9.3 OBJECTIVES OF ADVERTISING

An advertising goal or objective is a specific communication task and an achievement level to be accomplished with a specific audience in a specific period of time. Advertising objectives like, organizational objectives, should be operational. They should provide standards with which results can be compared. Operational objectives provide criteria for decision-making, and serve as a communication tool.

Russell Colley lists 52 possible advertising objectives in his book titled Defining Advertising Goals for Measured Advertising Results, popularly known as DAGMAR in which he outlines a method for turning objectives into specific measurable goals.

Advertising objectives can be classified into four categories. They are:

1. **Informative advertising:** This type of advertising aims to create awareness and information of new products or new features of existing products. Repeatedly the name of the product will be promoted. These ads include informing the market about price changes, explaining the customers how the product works, describing available services, correcting false impressions, reducing buyers' fears, building a company image.
2. **Persuasive advertising:** Aims to create liking, preference, conviction, and purchase of a product or service. These types of ads will persuade the customers to purchase now, building brand preferences, encouraging switching to their brands, changing customer perceptions of product attributes. Some persuasive advertisers use comparative advertising, which makes comparison of attributes of two or more brands.
3. **Reminder advertising:** This type of advertising aims to stimulate repeat purchase of products and services. Reminding customers that the product may be needed in the near future, reminding customers where to buy the product, keeping the product in customers' minds during off seasons, maintaining top-of-mind product awareness are some of the objectives of reminder advertising. For example, Pepsi and Coca-Cola ads on television are designed primarily to remind people about their brands, not to inform about the brand.
4. **Reinforcement adverting:** Aims to convince current purchasers that they made the right choice. These ads will reduce post purchase dissonance in the minds of customers. Hero Honda has recently issued ads in newspapers that it's Hero Honda CD Dawn vehicles sold 1,00,000 in 100 days. This will reinforce the existing owners as well as prospective customers.

9.4 ADVERTISING BUDGET

After determining its advertising objectives, the company thinks about the advertising budget. There are five specific factors to consider when setting the advertising budget:

1. **Stage in the product life cycle:** Products, which are in their initial stage of their life cycle, requires large amounts of advertising budget. New products generally require more budgetary support. Mature brands require less advertising budget.

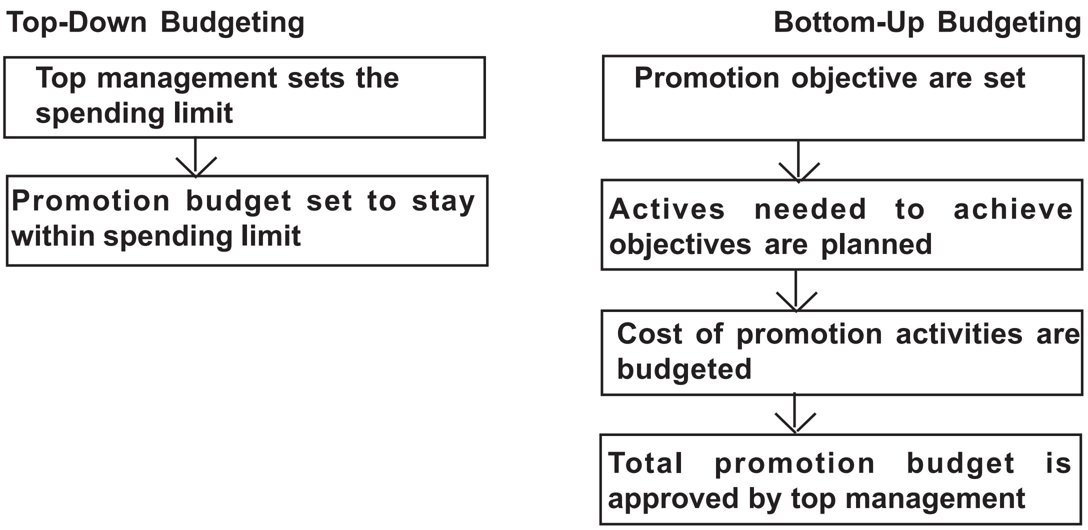
2. **Market Share:** Brands with high market share require less advertising expenditure as a percentage of sales. Usually more advertising budget is required to build market as well as improving the market share.

3. **Competition and clutter:** If in the market there are many competitors and advertising spending is more, a brand must be advertised more heavily to be noticed.

4. **Advertising Frequency:** If the number of repetitions to convey the message is more the budget requirement is more.

5. **Product substitutability:** If the brand belongs to commodity class like soft drinks, detergent, cigarettes, etc., it requires more advertising spending. If the product offers unique physical benefits then there is a scope for more advertising.

Many advertisers implement a number of budgeting methods developed through practice and experience. Many firms employ more than one method, and budgeting approaches vary according to the size and nature of the firm. There are basically two approaches in setting the budget for advertising. They are Top-Down Budgeting and Bottom-Up Budgeting. They are illustrated in Figure 12.2.



Top-down versus bottom-up approaches to budget setting
Figure 9.2

I. Top-Down approach:

In Top-Down approach budgetary amount is established at top management level and the money will be allotted to various departments. These budgets are predetermined and have no theoretical basis. The methods in this approach are:

* Affordable method
* Arbitrary Allocation method
* Percentage of sales method
* Competitive Parity method

* Return on Investment (ROI) method

II. Bottom-Up approach:

Bottom-Up Budgeting also known as Build-Up Approach budget appropriation is linked to the objectives and strategies designed to accomplish them. In this approach first the companies consider the firm's communications objectives and then allocate the budget to achieve these objectives. The methods in this approach are:

* Objective and Task Method
* Quantitative models

Now we examine these methods in detail.

A. Top-down approach:

a) **Affordable Method:** In the affordable method (also known as "all-you-can-afford method"), the firm determines the amount to be spent in various areas such as production and operations. Then it allocates left over amount to advertising and promotion, considering this to be the amount it can afford. The task to be performed by the advertising is not considered. There is every chance that the firms may over- or underspend on advertising. The firms, which are not marketing driven and do not understand the importance of advertising, will follow this method.

b) **Arbitrary method:** In this method management determines the budget solely on the basis of what is felt to be necessary. In this method no theoretical basis is considered and the budgetary amount is set by fiat. The arbitrary allocation approach has no obvious advantages. The concept and purpose of advertising is ignored in this approach.

c) **Percentage of Sales Method:** This is a very popular method used by the large firms to set their budgets. The advertising and promotions budget is based on sales of the product. In this method the management determines the amount either by taking a percentage of sales value or assigning a fixed amount of the unit product cost to promotion and multiplying this amount by the number of units sold. A variation of the percentage-of-sales method is using projected future sales of the coming year as a base instead of sales of completed year.

d) **Competitive parity Method:** In this method, managers establish advertising budget amounts by matching the competition's percentage-of-sales expenditures. It is always an advantage to know what competitors are doing and how much they are spending. In a market with many competitors and high advertising spending, one should compete with them on similar lines. However this method has limitations, even though spending similar amounts does not have the same results. Creative presentation and media choice play an important role. There is no guarantee that the competitors will continue the same policy and strategies.

e) **Return on Investment (ROI):** In the ROI budgeting method, advertising and promotions are considered investments, like plant and equipment. The investment should result in generation of return. The basis for this method is incremental investments in advertising and promotions leading to increase in sales. However it is very difficult to assess the returns provided by the promotional effort. This is the less popular method used in setting advertising budgets.

B. Bottom-UP approach:

The major limitation of Top-Down methods is that these judgmental approaches lead to predetermined budget appropriations often not linked to objectives and the strategies designed to accomplish them. In Bottom-Up approach the idea is to make objective setting and budgeting go hand in hand.

a) **Objective and task method:** The objective and task method of budget setting uses a buildup approach consisting of three steps: (1) defining the communications objectives to be accomplished, (2) determining the specific strategies and tasks needed to attain them, and (3) estimating the costs associated with performance of these strategies and tasks. The total budget is based on the accumulation of these costs. It is important that objective setting and budgeting go hand in hand rather than sequentially.

b) **Payout Planning**: Payout determines the investment value of the advertising and promotion appropriation. The basic idea is to project the revenues the product will generate, as well as the costs it will incur, over two to three years. Based on an expected rate of return, the payout plan will assist in determining how much advertising and promotion expenditure will be necessary.

c) **Quantitative Models:** These methods employ computer simulation models involving statistical techniques such as multiple regression analysis to determine the relative contribution of the advertising to sales. Because of the problems associated with these methods, their acceptance has been limited.

There is no universally accepted method of setting advertising budget. Limitations in each method may make it unfeasible or inappropriate. Each firm has to decide its own advertising budget by considering pros and cons of each method.

9.5 ADVERTISING MESSAGE

Advertising strategy consists of two major elements: creating advertising messages and selecting advertising media. The message decision involves generating messages, evaluating and selecting among them, and executing them effectively. Advertising effectiveness to a very large extent is dependent on the type of message and copy selected for communication, and the way it is executed. Well conceived advertising objectives guide in the development of effective message and copy.

The creative people develop advertising messages. Advertising agencies get reputation for their creative ability. It is the job of creative people to turn all of the information regarding the product features and benefits, marketing plans, consumer research, and communication objectives into a creative concept that will bring the advertising message to life. Advertising creativity is the ability to generate fresh, unique, and appropriate ideas that can be used as solutions to communications problems. Some people argue that advertising is creative only if it sells the product. Some others judge the creativity of an ad in terms of its artistic or aesthetic value and originality.

9.5.1 Advertising Campaigns:

Majority of ads are part of a series of messages that belongs to a particular advertising campaign. Advertising campaign, which is a set of interrelated and coordinated marketing communication activities that center on a single theme or idea that appears in different media across a specified time period. A campaign theme should be a strong idea, as it is the central message that will be communicated in all the advertising and other promotional activities. Some of the examples of successful long-running advertising campaigns themes are listed down in Table 12.1. A creative strategy that focuses on what must be communicated will guide the selection of the campaign theme and the development of all messages used in the ad campaign.

An important part of creative strategy is determining the central theme that will become the **major selling idea** of the ad campaign. There are different creative approaches that have emerged over the years and widely used by ad agencies throughout the world. They are:

* Using a unique selling proposition.
* Creating a brand image.
* Finding the inherent drama.
* Positioning.

Table 12.1 Examples of successful long-running advertising campaigns

Company or Brand	**Campaign Theme**
Hero Honda	"Fill it, shut it and Forget it"
Intel	"Intel inside"
Nike	"Just do it"
DHL	"We move the world"
De Beers	"A diamond is forever"
BMW	"Ultimate driving machine"
Pepsi	"Generation Next"

1. **Unique Selling Proposition (USP):** The concept of USP was developed by Rosser Reeves and is described in his influential book 'Reality in Advertising'. He noted three characteristics of unique selling proposition;

   a) the proposition must involve a specific product benefit

   b) the proposition must be unique

   c) the proposition must sell

   There must be a truly unique product or service attribute, benefit, or inherent advantage that can be claimed as unique selling proposition. The USP should dominate the ad and be emphasized through repetitive advertising.

2. **Brand Image:** David Ogilvy popularized the idea of brand image in his famous book 'Confessions of an Advertising Man'. He believes in developing prestige image of the brand. Image advertising has become increasingly popular and is used as the main selling idea for a variety of products and services, including soft drinks, liquour, cars, airlines, perfumes, and clothing.

3. **Inherent Drama:** Leo Burnett proposed this approach and he said "inherent drama is often hard to find but it is always there, and once found it is the most interesting and believable of all advertising appeals." He believed advertising should be based on a foundation of consumer benefits with an emphasis on the dramatic element in expressing those benefits.

4. **Positioning:** Jack Trout and Al Ries introduced the concept of positioning as a basis for advertising strategy in the early 1970s and has become a popular basis of creative development. The

basic idea is that advertising is used to establish or position the product or service in a particular place in the consumer's mind. Positioning is often the basis of a firm's creative strategy when it has multiple brands competing in the same market. For example, HLL markets more than 10 brands of toilet soaps and positions each one differently.

The USP, brand image, inherent drama, and positioning approaches are often used as a basis of the creative strategy for ad campaigns. An advertising message can be presented or executed in the following ways:

* Straight sell or factual message
* Scientific/ technical evidence
* Demonstration
* Comparison
* Testimonial
* Humour
* Dramatizations
* Fantasy
* Personality symbol
* Animation

9.5.2 Ad Copy:

The verbal or written material of an advertisement including the headline, illustration, name and address of the advertiser and his signature. It refers to every single element that appears in an advertisement. Message and source are the basic elements of ad copy. The basic components of a print ad are the headline, the body copy, the visual or illustrations, and the layout. The copywriter has to write the message in such a way that it holds the interest of reader. Some of the David Ogilvy's principles of good ad copy are:

* "Never write an advertisement you wouldn't want your own family to read."
* "Big ideas are usually simple ideas."
* "Every word in the copy must count."

9.5.3 Media Planning & Strategy:

Media planning is the series of decisions involved in delivering the promotional message to the prospective purchasers and/or users of the product or brand. The media plan acts like a guide for media selection. It requires development of specific media objectives and specific media strategies designed to attain these objectives. The media strategy must be designed to supplement and support the overall marketing and communications objectives. The media strategy is to determine the best matching of media to the target market, within the budget.

The advertising message is communicated through the medium, which includes broadcast media like TV and radio, print media like newspapers and magazines, direct mail, outdoor advertising, and other support media. Internet is becoming a new media and is slowly getting acceptance from market participants.

Media selection is finding the most cost-effective media to deliver the desired number and type of exposures to the target audience. The effect of exposures on audience depends on the exposures' reach, coverage, frequency, and impact.

Reach is a measure of the number of different audience members exposed at least once to a media in a given period of time. **Coverage** refers to the potential audience that might receive the message through a vehicle. Coverage relates to potential audience; reach refers to the actual audience delivered. **Frequency** refers to the number of times the receiver is exposed to the message in a specified time. **Impact** is the qualitative value of an exposure through a given medium.

Major Media Types:

Media planners should have knowledge about the capacity of the major media types to deliver reach, frequency, and impact. Different media available now for promoting products, services, and concepts like, newspapers, television, direct mail, radio, magazines, outdoor, yellow pages, newsletters, telephone, internet, etc., are having their own advantages and disadvantages.

One has to consider the target audience media habits, product or service characteristics, message characteristics, and cost to select appropriate medium to reach the consumers.

9.5.4 Cost of Advertising:

One of the important decisions in the development of media strategy is cost estimating. Advertising and promotional costs can be categorized in two ways.

1. **Absolute cost:** The absolute cost of the medium is the actual total cost required to place the message.
2. **Relative cost:** The relative cost refers to the relationship between the price paid for advertising time or space and the size of the audience delivered. It is used to compare different media to optimize audience delivery within budget constraints.

Advertisers must compare the relative costs of media as well as vehicles within these media to evaluate various alternatives for promoting their products and services. The following cost bases are used to calculate advertising costs.

* **Cost per thousand (CPM):** Over the years the magazine industry has provided cost breakdowns on the basis of cost per thousand people reached. The formula to calculate CPM is

$$\text{CPM} = \frac{\text{Cost of ad space (absolute cost)}}{\text{Circulation}} \times 1{,}000$$

* **Cost per ratings point (CPRP):** The broadcast media provided a different comparative cost figure, known as cost per ratings point or cost per point. The formula to calculate CPRP is

$$\text{CPRP} = \frac{\text{Cost of commercial time}}{\text{Program Rating}}$$

* **Daily inch rate:** For newspapers, cost effectiveness is based on the daily inch rate, which is the

cost per column centimeter of the paper. Normally a newspaper consists of 8 columns. Depending on the number of columns and centimeters booked in the newspaper the cost will be calculated. Nowadays like magazines, newspapers now use the cost-per thousand formula to determine relative costs.

It is difficult for the media planners to make comparisons across various media, as there is no standardized relative costing procedure. The broadcast and newspaper media have begun to provide costs per thousand, using the following formulas:

$$\text{Television} = \frac{\text{Costs of 1 unit of time} \times 1{,}000}{\text{Program rating}}$$

$$\text{Newspapers} = \frac{\text{Cost of ad space} \times 1{,}000}{\text{Circulation}}$$

The comparison of media on a CPM basis is important. However inter media comparisons can be misleading as different media have different advantages and disadvantages. Now we see the profiles of various media types to understand their advantages and limitations.

9.5.5. Media Profiles:

A) Television:

Television and radio comes under broadcast media category. The ability of TV to combine visual images, sound, motion, and colour presents the advertiser with the opportunity to develop the most creative appeals than in any other medium.

Advantages:

1. **Creativity and impact:** The interaction of sight and sound offers tremendous creative flexibility. Television is an excellent medium for demonstrating a product or service. Emotions, moods can also be depicted.
2. **Coverage and cost effectiveness:** Television advertising makes it possible to reach large audiences. Companies selling mass - consumption products are benefited by TV coverage. The cost of reaching large sections of the mass market is relatively low.
3. **Captivity and attention**: Television ads impose themselves on viewers as they watch their favorite programs. TV ads have an effect on consumers simply through heavy repetition and exposure to catchy slogans and jingles.
4. **Selectivity and Flexibility:** Television is basically a nonselective medium because through TV it is difficult to reach a specific market segment. But nowadays some selectivity is possible due to variations in the composition of audiences as a result of program content, broadcast time, and geographic coverage. Growth of Cable TV and regional channels is offering wide opportunity to the advertisers.

Limitations:

1. **Costs:** Absolute costs are very high. Despite the efficiency of TV in reaching large audiences, it is an expensive medium in which to advertise. Producing quality commercial is also quite expen-

sive.

2. **Lack of Selectivity:** Some selectivity is possible in television through variations in programs and cable TV. But television still does not offer as much audience selectivity as radio, magazines, newspapers, or direct mail for reaching precise segments of markets.
3. **Fleeting Message:** TV ads usually of 30 seconds or less duration does not leave tangible evidence for viewer to consider. Ads are becoming shorter and shorter as the demand for limited amount of broadcast time has increased and advertisers try to get more impressions from their media budget.
4. **Clutter:** Advertiser's message is only one of many spots along with other non programming material seen during a commercial break; So it may not be noticed by viewers.
5. **Limited Viewer Attention:** The size of the viewing audience is geting reduced during commercial breaks. The increased usage of remote control has led to the problems of zipping and zapping. Zipping occurs when customers fast forward through the commercials of recorded programs. Zapping refers to changing channels to avoid commercials. With remote control on hand viewers surf channels when the advertisements are telecasted.

B) Newspaper

Newspapers are one of the major forms of print media and are the largest of all advertising media in terms of total money spent.

Advantages:

1. **Extensive Penetration:** Newspapers provide high degree of market coverage or penetration. The extensive penetration makes newspaper a truly mass medium and provides advertisers with an excellent opportunity for reaching all segments of the market with their message.
2. **Flexibility:** Newspaper ads can be written, and prepared in short time. These ads can be produced in various sizes, shapes, and formats. Scheduling can be done in many ways.
3. **Geographic Selectivity:** Newspapers offer advertisers more geographic selectivity. For example, Malayalam Manorama in Kerala, Eenadu in Andhra Pradesh with their local supplements offer more selectivity to the advertisers.
4. **Involvement and Acceptance:** Consumers generally read newspapers to make some consumption decisions. Consumers use newspapers as a source of information.
5. **Services Offered:** The services offered by newspapers in the form of consumer surveys, readership studies, free copy writing and art services, merchandising services makes this medium more popular.

Limitations:

1. **Poor Reproduction:** The newsprint used to publish newspapers is generally of poor quality and may not be suitable for producing good effect.
2. **Short Life Span:** Daily newspaper life span is very short and is less than a day. Beyond the day of publication it may not have any impact. Repeat exposure is very unlikely. Some sections of the newspapers may not be opened by the readers.
3. **Clutter:** like most other advertising media, newspapers suffer from clutter. More than 50% of the

newspaper is devoted to advertising the advertiser's message and must compete with other ads for getting consumers' attention.

4. **Lack of selectivity:** Newspapers can offer geographic selectivity, but they are not a selective medium in terms of demographics or lifestyle characteristics.

C) Magazines

Magazines have a number of characteristics that make them attractive as an advertising medium.

Advantages:

1. **Selectivity:** Magazines are the most selective of all media except direct mail. Different magazines are published for different groups. For example in India Woman's Era and Femina are for women, Gentleman for men, Business World, Business Today offers selective reach.
2. **Reproduction Quality:** Magazines offer high reproduction quality. The magazines are generally printed on high quality paper with latest printing technology and provide excellent reproduction.
3. **Creative Flexibility:** Magazines offer advertisers a great deal of flexibility in terms of type, size, and placement of advertising material.
4. **Permanence:** Magazines offer another advantage in the form of long life span. Magazines are generally read over several days and can be referred back.
5. **Prestige:** The product or service may gain from advertising in publications with certain image. By seeing ads in prestigious magazines, consumer's confidence in a particular brand may increase.
6. **Consumer Receptivity and involvement:** Magazines are generally purchased because the information they contain and ads provide additional information that may be of value in making a purchase decision.

Disadvantages:

1. **Costs:** The absolute costs of advertising in magazines are high. Advertisers with limited budgets may not consider relative costs.
2. **Long Lead Time:** One of the important limitations of magazines is the long lead time needed to place an ad. Space must be purchased and the ad must be prepared well in advance of the actual publication date.
3. **Clutter and Competition:** The more successful a magazine becomes, the more advertising pages it attracts, and this leads to clutter.

Other media types include direct mail, radio, outdoor, internet, yellow pages have their own advantages and limitations.

9.6 METHODS OF ADVERTISING EVALUATION

The measurement of advertising effectiveness is done to test both the communication effects and sales effects of an ad. The fundamental research on effectiveness is very little.

Communications-Effect:

Communication-effects of an ad tell whether the ad is communicating well. Copy testing is the method used to test this effect. This can be done before an ad is put into media and after it is printed or broadcast. These are known as pre testing and post testing of an ad.

Consumer Feedback: The consumer feedback method asks consumers certain questions for their reactions on a proposed ad.

Portfolio Tests: Consumers are exposed to a number of advertisements, and are then asked to recall all the ads and the content, aided or unaided by the interviewer. Recall level indicates the ad's effectiveness.

Laboratory Tests: These tests use equipment to measure physiological reactions like heart-beat, blood pressure, pupil dilation, galvanic skin response, perspiration to an ad. These tests measure attention power but reveal nothing about impact on beliefs, attitudes, or intentions.

Post-testing the communication impact of a completed ad campaign is also useful to advertisers. The advertiser can measure how the ad affected consumers recall or product awareness, knowledge, and preference.

Sales-Effect:

Measuring the sales effect of an ad is more difficult than the measuring the ad's communication effect. There are many factors which influence the sales other than advertising at the same time, such as, price, product's features, availability, competition, etc., One method of measuring the sales effect is the **historical approach** which involves correlating past sales with past advertising expenditures using statistical techniques. Another method is **experimental approach**. By altering ad spending in similar markets the advertiser tries to measure the impact on sales by advertising.

9.7 SUMMARY

Advertising is one of the important elements in promotional mix of a firm. Advertising is any paid form of non personal presentation and promotion of ideas, goods, or services by an identified sponsor. The major objectives of advertising are communication and sales. The important players in developing the advertising program are advertiser, advertising agency, media, and audience. With the development of technology different media options are available to the advertiser. Internet is fast becoming one of the important media vehicles especially in business-to-business model. Companies are recognizing the importance of integrating their marketing communications and following integrated marketing communications (IMC). Advertising along with direct mail, personal selling, publicity, and sales promotion plays a crucial role in achieving the promotional objectives.

9.8 KEY WORDS

Advertising goal is a specific communication task and achievement level to be accomplished with a specific audience in a specific period of time.

DAGMAR Defining Advertising Goals for Measured Advertising Results, is a model developed by Russell Colley in 1950. According to DAGMAR, advertising has to perform a specific communication task; the task has to be accomplished among a well-defined audience within a specified time period.

Ad Copy The verbal or written material of an advertisement including the headline, illustration, name and address of the advertiser and his signature.

Advertising agency: A marketing services firm that assists companies in planning, preparing, implementing, and evaluating all or portions of their advertising programs.

AIDA The letters in the acronym denotes Attention Interest Desire Action. The model suggest that any effective impersonal sales presentation should attract attention, gain interest, arouse a desire and result in action.

CPM Cost per reaching thousand

9.9 SELF ASSESSMENT QUESTIONS

1. It is said that advertising is a waste of scarce resources in a developing country like India. Do you agree?
2. Classify the different advertising objectives and explain DAGMAR method.
3. Describe the methods of setting up of advertising budget.
4. Describe the important advertising media and mention their advantages and limitations.
5. Explain how advertising messages are created?
6. What are the different methods of advertising evaluation?

9.10 FURTHER READINGS

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Lesson - 10

SALES PROMOTION

Personal Selling

10.0 OBJECTIVE

After studying this lesson, you are able to :

- understand the role of sales promotion in a company's promotion mix
- examine sales promotion tools and the factors to consider them
- recognize the role of publicity in the promotional mix
- understand the role of personal selling in the integrated marketing communications program
- know ways to determine the effectiveness of the personal selling effort

STRUCTURE

13.1 INTRODUCTION

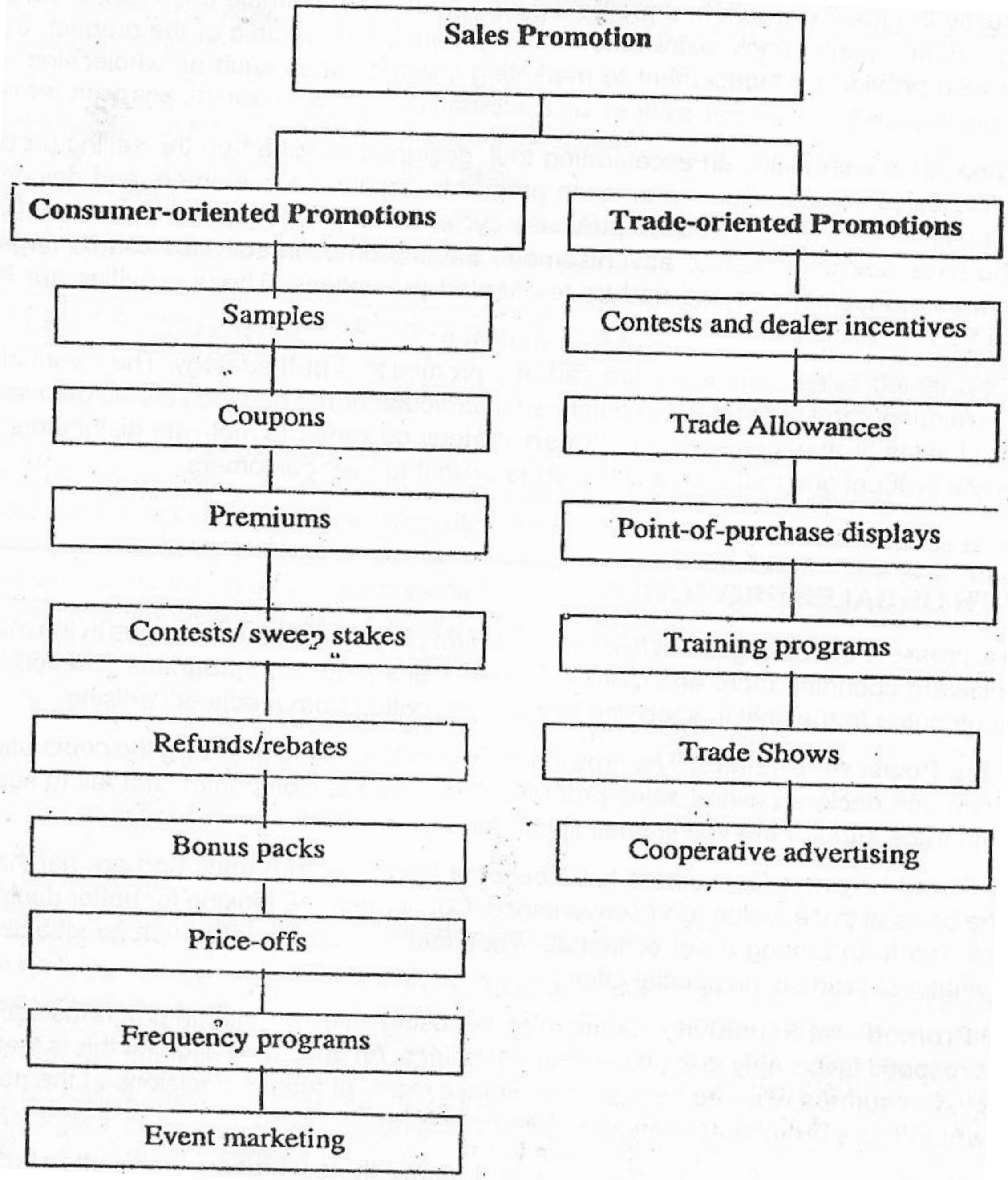
Marketers have come to recognize that advertising alone is not always enough to move their products into the hands of consumers. Companies also use sales promotion methods targeted at both consumers and the wholesalers and retailers that distribute their product to stimulate demand. Advertising appeals to the mind and emotions to give the consumer a reason to buy sales promotion appeals more to the pocket and provides an incentive for purchasing a brand. Advertising tells what products to buy and sales promotion tells when to buy. Sales promotion programs oriented towards both consumers as well as trade. Integrated marketing communications programs include consumer and trade promotions that are coordinated with advertising, direct marketing, and publicity / public relations campaigns as well as sales force efforts.

10.2 MEANING AND IMPORTANCE OF SALES PROMOTION

Sales promotion has been defined as "a direct inducement that offers an extra value or incentive for the product to the sales force, distributors, or the ultimate consumer with the primary objective of creating an immediate sale."

Figure 10.1

TYPES OF SALES PROMOTION ACTIVITIES



According to American Marketing Association, sales promotion refers to those activities other than personal selling, advertising and publicity, that stimulate consumer purchasing and dealer effectiveness, such as display shows and exhibitions, demonstrations, and various other non-recurrent selling efforts not in ordinary routine.

According to Council of Sales Promotion Agencies "Sales promotion is a marketing discipline that utilizes a variety of incentive techniques to structure sales-related programs targeted to consumers, trade, and/or sales levels that generate a specific measurable action or response for a product or service." These definitions suggest that sales promotions are short-term incentives to encourage purchase or sale of a product or service.

Sales promotion involves some type of inducement that provides an extra incentive to buy. This incentive is usually the main element in a promotional program. For example price reduction, coupons, contests, rebate, money-back, extra amount of a product, free sample of the product. Sales promotion can also provide an inducement to marketing intermediaries such as wholesalers and retailers.

Sales promotion is essentially an accelerating tool, designed to speed up the selling process and maximize the sales volume. Sales promotion programs encourage customers and dealers to take immediate action. This will shorten the purchase cycle. Sales promotion attempts to motivate consumers who have not responded to advertisement. Sales promotion activities can be targeted into two categories: consumer-oriented and trade-oriented promotions. These activities are illustrated in Figure 13.1.

Consumer-oriented sales promotions are part of a promotional **pull** strategy. They work along with advertising to encourage consumers to purchase a particular brand and thus create demand for it. Trade-oriented sales promotions are part of **push** strategy designed to motivate distributors and retailers to carry a product and make an extra effort to push it to their customers.

10.3 GROWTH OF SALES PROMOTION

As there is pressure on management to earn short-term profits, and other changes in the market place companies are spending more and more money on sales promotion programs. The following factors also contributed to the shift in spending to sales promotion from media advertising.

1. **The Growing Power of Retailers:** The growing influence of retailers is forcing the companies to listen to them and declare several sales promotional programs. Companies that fail to support retailers with trade support are losing shelf space for their products.
2. **Declining Brand Loyalty:** Consumers have become less loyal to brands and are purchasing more on the basis of price, value, and convenience. Consumers are looking for better deals and switch back and forth among a set of brands. They feel that brands are interchangeable and purchase whatever brand is on special offer.
3. **Increased Promotional Sensitivity:** Companies are using sales promotion programs because consumers respond favourably to the incentives it provides. An obvious reason for this is that they save money. Consumers who are time-sensitive make many purchase decisions at the point of purchase where sales promotion offers are more appealing.
4. **Brand Proliferation:** The market has become saturated with new brands, which often lack any significant advantages that can be used as the basis of an advertising campaign. Thus, companies increasingly depend on sales promotion.

5. **Fragmentation of the Consumer Market:** As consumer market becomes more fragmented and mass-media-based advertising less effective, companies are turning to sales promotion to reach effectively the targeted segments.
6. **Short-term Focus:** The marketing plans and reward systems are oriented towards short-term performance and the immediate generation of sales through sales promotion is becoming an important element in promotional mix.
7. **Increased Accountability:** Many companies are demanding to know what they are getting for their promotional expenditure. Sales promotion is economically accountable than advertising. Sales promotion provides measurable and accountable ways to relate promotional expenditure to sales and profitability.
8. **Competition:** As the markets for many products are mature and stagnant it is difficult to increase sales through advertising. Many companies in collaboration with retailers are designing promotional programs to achieve mutual objectives.
9. **Clutter:** A sales promotional offer in an ad can break through the clutter that is prevalent in most media today. An offer will attract consumer's attention.

10.4 SALES PROMOTION OBJECTIVES AND TOOLS

Consumer-oriented Sales Promotion:

Companies must consider what they want to achieve through their consumer-oriented sales promotion programs and how to mix these with other promotional activities such as advertising, direct marketing, and personal selling. Marketers have to consider the impact of sales promotion on brand's image in the long term while designing sales promotion programs. The basic goal of most consumer-oriented sales promotion programs is to induce purchase of a brand. However the marketer may have a number of different objectives for example:

- obtaining trial and repurchase,
- increasing consumption of an established brand,
- defending current customers,
- targeting a specific market segment, or
- enhancing advertising and marketing efforts.

10.4.1 Consumer-oriented Sales Promotion Techniques:

Marketers use various sales promotion techniques to meet the objectives. The following are the sales promotion techniques.

1. **Sampling:** Consumers are given some quantity of a product for no charge to induce trail. Although it is expensive sampling is generally considered the most effective way to generate trial. Manufacturers of packaged goods products such as food, health care items, cosmetics, and toiletries are using this method.
2. **Couponing:** Coupon is one of the oldest and most effective sales promotion tools used by marketers. These coupons may be mailed directly to customers or by publishing ads in newspapers and magazines along with Re off coupon offer customers will get them. Re off coupon is most

appealing to price sensitive consumers. Coupons encourage nonusers to try a brand, encourage repeat purchase among current users, and make users to try new, improved version of a brand.

3. **Premiums (Gifts):** A premium is an offer of an item of merchandise or service either free or at a low price that is an extra incentive for purchasers. Free premiums are usually free gifts or merchandise included in the product package. For example, Hindustan Lever Ltd, offering with their Brooke Bond BRU 50 gm coffee pack an attractive glass bowl.
4. **Contests and Sweepstakes:** A contest is a promotion where consumers compete for prizes or money on the basis of skills or ability. A sweepstake is a promotion where winners are determined purely by chance; it cannot require a proof of purchase as a condition for entry.
5. **Refunds or Rebates:** Refunds also known as rebates are offers by the manufacturer to return a portion of the product purchase price, usually after the consumer supplies some proof of purchase. Products such as cameras, sports goods, appliances, television, audio and video equipment, computers, and cars frequently use rebate offers to appeal to price-conscious consumers.
6. **Bonus packs:** Bonus packs offers the consumer an extra amount of a product at the regular price by providing larger containers or extra units. Bonus packs provide more value for consumers as they get extra product for the money they spend. Colgate offers 25gm extra on their 200gm pack at the same price.
7. **Price-off deals:** This is the direct price-off deal offered by manufacturer by reducing the price of a brand. Price-off reductions are typically offered right on the package through specially marked price packs. For example, on Palmolive shaving brush Rs 8/- reduction is offered. Nature Fresh edible oil 1 liter pack is available at Rs.55/- where as the MRP is Rs.70/-.
8. **Frequency Programs:** One of the fastest growing areas of sales promotion is the use of frequency programs also known as continuity or loyalty programs. Consumers get points on every purchase and get the offers from the companies as points accumulate. Airline companies introduced frequent flyer programs, where the customer gets points on every trip and gets discount in the form of extra miles or in the form of price reduction.
9. **Event Marketing:** Event marketing is a type of promotion where a company or brand is linked to an event or where a themed activity is developed for the purpose of creating experiences for consumers and promoting a product or service.

These are some of the sales promotion techniques adopted by the marketers to accomplish the desired objectives.

10.4.2 Trade-Oriented Sales Promotion:

Trade-oriented sales promotion programs are designed to get the trade support. These trade promotions are targeted to marketing intermediaries such as wholesalers and retailers. The objectives of this program are:

- Obtaining distribution and support for new products,
- Maintaining support for established brands,
- Encouraging retailers to display established brands, and
- Building retail inventories.

Types of Trade-Oriented Promotions:

1. **Contests and Incentives:** Manufactures may develop contests or special incentive programs to stimulate greater selling effort and support from resellers. Contests or incentive programs can be directed toward managers, salespeople who work for a wholesaler, distributor as well as retailer. These programs may involve cash payments made directly to the retailer's or wholesaler's sales staff to encourage them to promote and sell a manufacturer's product.
2. **Trade Allowances:** A discount or deal offered to retailers or wholesalers to encourage them to stock, promote, or display the manufacturer's products. These allowances may be in the form of buying allowances, promotional or display allowances, and slotting allowances. Buying allowances are offered to resellers in the form of price discounts on the goods ordered during a fixed period. Retailers get promotional allowances for merchandising support. Slotting allowances also known as stocking allowances, or introductory allowances, are fees received by retailers for giving a slot to accommodate the new product.
3. **Displays and Point-of-purchase Materials:** Point-of-purchase (POP) displays are an important promotional tool because they are more effective in store merchandising efforts. These POP materials include banners, posters, shelf cards, motion pieces, end-of-aisle displays, and stand-up racks. Manufacturers helping retailers in using their shelf space with the help of computer based programs.
4. **Sales Training Programs:** Another form of manufacturer-sponsored promotional assistance is conducting sales training programs for reseller personnel. Many products sold at the retail shops require knowledgeable sales people who can provide consumers with information about the features, benefits, and advantages of various brands and models.
5. **Trade Shows:** A trade show is a forum where manufacturers can display their products to current as well as prospective buyers. In many industries, trade shows, exhibitions are a major opportunity to display products and interact with the customers.
6. **Cooperative Advertising:** In cooperative advertising the cost of advertising is shared by more than one party. The most common form of cooperative advertising is the trade-oriented form, vertical cooperative advertising, in which a manufacturer pays for a portion of the advertising and retailer shares the other portion.

10.5 EVALUATION OF SALES PROMOTION

Many observers noted that overuse of sales promotion can be detrimental to a brand in several ways. A brand that is constantly promoted may loose perceived value. Consumers purchase the brand because it is on discount sale, or they get a free gift, or have a coupon, rather than a favourable attitude towards the brand. When several competitors use promotions extensively they may fall into a sales promotion trap. If a company is successful its sales promotion efforts attracts other competitors also into the same lines and no one gets good profits. This may lead to price wars and companies have to pay penalty for that. Promotions can be more expensive than they appear. Some benefits are distributed to wrong customers. Retailers may demand extra trade allowances or refuse to cooperate if the promotions are more consumer-oriented. Companies must consider short-term impact of promotion and its long-term effect on the brand. If the sales are falling the companies are tempted to resort to sales promotion techniques, but the other factors like channel relation, price, packaging, product quality, or advertising must also be considered.

10.6 PUBLICITY

Publicity refers to the generation of news about a person, product, or service that appears in broadcast or print media. For many people in business publicity and public relations are synonymous. In fact, publicity is really a subset of the public relations effort. But there are several major differences. Publicity is typically a short-term strategy, while public relations are a long-term program. Public relations is designed to provide positive information about the firm and is usually controlled by the firm or its agent. Publicity, on the other hand, is not always positive and is not always under the control of organization. Both positive and negative publicity originates from sources outside the firm.

Publicity can make or break the product or even a company. For example, the Cola majors Pepsi and Coke getting lot of publicity for the wrong reason and the companies do not have any control over the news items published in the media. The allegation is that the Cola companies are using contaminated water for producing their products, which consist of pesticide residues, and immediately their sales were dropped by 30-40% in India.

Publicity is much more powerful than advertising or sales promotion because it is highly credible. People believe news items that appear in the media than the advertisements in the same media. Consumers perceive this information as more objective and have more confidence in it. Publicity information may be perceived as endorsed by the medium in which it appears. For example publicity in the form of a news item appearing in Eenadu telugu daily is perceived by readers as an endorsement from the daily.

Publicity is free of cost unlike advertising which is a paid form of promotion. Publicity is news, and people like to pass on information that has news value. Publicity thus results in a significant amount of free, credible, word-of-mouth information regarding the firm and its products.

But however timing of the publicity is not always completely under the control of the marketer. The media has the control over the timing of press release. A major way to get publicity is the press release. But sometimes the information gets lost in translation. We may observe the difference between the press release and news item which appeared in the media. But if the marketers produce video news release of a publicity piece and give it to television stations they may air it as a news item.

10.7 PERSONAL SELLING

Personal selling involves selling through a person-to-person communications process. This directs and inter personal communication gives immediate feedback from the receiver. This communication process, known as dyadic communication helps companies to tune the message suitable to the respective buyers. Personal selling often plays an important role in industrial firms. The role of personal selling varies from firm to firm depending on a variety of factors, including the nature of the product or service, size of the organization, and type of industry. The role of personal selling is constantly changing along with the changes in the marketing environment. The distinct stages of personal selling evolution are as follows.

1. **Provider stage:** Selling activities are limited to accepting orders of the available products of seller and delivering them to buyer.
2. **Persuade stage:** Selling involves an attempt to persuade market members to buy the supplier's offerings.
3. **Prospector stage:** Reaching the prospective buyers who are interested in the company offering and having the resources and authority to buy it.

4. **Problem-solver stage:** Selling involves matching the available offerings to solve customer problems.
5. **Procreator stage:** Selling defines the buyer's problems or needs and their solutions through active buyer-seller collaboration and then creates a market offering to match the customer need.

Firms evolving through these five stages have to adopt different promotional strategies, each integrated with personal selling to achieve the maximum communications effect. Personal selling evolves into a much broader role to establish a long-term, symbiotic relationship with clients, working closely with them as a solutions provider. Relationship marketing is defined as "an organization's effort to develop a long-term, cost-effective link with individual customer for mutual benefit." The personal selling efforts help the companies to build relationships with customers effectively.

Personal Selling Responsibilities:

The job responsibilities of sales people include:

1. **Locating prospective customers:** The process of locating new customers known as prospecting involves the search for and qualification of prospective customers. Sales people must follow up the leads (those who may become customers) and prospects (those who need the product or service). They must also determine whether these prospects are qualified prospects that means whether they are able to make the buying decision and pay for the product.
2. **Determining customers' needs and wants:** The sales person must determine what the customer needs and wants are and in some cases they may have to assist the customer in determining what he or she needs.
3. **Recommending a way to satisfy the customer's needs and wants:** Here the sales person recommends a possible solution to the problem of potential customer.
4. **Demonstrating the capabilities of the firm and its products:** The sales person demonstrates the capabilities of the firm and the product and show the prospect why their offer is the best.
5. **Closing the sale:** The important element in any sales presentation is closing the sale. Managers have to work with their sales force to close the sale and help reluctant or uncertain buyers make a decision.
6. **Following up and servicing the account:** The responsibilities of the sales force do not end once the sale has been made. Maintaining customer loyalty, generating repeat sales, and getting the opportunity to cross sell - that is, sell additional products and services to the same customer - are some of the advantages of keeping customers satisfied through follow-up activities.

Personal selling helps the company sales people an opportunity to assess the situation first-hand and choose appropriate sales message accordingly. No other promotional element provides this opportunity.

Advantages and Disadvantages of Personal Selling:

Advantages:

1. **Allowing for two-way interaction:** The ability to interact with the receiver allows the sender to determine the impact of the message. This gives immediate feedback to the company. In mass communication this direct feedback is not available.

2. **Tailoring of the message:** Because of the direct interaction, message can be tailored to the receiver. The specific message addresses the consumer's specific problems, concerns, and needs.
3. **Lack of distraction:** In many personal-selling situations, a one-to-one presentation is conducted. The likelihood of distractions is minimised and the buyer is paying close attention to the sales message.
4. **Involvement in the decision process:** Through building relationship marketing and consultative selling, the seller becomes more of a partner in the decision process. This leads the buyer to rely more on the salesperson and his or her products and services.
5. **Sources of research information:** Sales representatives can collect information on competitors' products and services, promotions, pricing, and so on, firsthand. They understand about the buying needs and wants of customers and potential customers.

Disadvantages:

1. **Inconsistent message:** Sometimes the lack of standardized message can become a disadvantage. The message is generally designed with some specific communications objective by marketing staff. But the salesperson may alter this message in a way that the marketer did not intend.
2. **Conflict between sales and marketing staff:** The marketing staff may not understand the problems faced by the sales staff, or the sales people may not understand why marketing people do things the way they do. The communication is not effective due to internal conflicts.
3. **High cost:** The cost per sales call is high when compared to cost per message delivered through other media. In majority of the cases one sales call is not enough to close the deal. Overall, personal selling is an expensive way to communicate. However the returns may be bigger.
4. **Poor reach:** Personal selling cannot reach as many members of the target audience as other elements of promotional mix. Because of time limitation and limited sales force the reach may not be sufficient. Further, the frequency of reaching the buyers is also low.
5. **Poor ethical problems:** As sales personnel incentives are directly related to the sales that they generate, sometimes the sales people may bend the rules. They may give false promises and do things, which are not ethical.

Personal selling is rarely used alone. This promotional tool supports and is supported by other promotional element.

Criteria for evaluating Personal selling:

The following criteria may be used to evaluate the contribution of the personal selling effort to the promotional program.

1. **Provision of marketing intelligence:** The ability of the sales force to feed back information regarding competitors programs, customer reactions, market trends, and other factors that may be important in the development of promotional program.
2. **Follow-up activities:** The distribution of promotional brochures, and correspondence with new and existing customers, feed back on the effectiveness of various promotional programs.
3. **Program implementations:** The number of promotional programs implemented, the number of counter displays used, the implementation and assessment of cooperative advertising programs.

4. **Attainment of communication objectives:** The number of presentations made to prospective customers, the number of trial offers accepted etc.,

By using the above criteria the promotional manager along with the sales department should be able to assess the effectiveness of the personal selling program. This requires inter departmental cooperation.

10.8 SUMMARY

Sales promotion techniques provide consumers with an extra incentive or reward for engaging in a certain form of behaviour such as purchasing a brand. For some type of sales promotion tools the incentive the consumer receives is immediate, while for others the reward is delayed and is not realized immediately. Marketers often evaluate sales promotion tools in terms of their ability to accomplish specific objectives. Publicity is basically a subset of public relations and is often not under the control of the company. Both positive and negative publicity originates from sources outside the firm. Personal selling involves selling through a person-to-person communications process. All these promotional elements like sales promotion, publicity, and personal selling along with advertising should compliment each other. Direct mail, tele marketing, internet also helping the organizations in developing a suitable promotional strategy.

10.9 KEY WORDS

Relationship Marketing: An organization's effort to develop a long-term, cost-effective link with individual customer for mutual benefit.

Dyadic Communication: One-to-one communication between two people or groups

CRM Customer Relationship Management

Publicity: Refers to the generation of news about a person, product, or service that appears in broadcast or print media.

Public relations: The management function which evaluates public attitudes, identifies the policies and procedures of an organization with the public interest, and executes a program of action to earn public understanding and acceptance.

10.10 SELF ASSESSMENT QUESTIONS

1. Discuss how sales promotion can be used as an acceleration tool to speed up the sales process and maximize sales volume.
2. Why companies are shifting to sales promotion from media advertising? Discuss the pros and cons of this reallocation of marketers' advertising and promotion budgets.
3. What are the differences between consumer-oriented and trade-oriented sales promotion?
4. Many companies are now trying to generate as much free publicity as they can. Cite some examples of this, discuss the advantages and disadvantages associated with this strategy.
5. Explain the role of personal selling in promotional strategy of a firm.

10.11 FURTHER READINGS

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Lesson - 11

CHANNELS OF DISTRIBUTION I - ROLE OF WHOLESALER

11.0 Objective:

After studying this lesson you should be able to understand:

* concept of channels of distribution
* choosing of a right channel
* distribution policy
* importance of middlemen
* wholesalers
* role of wholesalers
* future wholesalers

Structure:

11.1 Introduction:

A marketing structure is the formal organisation of the functional activity of a marketing institution. There types of marketing structures are generally distinguished, viz., (1) agency structure (2) area structure and (3) price structures. The agency structure refers to formally organised business establishments performing various marketing functions peculiar to them. These agency structures include wholesalers, independent retailors, department stroes, mail order houses, chain stores, supermarkets, manufactures own retail shops and consumer cooperative stores.

Area structures are classified as (1) Buying areas and selling areas, (2) Wholesale trade areas and retail trade areas, (3) Product areas and tribtritory areas. Buying areas are are the sources of supply to a given market selling areas are those in which the goods are distributed in a given market. A wholesale trade area is a nucleus to which trade is drawn and from which goods fan out to a surrounding territory. At times the wholesales trade areas for certain staple article of commerce become world wide.

11.2 Channel of Distribution:

The word ‘channel’ has its origin in the French word for canal. The channel of distribution thus connotes a path way taken by goods as they flow from point of production to point of consuption. The path taken by goods in their flow may be short and rirect or rather long and indirect, usually more developed countries have more levels of distribution more speciality stores and supermarkets, more departmental stores and more stores in rural areas. In other words, the marketing structure in a country depends on the stage of economic development in that country.

A Channel of distribution consists of specialised marketing institutions that relaly to each other as buyers and sellers. It may be defined as a pipeline for goods from manufactures to consumers. It is also defined as ‘the vehicle for viewing marketing organisation in its external aspects and for bridging the physical and non-physical gaps that exit in moving goods from producers to consumers through the exchange process, including the determination of price. The channel thus bridges the gap between the producers and users.

In Fig. (11.1) four baic channels for consumers goods are presented.

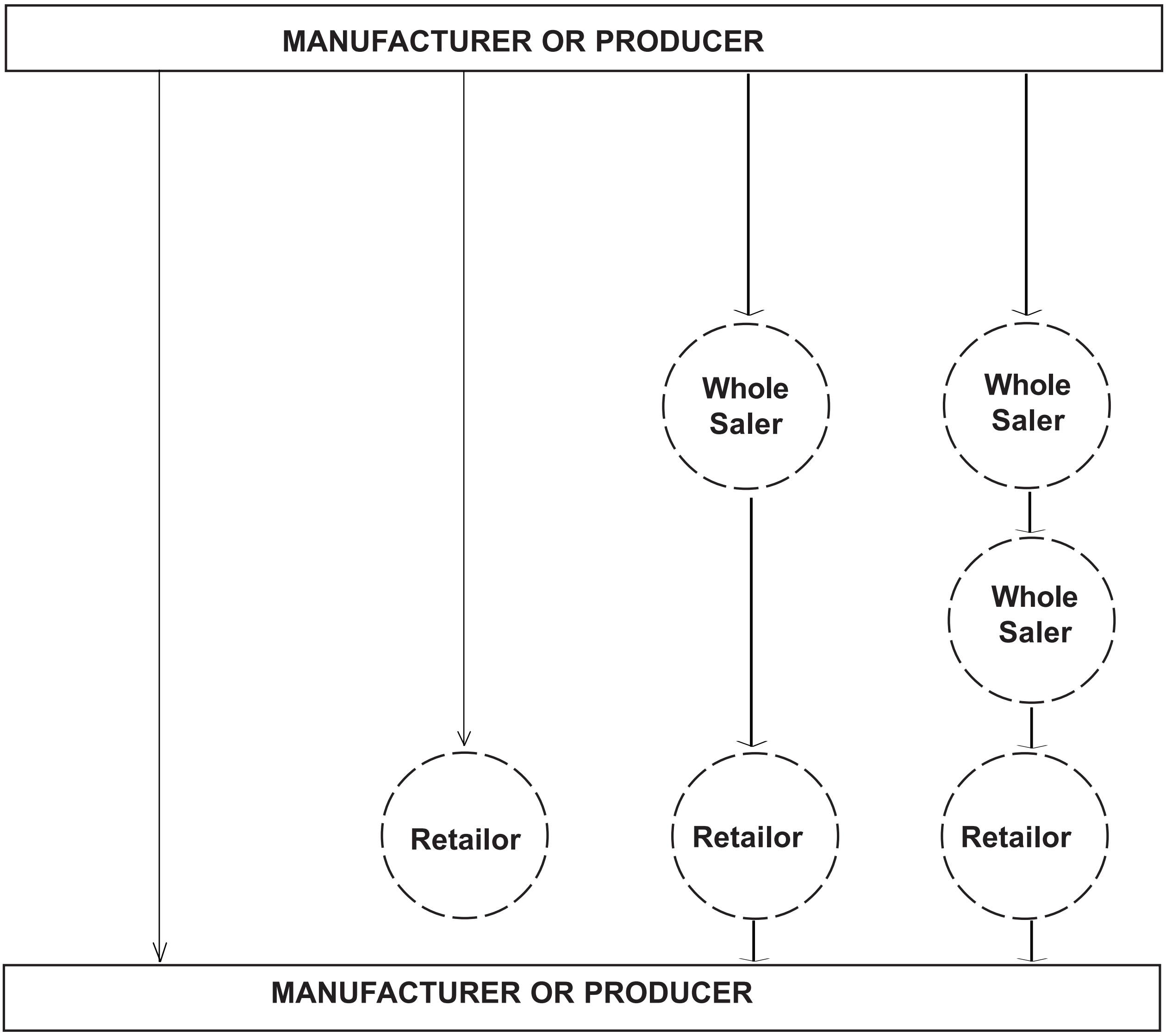

Fig. 11.1 : Four Possible (basic) Channels of distribution for consumer goods

(1) Direct from manufacture to consumer (2) to a retailor (3) through a wholesaler and then a retailer and (4) through two levels of wholesales (who provide a different set of marketing functions) to a retailors and then to a final consumer. These four channels only suggest possibilities. There are many possible variations too. The more possible variations should not be seen as competitive channels. Each should be considered a separate possible channel to reach particular target market. The channel system chosen must deliver the goods and provide all the functions of marketing.

The channel may also be visualised as a chair link arrangement in which each business unit constitutes one link. In this sense, the channel is nothing but a 'series of linkages' which vary as to the number of links, as to the functions to be performed by each link and the entire set of linkages and according to the thickness and strength of each link.

The channels include the field sales and distribution operation of a manfacturer, wholesalers, retailers, manufacturer's agents brokers, mail order houses and distributors. At the retail level the channels include all types of retail outlets from the itinerant peddlar to the departmental stores as well as the cooperative supermarkets.

11.3 How to Choose A Channel?:

The best channel system is the one that works best the marketing strategy selected by the company. The channel chosen should achieve ideal market exposure and should meet target customer's needs and preferences. In choosing the channel of distribution 'producers always have to struggle with what is ideal and what is available. Often, a company must settle for a channel that is less than ideal. It may even have to join a channel that is controlled by another firm. Ideally, every company would like to select the lowest cost channel that does the job. But the lowest cost channel is not necessarily the best. Even a relatively high cost system may be profitable if the customers are satisfied with the work of the channel.

The channel choice is influenced by: (1) Distribution policy (2) Product characteristics, (3) Supply Characteristics, (4) Customer Characteristics, (5) Middlemen Characteristics, (6) Channel Competition, (7) Company Characteristics, (8) Environmental Characteristics, (9) Social Ethical Considerations (10) Sales Volume Potential, (11) Costs of Channel usaged and (12) Long-run profit (Time element)

11.4 Importance of Middlemen:

The middlemen specialise in carrying out the transfer of title between producers and consumers. These middlemen may be either 'merchant middlemen' like wholesalers taking title to the goods or agent middlemen'. Like brokers and commission agents, who assist in bringing about the transfer of title. Advertising agencies, warehouses, insurance companies, transport agencies, banks and commodity exchanges doing the facilitating functions in marketing cannot be called middlemen.

Middlemen are used by manufacturers because they can perform the marketing functions more economically than the manufacturer, because they can perform them more effectively at a given cost, because the manufacturer does not have the ability to perform these functions or because he does not possess adequate financial resources to perform them effectively.

There is a general failure to realise that goods are not necessarily marketed cheaply when middlemen are not used. The elimination of the marketing functions. Which the middlemen perform as well. The functions must be performed to bridge the gap between the producer and consumer. The issue who should perform various channel tasks is largely one of relative efficiency and effectiveness.

Therefore, one of the reasons the producer does not choose to perform a number of specific marketing functions, is that middlemen, through their specialisation may perform it for less. Thus, middlemen generally bring down the final cost of goods. It is wrong to flame the middlemen as parasites on the society by pointing to the difference between the final price and the producer's price. The producer's price is low because, he does not perform the functions required to match the segments of supply and demand. It is only when the middlemen take advantage of shortage and consumer ignorance and provide no services as such, their position is questioned.

11.5 Wholesalers:

The word 'Wholesaler' means, to market goods in relatively large quantities. It consists of the activities involved in selling to buyers other than ultimate consumers wholesaling is very important in marketing process. But, wholesaling is not necessarily the work of wholesale middleman alone. The manufactures who sell directly to retailers or to other manufactures are also involved in wholesaling. If the buyer in a transaction is buying for purposes of resale or to further his business operations, the seller in that same transactions is engaged in wholesaling. However, the discussion here has reference to middlemen wholesalers only.

The Wholesalers are a vital link in the channel of distribution. 'The one essential distinguishing feature of the wholesaler is that he must be a middlemen who usually does not sell to ultimate consumers. So, a wholesaler may be defined as 'a business unit which buys and resells merchandise to retailers and other merchants and/or to industrial, institutional and commercial, users but does not sell in significant amounts to ultimate consumers. The wholesalers are present in the marketing channel in view of their valuable services to manufactures and retailors.

11.6 Classification of Wholesalers:

Wholesalers may be classified in a number of ways. The classification may be based on the line of goods and number of products carried, the territory covered and the number and nature of marketing functions performed. firstly, on the basis commodities in which they deal, the wholesalers are classified as (1) general merchandise, (2) general line and (3) single line or speciality wholesalers. 'A general merchandise wholesaler is a merchant wholesaler who carries a general assortment of goods in two or more distinct and unrelated merchandise lines'. He may handle a wide variety of non-perishable items such as electrical goods, sports goods, cosmetics, drugs, furniture, etc.

The general line wholesalers carry to wide assortament of goods within a single product line, and also handle limited stocks of goods in closely related iterms. For instance, a general line grocery wholesaler in addition to carrying a complete stock of cereals, olhal, tea, coffee and other 'provisions' may stock elso soaps detergents, toothpast, razor blades, biscuits and toffees. He can supply the retailor with almost everything that he wants in a given product line.

Single line wholesalers restrict themselves to a narrow or to a specific line covering a wider geographical area. Examples of this type of wholesalers are found in paper and cloth trade. These wholesalers deal in the different varities in a particular line of goods. These wholesalers become specialists in their narrow field. They can know their markets and products throughly and give better service to retailors. In view of a narrow line of products , comparatively lesser capital is enough. More selling effort or can also be concerntrated.

Secondly, on the basis of territory covered the wholesalers are classified as the local wholesalers, the district wholesalers and the national wholesalers. Local wholesalers may operate in a town or city or fact of a town or a city and supply goods to the local retailors. They specialise in the distribution of nationally advertised goods. the wholesalers are sometimes classified as regional wholesalers. They sell to retailers in a particular district or state grouped in terms of regions. These district wholesalers have advantages of scale similer to those of general line wholesalers. However, they have to face the competition of the local wholesalers. National wholesalers tend to be located at strategic centres and they cover a wide territory extending over several regions. However, these national wholesalers do not actually attempt to distribute their products throughout the nation.

11.7 Functions of Wholesalers:

The tasks involved in wholesaling are essentially the elaborations of the fundamental marketing functions - buying, storing, selling, transporting, financing, risk bearing and gathering market information. Certain of these wholesalers both for their customers and thier suppliers.

11.7A Functions for Customers:

The wholesaler, in order to justify his existence as a link between the producer and the customer is normally expected to perform some important functions. Hence an 'ideal' wholesaler performs the following functions of marketing for his customer's.

1. Forecosts the customers demands and buys goods accordingly.
2. Provides an assortment of goods wanted by his customers by collecting, breaking the bulk and sorting out the goods.
3. Relieves the customers of the necessity of carrying a full inventory and stores the goods in his own werehouse - carriers inventory himself.
4. Provide prompt delivery service at low cost, employing his own trasportation facilities.
5. Relieves customers of the problem of searching for supply sources and provides part of buying function.
6. Extends credit and finances his retailors or customers.
7. Provide technical and price information and advisory services.
8. Assumes the risks associated with ownership and completes a sale without other intermediaries.

11.7 B Functions For Suppliers:

The following are the wholesaler's important functions for suppliers/producers.

1. Participants in the manufacturer - suppliers' sales promotion and advertising compaigns.
2. Secures orders from large number of retailors, saving the manufacturer from the trouble and expense of dealing with large number of customers.
3. Reduces a manufacture's need for carrying large stocks and incurring warehousing expenses through the function of stroring.
4. Releases the working capital of manufacturer by buying aganist ready cash.
5. Saves the manufactures from credit risks involved in dealing with numerous customrs.
6. Reuces the manufacturer's need for market research by acting as the interpreter of consumers needs and reactions.
7. Helps the manufacturer in maintainingan even pace of prdouction by placing orders even during periods of slack demand.
8. Takes over the marketing functions from the manufacturer thereby enabling him to concentrate on production.

11.8 Organisation of Wholesale Business:

Wholesale organisation usually has two departments, viz., Administrative (staffing) and Executive line. Administrative deals with general administration, finance, accounts and correspondence. The excutive department deals with buying, sorting, packing, storing, publicity selling and despatch of goods. the responsibility of the Administrative Department in taking care of the finance and capital requirements of the business is great. The finance section of the department works in close touch with the buying and selling sections of the Executive Department.

The success of wholesale's business primarily depends on the efficient working of the Executive Department. There should be a buyer for each variety of goods stocked. The General Manager should direct and supervise the operations of the buyers who should be experts in their supervise th operations of the buyers who should be exports in thing lines. The buyers should be constrantly in touch with the customers to assess their needs and regulate the purchses accordingly. They should be held responsible to the management for thier actions and should report on thier activities and buying commitments so that the management could exercise control over thing activities and ensure proper coordination between buying and selling sections.

As the profits of the business depends on the efficiency with which sales are effected, there should an army of salesmen who should have the quality to draw customers to buy the goods stocked by the wholesaler. These salesmen should call upon the retailors often to find out thier requirements and also to render there advice in the matter of disposal of products.

11.9 Position of the Wholesalers in Modern Marketing:

In spite of gloomy foreboding common nowadays, the wholesaler still manager to hold his position because of the very real services he renders. But the wholesaler today, as compared with that of a a hundred years ago, is a much less important member of the business fraternity. The following are the important factors responsible for reducing his importance:

1. Growing displeasure of this system of channel in all quarters.
2. Growth of large retail stores such as chain stores, Departmental Stores, Super Markets, etc.
3. Manufacturers' desire to establish direct contracts with the customers.
4. Development of transport and communication systems.
5. Frequent and unexpected changes in style and fashion.
6. Emergence of new and bigger markets.
7. Growth of consumers' cooperatives in all most all fields.

But all these factors were unable to wipe out this system fully. It is remarked that by modernising establishments, merchant wholesalers have been able to hold their own and, in some instances, to make spectacular comeback. By adopting newer techniques of integrated distributors, wholesalers, havebeen able to retain some of the ground lost to manufacture's branches. Sales officer and agent middlemen. By providing rapid, low cost and efficient service to the retailors who depend upon them, such wholesalers have adopted themselves to changing conditions.

It should also be remembered that the function of wholesaling will be maintained as long as there is small number of producers, concentrated in a few localities, spread out over large areas. The function cannot7 be eliminated, although it can be integrated with other functions; manufacturing on the one hand and retailing, on the other.

11.10 Future of Wholesaler:

Of late, many manufacturers have opedn their own retail shops at important consuming centres. This menas direct sales to ultimate consumers, doing away with the middlemen. Multiple shops and mail order business are also growing. The new technique followed by manufacturers in the matter of distribution of their products may lead one to think that the future of the wholesalers and other middlemen is not bright. Is it really so? Can the wholesalers and other middlemen be really eliminated? When we speak of the elimination of wolesalers do we mean the elimination of their services as well? Are the services of wholesalers redundant?

Only the uninitialed can claim that the elimination of wholesalers will result in reducing expenses and saving profits which would otherwise accure to the eliminated wholesalers. This false nation arises because people forget that wholesalers exist in the channel because of the economics they effect in marketing. They fail to realise that specialisation brings economics in marketing as well as in production.

Advantages of the wholesaler system are the advantages of specialisation by independent businessmen enagaged in carrying on marketing operations. What is wanted is not the elimination of wholesalers as links from the channel of distribution but to see that these links are made to render services to the best advantage of all the parties concerned. The aim of better marketing is not necessarily to dispalace any unit in the existing machine but to enable that machine to function to greater advantage. Hence, it is said that the middlemen may be eliminated but not his services.

11.11 Summary:

Wholesalers occupy a predominant position in the channels of distribution. This is more so in a widespread economy, where the wholesaling function is of vital importance. They assemble merchandise from many sources, warehouse it, and regroup the goods for convenient buying by retailors.

A wholesaler might help a producer by reducing the producer's need for working capital. Merchant wholesalers don't necessarily provide all of the wholesaling functions, but they do take title to the products they sell. A general merchandise service wholesaler may represent many different kinds of manufacturers and supply many different kinds of retailors.

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11.12 Key Words:

1. Middleman's brand : A brand owned by a retailor or a wholesaler.

2. Middleman : Render Services in connection with the purchases and /or sale of products as they move from producer to their ultimate market.

3. Universal Functions: (of marketing), Buying selling, transporting, storing, standardisation and grading, financing, risk taking and market information.

4. Social Marketing : The use of marketing to increase the acceptability of social ideas.

5. Mass Selling : Communicating with large numbers of customers at the same time.

11.13 Self Assessment Questions:

1. What factors are influence the selection of channel decisions.

2. What are the different ways of classifying wholesalers.

3. What are the functions of wholesalers?

4. 'Middlemen may be eliminated but not his services'. Discuss.

5. Do you consider wholesaler is a superflyous link in the chain of distribution and adds to its cost?

11.14 Reading Books:

1. Amarchand and Varadharajan : In Introduction to Marketing, Vikas Publishing House Pvt. Ltd., New Delhi - 1989.

2. Mahammad Amanatullah : Principles of Modern Marketing - Kalyani Publishers, New Delhi, 1998.

3. Rajan Nair and Sanjith. R. Nair : Marketing, Sultan Chand and Sons, New Delhi, 1997.

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Lesson - 12

CHANNELS OF DISTRIBUTION II - ROLE OF RETAILOR

12.0 Objective:

After completion of this lesson we should be able to understand:

* importance of Retailing and its concept
* role of retailers in channel of distribution
* functions and services of the retailers
* kinds of retailers
* essential requisities for success in retailing
* future of retailing

Structure:

12.1 Introduction:

Retailing is one of the vital functions of the marketing process. It consists of the activities involved in the sale of commodities to the ultimate consumer. In other words, the retailer is the last link in the chain of distribution. If the buyer in a transaction is an ultimate consumer, the seller in the same transaction is engaged in retailing. Producers generally rely on independent retailers to sell their products to ultimate consumers.

The position of the retailers in marketing channel is strategic indeed. It is difficult to over emphasise his importance to the producer. The retailer is a specialist in selling and the community looks to him for the supply of the needed goods at a convenient place in convenient quantities, at reasonable prices and at a time when they are wanted. It is too trouble some and expensive for the consumer to buy directly from the producer. It is normally too expensive and troublesome for the producers also to sell her goods directly to the consumer. Herein lies the importance of retailor.

The retailor is generally able to ascertain first hand the needs and requirements of consumers. He also exercises a considerable influence on their buying decisions. He assembles at convenient points from numerous sources an assortment of goods and enables the consumers to buy a variety of goods in small quantities, with minimum trouble and expense and at short notice. The importance of the retailor may be also understood by his functions and services.

12.3 Definitions and Role of Retailors:

Many dictionaries define retailing as "the sale of goods in small quantities to ultimate consumers". The word retailer is of French Origin, meaning "to cut again". It is exactly and literally so and is meaningful that retail trade is one that cuts off smaller portions from large lamp of goods. From the bulk of products procured by the wholesaler, small lots are cut and distributed through retailers.

The retailer is the last link in the chain of distribution between the manufacturer and the ultimate consumer. When ordinary people and laymen speak of middlemen, they mostly think of the retail store, because this is business establishment most consumers know best. Without retail stores to make the goods of industry conveniently available to millions of consumers, there could be no mass production. The industrial revolution never would have taken place in the absence of retailers. The retail shop is one of the oldest and most widely used business establishments in any country.

12.3a Retailor and Retailing:

A retailor of retail store is a business enterprise which sells primarily to ultimate consumers. The retailor is also known as a 'dealer'. The word 'distributor' is sometimes used. Wrongly to denote a retailor. The distributor is a wholesaling middleman and not at all a retailor.

Retailing, on the other hand, includes all activities directly related to the sale of goods or services to the ultimate consumer. Irrespective of who sells, the distinction of retailing is normally made on the basis of to whom the products are sold. For example, if a manufacturer sells direct to the consumer, that also is retailing. In other words, anyone setting to the ultimate consumer is performing the functions of a retailer, regardless of what he calls himself.

Retailors are understandingly concerned with their relationship with consumers and suppliers. They have been portrayed as the buying agents for their customers. It has been remarked that they are the marketing as "merchandising arm" of many manufacturers.

Retailing is subject to constant dramatic changes. It is influenced by amy forces: Social forces such as population growth and the mobility of consumers; Economic forces such as increased personal income, changes in the distribution of income, consumer credit and competitive changes, etc. Technological innovation is yet another cause that affects retailing. Finally, there is the influence of Government policies, which prevail over all the above.

12.3 "Functions and Services of the Retailor":

The need for retailing has arisen as a consequence of the separation between the producers and consumers in terms of distance, time and knowledge. Therefore, the retailors are primarily involved in helping in the physical flow of goods, storing them and providing a two-way communication between the procedures and consumers.

The retailor's primary function consists of buying a satisfactory assortment of goods anticipating the momentary demands of the consumers. His next important function is selling. His ultimate success depends on his ability to sell. For this he uses all modern methods of selling such as advertising, window display, trained salesman, various customer services, competitive prices etc. His other functions of marketing includes extending credit to his customers, assumption of rights associated with ownership and changes in demand and storing of adequate stocks of diverse assortment of goods to meet the demands of customers at all times.

As an intermediary between the manufacturer and the ultimate consumer, a retailor is engaged in doing the following invaluable services:

1. The primary service of a retailor consist in assembling at convenient points a wide assortment of goods from numerous sources.
2. He always keeps ready stocks to meet the demands of consumers every day. In effect, the retailer sells in convenient lots, at convenient places and time intervals to the customers.
3. Brings new products and new varieties to the knowledge of consumers.
4. Offers expert advice to the consumers on the merits and suitability of the products.
5. Extends credit, undertakes door delivery and allows liberal exchange facilities.
6. Saves the manufacture from the expensive and time consuming process of direct marketing.
7. Undertakes sales promotion activities through window display and counter display.
8. Acts an interpreter (to the wholesaler or manufacturer) of consumers' requirements and reactions.
9. Maintains personal contract with the consumers.
10. In big cities where people live with small housing accommodation, the nearby retail store is in the fact equivalent to a place of storage to the consumer. Instead of keeping large stocks of consumables goods at their home they prefer to buy as and when the need arises.

12.4 Essential Requisites for Success in Retailing:

The customer is the foundation of the retailor's business. The function of attending to varying needs and tastes of customers is basic to the success of retailing. Success in retailing can be achieved by combining the various personal qualifications and qualities that are vital for a businessman with some other necessary pre-requisities as noted in the following:

1. A Satisfactory Situation of the Shop/Store:

The shop must be located in a place which will attract customers. This localisation will help them in the selection of goods.

2. Adequate Stock of Saleable Goods:

The selection must be up-to-date and stock adequate and sufficient to meet the customer needs, desires, wants and demands.

3. Effective Buying:

A retailor cannot say 'My prices are high for I have bought them dearly'. This is of no concern to his customers. The success of his business depends on the effective buying in the right market, at the right time and at the right price.

4. Competitive Fixed Price:

In most of the cases the key point of success in retail business are the competitive price and the quality of the goods offered for sale.

5. Counter Display and Window Display of Goods:

The goods must be properly arranged and effectively displayed in the shop. Therefore, these goods easily attracted the customers.

6. Trained Salesman:

In the long-run, building up customer's satisfaction is more vital than making a sale. A satisfied customer is the retailer's best advertiser. Therefore, the retailor should employ properly trained salesman.

7. Advertising:

The customers should be are used by means of suitable advertising so that they may be persuaded to visit the retailor's shop.

12.5 Kinds of Retailing:

It is in retailing that very drastic changes have occurred during the last two decades. Some institutions have disappeared whereas never ones have been added. This process of deletion/addition still continues in news forms. There are large-scale retailing shops together with very small units, both working simultaneously. Thus, the retail stores may be classified as follows:

1. By Type or Range of Goods Offered:

Here, the classification is according to the main type of merchandise handled such as food, drug hardware, furniture, apparel act. The retail establishments handing a wide variety of product lines are not easily classified, departmental stores and general merchandise stores are examples of this type.

2. By Type of Operation:

Four common types of operations can be distinguished viz. (1) the retail stores, (2) mail order selling (3) house-to-house selling and (4) automatic vending.

3. By the Functioning Performed:

Some stores offer goods only by self-service; some offer delivery as well as self service; other offer counter service delivery.

4. By Size:

Retail establishments vary greatly in size. Measure of this may be based on the number of employees or the sales turnover. Generally retail establishments are classified either as large. Scale or as small scale. Departmental stores, supermarkets, multiple sops and mail order houses stand for large - scale retailing, while the family operated independent retail unit constitutes the typical example of small-scale retailing.

5. By Ownership:

From the point of view of ownership, retail stores may be classified as those owned by individuals, cooperatives, partnerships and corporate bodies or companies.

6. By Location:

According to their location, the retail establishments can be classified as rural, urban, suburban, small town, neighbourhood, dispersed central shopping district, public markets, roadside stores and stands of various types of highways and house-to-house canvassers.

12.6 The Future of Retailing:

The change of social and economic environment during 225 year history certainly will continue to proper. New needs will develop and will be fulfilled; new technology will become available and will be used; new products will be invented and will be sold; and new methods of distribution will be discovered and put into operation. External changes or changes in the environment, that will affect retailing. And internal changes, or the things retailors are planning for the future, will affect retailing.

Several trends will affect the future of reaching. The showdown in population and economic growth means that retailors will no long gain sales and profit growth through natural expansion in current and new markets. Growth will have to come from increasing their in current and new markets. But greater competition and new types of retailers well make it harder for retailors to improve their market shares. Consumer demographics (the study of the statistics of bricks, deaths, disease. etc, as illustrating the conditions of life in communities), lifestyles, and shooping patterns are changing rapidly . To be successful, retailors will have to choose target segments carefully and position themselves strongly.

Quickly rising costs will make more efficient operation and smarter buying essentials to successful retailing. New methods such as computerised checkout and inventory control will help cut costs and provide new ways to serve customer better. Finally, increased social and environmental concerns will lead to more state and federal regulation of retailing. Retailors must out for long-run consumer welfare.

12.7 Summary:

Retailing covers all of the activities involved in the sale of products to final consumers. More than three fourths of all new retailing ventures fail during the first year. The major attraction of a shooping store would be the width and depth of its mechandise assortment.

In general, retailors perform four functions: they collect on assortment of products and services from a wide verity of suppliers and offer them for sale; they provide information to consumers, as well as to other channel members, they frequently store merchandise, mark prices on it, and pay for terms prior to selling them to final consumers, and they conclude transactions with final consumers.

Retailing important not only in its marketing role but also as an index of the general level of economy. The consumer is participating in the nations economy every time he makes a purchase, whether it is a spool (a reel for winding magnetic tape) of thread or a new furnace. Obviously, production and distribution must keep pace with consumption, and vice-versa. Therefore, retail sales indicate the level of consumption and in turn, the soundness of the country's economy.

12.8 Key Words:

1. Super Market : A departmentalized food store with minimum annual sales of $2 million.

2. Sales Mix : The relative combination of the quantities of a variety of company products that compose total sales.

3. Retail Trading Zone : The area lying outside the city zone, the residents of which patronize city retailors to an important degree.

4. Retailor : A merchant, or occasionally an agent, whose main business is selling directly to ultimate consumer.

5. Multiple Channels : The use of more than one channel of distribution by a manufacturer.

6. Mail-order : A method of selling a product or service through direct-response advertising that results in an order placed by mail or telephone.

7. Direct-to-home retailors: A non store retail operation which sells directly to consumers in the home.

8. Consumer Market : All the individuals and households who buy or acquire goods and services for personal consumption.

12.9 Self-Assessment Questions:

1. What are the functions of the retailor's business?

2. What determines the success of a retailors business?

3. Give an account of the different types of retailors.

4. What are the departmental stores and multiple stores? What are their merits and demerits?

5. What do you mean by channels of distribution? What channels of distribution would you institute for marketing the following:

   1. A Soft Drink 2. An Industrial Chemical 3. Computer Software.

12.10 Reading Books:

1. A Marchand & Varadharajan ; An introduction to marketing 'Vikas Publishing House Pvt. Ltd., New Delhi - 1982.

2. Rajan Nair & Sanjith R. Nair; Marketing Sultan Chand & Sons - New Delhi, 1990.

3. R.S.N. Pillai, Bagavathi; Moden Marketing Principles and Practice - N.S. Chand & Company Ltd., New Delhi - 1998.

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